



**AUDIT OF THE
FAR NORTHERN REGIONAL CENTER
FOR FISCAL YEARS 2012-13 AND 2013-14**

Department of Developmental Services

This audit report was prepared by the
California Department of Developmental Services
1600 Ninth Street
Sacramento, CA 95814

Jean Johnson, Deputy Director, Administration Division
Edward Yan, Manager, Audit Branch
Luciah Ellen Nzima, Chief of Regional Center Audits, Audit Branch
Soi Ly, Supervisor, Audit Branch

Audit Staff: Nestor Tuazon, Fahm Saelee, Nury Enciso, and Dong Le

For more information, please call: (916) 654-3695

TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	1
BACKGROUND	3
Authority	4
Criteria	4
Audit Period	4
OBJECTIVES, SCOPE, AND METHODOLOGY	5
I. Purchase of Service	6
II. Regional Center Operations	6
III. Targeted Case Management and Regional Center Rate Study	7
IV. Service Coordinator Caseload Survey	7
V. Early Intervention Program (Part C Funding)	7
VI. Family Cost Participation Program	8
VII. Annual Family Program Fee	8
VIII. Procurement	9
IX. Statewide/Regional Center Median Rates	10
X. Other Sources of Funding from DDS	10
XI. Follow-up Review on Prior DDS Audit Findings	11
CONCLUSIONS	12
VIEWS OF RESPONSIBLE OFFICIALS	13
RESTRICTED USE	14
FINDINGS AND RECOMMENDATIONS	15
EVALUATION OF RESPONSE	19
ATTACHMENTS	A-B
REGIONAL CENTER'S RESPONSE	Appendix A

EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) conducted a fiscal compliance audit of Far Northern Regional Center (FNRC) to ensure FNRC is compliant with the requirements set forth in the California Code of Regulations, Title 17 (CCR, 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 DDS. Overall, the audit indicated that FNRC maintains accounting records and supporting documentation for transactions in an organized manner. This audit report identifies some areas where FNRC'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 FNRC's operations. A follow-up review was performed to ensure FNRC has taken corrective action to resolve the finding identified in the prior DDS audit report.

Findings That Need to be Addressed.

Finding 1: Duplicate Payment for Administrative and Management Services

The sampled review of 131 vendor files revealed that Access Home (Access), Vendor Number P82367, Services Code 101, received duplicate payments for providing administrative and management services to 24 residential facilities, which resulted in overpayments totaling \$647,732.80 from July 2012 to March 2015. These properties are owned by Access, but operated by the residential service providers. The duplicate payments consisted of payments from FNRC under Service Code 101 and monthly rental payments from the residential service providers operating the residential facilities.

The overpayments were subsequently carried forward through July 2015 after the fieldwork, which resulted in an increase of \$3,840.30. As a result, the total overpayment from July 2012 to June 2015 has increased to \$651,573.10. FNRC provided additional information with its response to the draft report to resolve \$607,917.80. The overpayments resulting from the duplicated property management services have been reduced to \$43,655.30.

Finding 2: Equipment Inventory

A. Improper Capitalization

The review of FNRC's equipment inventory listing revealed that FNRC capitalized all of its equipment rather than items with a unit valued for at least \$5,000. FNRC was not aware that only items valued for at least \$5,000 are to be capitalized. This is not in compliance with the State Equipment Management Guidelines, Attachment D, Section 8602.

B. Equipment Acquired Under Contract Form (DS 2130) Not Submitted

The review of the equipment inventory listing revealed that FNRC has not been submitting the required Equipment Acquired Under Contract form (DS 2130) for newly acquired equipment to DDS. This is not in compliance with the State's Equipment Management System Guidelines, Section III(B).

Finding 3: Vendors Not Enrolled in Electronic Billing

The review of FNRC's electronic billing (EB) vendor listing revealed that 146 out of 2,006 vendors have not been enrolled in EB as of July 1, 2012. None of these vendors were paid by voucher or demonstrated that submitting billings electronically for services would present a substantial financial hardship, which would have precluded them from enrolling in the EB process. This is not in compliance with W&I Code, Section 4641.5(a).

BACKGROUND

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 (RC). The RCs 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 RC no less than every two years, and completes follow-up reviews in alternate years. Also, DDS requires RCs 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 RC 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 RCs' fiscal, administrative and program operations.

DDS and Far Northern Coordinating Council on Developmental Disabilities (FNCC) entered into State Contract HD099005 effective July 1, 2009, through June 30, 2016. The contract specifies that FNCC will operate an agency known as the FNRC to provide services to individuals with DD and their families in the Butte, Glen, Lassen, Modoc, Plumas, Shasta, Siskiyou, Tehama and Trinity Counties. The contract is funded by State and Federal funds that are dependent upon FNRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at FNRC from July 14, 2014, through August 15, 2014, 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 FNRC, effective July 1, 2009

AUDIT PERIOD

The audit period was July 1, 2012, through June 30, 2014, 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 RCs 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.
- 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 the FNRC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that FNRC was in compliance with the objectives identified above. Accordingly, DDS examined transactions, on a test basis, to determine whether FNRC was in compliance with the Lanterman Act, CCR, Title 17, the HCBS Waiver for the Developmentally Disabled, and the State Contract.

DDS' review of FNRC'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 (FY) 2011-12, issued on December 1, 2012
- Fiscal Year (FY) 2012-13, issued on January 23, 2014

In addition, DDS reviewed the associated management letter issued by the independent accounting firm for FY 2011-12. 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 and vendor rates. 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 FNRC. 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 analyzed all of FNRC's bank accounts to determine whether DDS had signatory authority as required by the contracts with DDS.
- DDS selected a sample of bank reconciliations for Operations accounts to determine if the reconciliations were properly completed on a monthly basis.

II. Regional Center Operations

DDS audited FNRC's operations and conducted tests to determine compliance with the State Contract. The tests included various expenditures claimed for administration to ensure that FNRC's accounting staff is properly inputting data, that 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 FNRC'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 (TCM) and Regional Center Rate Study

The Targeted Case Management (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 FNRC's Rate Study. DDS examined the month of June 2013 and traced the reported information to source documents.
- Reviewed FNRC's TCM Time Study. DDS selected a sample of payroll timesheets for this review and compared it to the Case Management Time Study Forms (DS 1916) to ensure that they 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.

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 FNRC 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 years 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' income documentation.
- Reviewed vendor payments to verify that FNRC 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 receiving qualifying services through a RC. 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 FNRC 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 FNRC implemented the required RFP process by January 1, 2011, DDS performed the following procedures during our audit review:

- Reviewed FNRC's 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 include 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 communicates 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 FNRC. 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 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 FNRC notified the vendor community and the public of contracting opportunities available.
- Reviewed the contracts to ensure that FNRC 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 FNRC 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 FNRC's Board approved POS, Start-Up and Operational vendor contracts of \$250,000 or more 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, that the usage of funds is 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 FNRC's current RFP process and Board approval of contracts of \$250,000 or more as well as to determine whether the process in place satisfies the W&I Code and FNRC's State Contract requirements as amended.

IX. Statewide/Regional Center Median Rates

The Statewide or 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 RCs demonstrate the exemption is necessary for the health and safety of the consumers.

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

- Reviewed sample vendor files to determine whether FNRC is using appropriately vendorized service providers and correct service codes, and that FNRC is paying authorized contract rates and complying with the median rate requirements of the W&I Code, Section 4691.9.
- Reviewed vendor contracts to verify that FNRC 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 FNRC'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
- Part C
- Family Resource Center
- Foster Grandparent (FGP) and Senior Companion (SC)
- Self Determination

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 FNRC and reviewed supporting documentation to determine the degree and completeness of FNRC's implementation of corrective actions. The review indicated a prior issue that has been resolved by FNRC.

CONCLUSIONS

Based upon the audit procedures performed, DDS has determined that, except for the items identified in the Findings and Recommendations section, FNRC was in compliance with applicable sections of CCR, Title 17, the HCBS Waiver, and the State Contract with DDS for the audit period, July 1, 2012, through June 30, 2014.

The costs claimed during the audit period were for program purposes and adequately supported.

From the review of prior audit issue, it has been determined that FNRC has taken appropriate corrective action to resolve a prior audit issue.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued the draft audit report on August 18, 2015. The findings in the draft audit report were discussed at a formal exit conference with FNRC on August 25, 2015. The views of the responsible officials are included in the final audit report.

RESTRICTED USE

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

FINDINGS AND RECOMMENDATIONS

Findings That Need to be Addressed.

Finding 1: Duplicate Payment for Administrative and Management Services

The sampled review of 131 vendor files revealed that FNRC reimbursed Access Home, Vendor Number P82367, Service Code 101, a total of \$647,732.80 from July 2012 to March 2015, using POS funds for managing 24 residential properties owned by Access but operated by residential service providers. These POS funds were for the administrative and management costs associated with operating the properties by the residential service providers. However, it was found that these administrative and management costs are included in the rental agreements between Access and the residential service providers operating the residential facilities. As a result, Access was paid twice for administrative and management services; once as a direct payment from FNRC under Service Code 101 and again as part of the monthly rental payments it received from the residential service providers. FNRC stated that it was not aware that these expenses were included in the contract agreements between the residential service providers' and Access. (See Attachment A)

The Budget Summary Schedule in contract agreement between FNRC and Access state that Access will receive:

“Property Management Fees (@4% or 6% of rent)”

Also, the Contract Agreement between Access and the Residential Service Providers state:

“This Agreement is made by and between RESOURCES FOR RURAL COMMUNITY DEVELOPMENT, DBA ACCESS HOME, hereafter referred to as “Access Home” and [Vendor],... for the general purpose of providing housing services to Far Northern Regional Center (FNRC) consumers, including costs related to rental housing such as administrative fees, maintenance, repairs, insurance, taxes and replacement reserves...

I. RATE OF PAYMENT

...Payment is for administrative and management cost, mortgage, maintenance and repair of major systems, costs, pest services, landscaping fees, insurance, property taxes, and replacement reserves not covered by other payments by tenants at this property.”

The overpayments were subsequently carried forward through July 2015 after the fieldwork, which resulted in an increase of \$3,840.30. As a result, the total overpayment from July 2012 to June 2015 has increased to \$651,573.10. FNRC provided additional information with its response to the draft report to resolve \$607,917.80. The overpayments resulting from the duplicated property management services have been reduced to \$43,655.30.

Recommendation:

FNRC must reimburse DDS the \$43,655.30 for the POS funds paid to Access, since the administrative and management costs paid to Access were included in the monthly rental payments with the residential service providers.

Finding 2: Equipment Inventory

A. Improper Capitalization

The review of the equipment inventory listing revealed that FNRC capitalized all of its equipment rather than items valued for at least \$5,000. FNRC was not aware that only items valued at or above \$5,000 are to be capitalized.

The State Equipment Management Guidelines, Attachment D, Section 8602 states:

“State property is capitalized for accounting purposes when certain conditions are met. Capitalization means to record the property in the accounting records as assets. Tangible property must meet the following three requirements in order to meet the capitalization requirements:

1. Have a normal useful life of at least one year;
2. Have a unit acquisition cost of at least \$5,000; and
3. Be used to conduct State business.”

Recommendation:

FNRC must correct its general ledger account to reflect only capitalize equipment with acquisition cost for at least \$5,000. This will ensure compliance with the State’s Equipment Systems Guidelines and the State Administrative Manual as required by its contract with DDS.

B. Equipment Acquired Under Contract Form (DS 2130) Not Submitted

The review of the equipment inventory listing revealed FNRC has not been submitting the required form DS 2130 for newly acquired equipment to DDS. FNRC is utilizing the DS 2130 to track newly acquired equipment, however FNRC was not aware that DS 2130 forms are to be submitted to DDS.

State's Equipment Management System Guidelines, Section III(B) states:

“RC will 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 a suitable electronic alternative.”

Recommendation:

FNRC must follow the State's Equipment Management System Guidelines, Section III(B) to ensure equipment acquired is submitted to DDS.

Finding 3: Vendors Not Enrolled in Electronic Billing

The review of FNRC's EB vendor listing revealed that 146 out of 2,006 eligible vendors have not been enrolled in electronic billing as of July 1, 2012. 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 146 vendors were paid by vouchers or demonstrated that submitting billings electronically would have presented a financial hardship. FNRC indicated it was obligated to pay the vendors, even though the vendors were not enrolled in electronic billing, because services were provided. (See Attachment B)

W&I Code, Sections 4641.5(a)(1) and (2) 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:

FNRC must continue to try and enroll all vendors in the electronic billing process. In the event that vendors cannot be enrolled in electronic billing, FNRC must provide DDS with proper documentation from the vendor that precludes it from the electronic billing process.

EVALUATION OF RESPONSE

As part of the audit report process, FNRC has been provided with a draft audit report and was requested to provide a response to the findings. FNRC's response dated August 18, 2015, 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 FNRC's response. Except as noted below, FNRC's response addressed the audit findings and provided reasonable assurance that corrective action would be taken to resolve the issues. DDS' Audit Branch will confirm FNRC's corrective action identified in the response during the next scheduled audit.

Finding 1: Duplicate Payment for Administrative and Management Services

FNRC indicated it conducted its own audit of Access Home, completed on September 24, 2015, and found that only \$40,131 were duplicate property management expenses from July 2012 to March 2015. FNRC has agreed to reimburse DDS the \$40,131 for the POS funds paid to Access Home, since the administrative and management costs paid to Access were included in the monthly rental payments with the residential service providers. However, review of the supporting documentation provided by FNRC indicated \$43,655.30 in duplicate property management expenses from July 2012 to July 2015.

DDS agrees with FNRC that \$607,601.80 paid to Access Home be excluded as an over payment since FNRC provided documentation indicating that additional services provided are necessary to ensure CPP consumers who transition out of the Developmental Center have available housing that is properly maintained. However, FNRC used \$65,433.01 of regular POS funds for CPP related expenses without DDS approval. FNRC must ensure that CPP related services are approved by DDS before funds are expended. Based on the additional information provided, the duplicate property management expenses have been reduced to \$43,655.30 and must be reimbursed to DDS.

Finding 2: Equipment Inventory

A. Improper Capitalization

FNRC has resolved this issue by providing documentation which indicated that it has adjusted its general ledger for capitalized equipment to reflect only the cost for items valued at, or above, \$5,000.

B. Equipment Acquired Under Contract Form (DS 2130) Not Submitted

FNRC stated that it had been completing an equivalent of the Form DS 2130; but has not been submitting this form to DDS. FNRC provided documentation which indicated that it provided a list of newly acquired equipment to DDS in May 2015. In addition, FNRC stated that it now provides Form DS 2130 or its electronic equivalent to DDS on a quarterly basis. DDS will follow-up during the next scheduled audit to ensure the Form DS 2130 is submitted quarterly as stated in FNRC's response.

Finding 3: Vendors Not Enrolled in Electronic Billing

FNRC indicated that it has been unable to enroll some vendors into the EB system and that it may not be feasible to achieve 100 percent compliance with the W&I Code, Section 4641.5(a). In addition, FNRC stated that it will again review the listing provided by DDS and will try to enroll the vendors or obtain a substantial financial hardship statement letter. DDS will conduct a follow-up review during the next scheduled audit to ensure FNRC is in compliance with W&I Code, Section 4641.5 (a).

**Far Northern Regional Center
Duplicate Payments for Administrative and Management Services
Fiscal Years 2012-13 and 2013-14**

No.	UCI	Vendor Number	Vendor Name	Service Code	Payment Period	Authorization	Payment	Resolved	Outstanding Balance
1		P82367	Access Homes	101	Jul-12		\$18,921.66	\$17,822.66	\$1,099.00
2		P82367	Access Homes	101	Aug-12		\$17,380.04	\$16,329.04	\$1,051.00
3		P82367	Access Homes	101	Sep-12		\$19,170.14	\$18,112.24	\$1,057.90
4		P82367	Access Homes	101	Oct-12		\$14,659.38	\$13,476.38	\$1,183.00
5		P82367	Access Homes	101	Nov-12		\$14,484.96	\$13,325.96	\$1,159.00
6		P82367	Access Homes	101	Dec-12		\$20,615.51	\$19,456.51	\$1,159.00
7		P82367	Access Homes	101	Jan-13		\$16,421.19	\$15,262.19	\$1,159.00
8		P82367	Access Homes	101	Feb-13		\$14,763.73	\$13,604.73	\$1,159.00
9		P82367	Access Homes	101	Mar-13		\$13,107.81	\$11,948.81	\$1,159.00
10		P82367	Access Homes	101	Apr-13		\$15,279.53	\$14,120.53	\$1,159.00
11		P82367	Access Homes	101	May-13		\$20,881.39	\$19,722.39	\$1,159.00
12		P82367	Access Homes	101	Jun-13		\$30,629.59	\$29,470.59	\$1,159.00
13		P82367	Access Homes	101	Oct-12		\$450.00	\$450.00	\$0.00
14		P82367	Access Homes	101	Nov-12		\$450.00	\$450.00	\$0.00
15		P82367	Access Homes	101	Dec-12		\$1,632.00	\$1,632.00	\$0.00
16		P82367	Access Homes	101	Jan-13		\$450.00	\$450.00	\$0.00
17		P82367	Access Homes	101	Feb-13		\$450.00	\$450.00	\$0.00
18		P82367	Access Homes	101	Mar-13		\$450.00	\$450.00	\$0.00
19		P82367	Access Homes	101	Apr-13		\$450.00	\$450.00	\$0.00
20		P82367	Access Homes	101	May-13		\$450.00	\$450.00	\$0.00
21		P82367	Access Homes	101	Jun-13		\$450.00	\$450.00	\$0.00
22		P82367	Access Homes	101	Jul-13		\$6,250.00	\$6,250.00	\$0.00
23		P82367	Access Homes	101	Aug-13		\$2,450.00	\$2,450.00	\$0.00
24		P82367	Access Homes	101	Sep-13		\$11,954.40	\$11,954.40	\$0.00
25		P82367	Access Homes	101	Oct-13		\$5,965.75	\$5,965.75	\$0.00
26		P82367	Access Homes	101	Nov-13		\$7,721.92	\$7,721.92	\$0.00
27		P82367	Access Homes	101	Dec-13		\$2,450.00	\$2,450.00	\$0.00
28		P82367	Access Homes	101	Jan-14		\$3,764.34	\$3,764.34	\$0.00
29		P82367	Access Homes	101	Feb-14		\$3,131.50	\$3,131.50	\$0.00

**Far Northern Regional Center
Duplicate Payments for Administrative and Management Services
Fiscal Years 2012-13 and 2013-14**

No.	UCI	Vendor Number	Vendor Name	Service Code	Payment Period	Authorization	Payment	Resolved	Outstanding Balance
30		P82367	Access Homes	101	Mar-14		\$685.88	\$685.88	\$0.00
31		P82367	Access Homes	101	Apr-14		\$646.30	\$646.30	\$0.00
32		P82367	Access Homes	101	May-14		\$450.00	\$450.00	\$0.00
33		P82367	Access Homes	101	Jun-14		\$14,730.92	\$14,730.92	\$0.00
31		P82367	Access Homes	101	Jul-13		\$13,182.85	\$12,023.85	\$1,159.00
32		P82367	Access Homes	101	Aug-13		\$15,321.72	\$14,162.72	\$1,159.00
33		P82367	Access Homes	101	Sep-13		\$13,705.03	\$12,546.03	\$1,159.00
34		P82367	Access Homes	101	Oct-13		\$15,158.21	\$13,999.21	\$1,159.00
35		P82367	Access Homes	101	Nov-13		\$28,851.77	\$27,692.77	\$1,159.00
36		P82367	Access Homes	101	Dec-13		\$13,538.22	\$12,379.22	\$1,159.00
37		P82367	Access Homes	101	Jan-14		\$17,665.69	\$16,479.69	\$1,186.00
38		P82367	Access Homes	101	Feb-14		\$15,745.77	\$14,559.77	\$1,186.00
39		P82367	Access Homes	101	Mar-14		\$12,801.94	\$11,615.94	\$1,186.00
40		P82367	Access Homes	101	Apr-14		\$15,756.90	\$14,552.90	\$1,204.00
41		P82367	Access Homes	101	May-14		\$16,072.60	\$14,868.60	\$1,204.00
42		P82367	Access Homes	101	Jun-14		\$29,610.88	\$28,406.88	\$1,204.00
43		P82367	Access Homes	101	Jul-14		\$12,155.07	\$10,995.07	\$1,160.00
44		P82367	Access Homes	101	Aug-14		\$17,751.32	\$16,591.32	\$1,160.00
45		P82367	Access Homes	101	Sep-14		\$16,375.13	\$14,997.63	\$1,377.50
46		P82367	Access Homes	101	Oct-14		\$23,540.33	\$22,150.23	\$1,390.10
47		P82367	Access Homes	101	Nov-14		\$14,642.06	\$13,251.96	\$1,390.10
48		P82367	Access Homes	101	Dec-14		\$20,099.82	\$18,709.72	\$1,390.10
49		P82367	Access Homes	101	Jan-15		\$19,794.71	\$18,404.61	\$1,390.10
50		P82367	Access Homes	101	Feb-15		\$16,152.94	\$14,762.84	\$1,390.10
51		P82367	Access Homes	101	Mar-15		\$18,061.90	\$16,671.80	\$1,390.10
52		P82367	Access Homes	101	Apr-15		\$1,280.10	\$0.00	\$1,280.10
53		P82367	Access Homes	101	May-15		\$1,280.10	\$0.00	\$1,280.10
54		P82367	Access Homes	101	Jun-15		\$1,280.10	\$0.00	\$1,280.10
Total Duplicate Payments for Administrative and Management Services							\$651,573.10	\$607,907.80	\$43,665.30

**Far Northern Regional Center
Vendors Not Enrolled in Electronic Billing
Fiscal Years 2012-13 and 2013-14**

	Vendor Number	Vendor Name
1	H01152	Univ Of California Davis
2	H01221	Shasta Community Health
3	H11632	Oroville Hospital
4	HA0688	GM Viado Care Facility 2
5	H06540	Valley Medical Supply
6	H09734	Yolo Employment Services
7	H11612	Willows Pharmacy
8	H15699	Christian Berets, Inc.
9	H82398	Trinity Transit
10	HC0163	Central Valley Diagnostic
11	HF0159	Camp Recreation
12	HF0243	Bethesda Lutheran Comm.
13	HF0246	Bethesda Lutheran Comm.
14	HF0365	Townsend House
15	HF0466	Williams Syndrome Association
16	HQ0013	TCB Board & Care
17	HS0013	Mount Hermon Camp
18	P12839	Myers, Douglas R., O.D.
19	P16499	Seidlitz, Timothy H., O.D.
20	P16571	Brasch, Andrew, M.D.
21	P16696	[REDACTED]
22	P16737	Redding's Speech & Language Ctr.
23	P24634	Brady's Moving & Storage, Inc.
24	P24768	[REDACTED]
25	P30903	Casey Manor Home
26	P37137	[REDACTED]
27	P37157	[REDACTED]
28	P37249	[REDACTED]
29	P37261	[REDACTED]
30	P37262	[REDACTED]
31	P37450	Modoc Medical Center
32	P55374	Boston, Esq., Robert
33	P55375	Walgreen Drug Stores
34	P55431	[REDACTED]
35	P55500	Chico Hearing Aid Center
36	P68442	[REDACTED]
37	P68596	[REDACTED]
38	P68610	Legal Photocopy Service

**Far Northern Regional Center
Vendors Not Enrolled in Electronic Billing
Fiscal Years 2012-13 and 2013-14**

	Vendor Number	Vendor Name
39	P82275	[REDACTED]
40	P82325	Walgreen Drug Stores
41	P82469	Rowell Family Empowerment
42	P95269	[REDACTED]
43	P95491	[REDACTED]
44	P95584	Vagabond Inn
45	PA1197	Kiwanis Family House
46	PA1461	Motel 6
47	PC0125	Littleworth, Stan, Ph.D.
48	PF0050	[REDACTED]
49	PF0158	Scott Valley Respiratory
50	PF0183	Lassen Drug Company
51	PF0217	[REDACTED]
52	PF0323	Scott Valley Physical
53	PF0351	[REDACTED]
54	PF0445	Owens Pharmacy #8
55	PF0500	[REDACTED]
56	PF0648	[REDACTED]
57	PF0751	[REDACTED]
58	PF0870	Lim's Family Pharmacy
59	PF0920	Ryan, Robert, DDS
60	PF0930	[REDACTED]
61	PF0935	Jungle Gym, The
62	PF0995	Rothfeld, Joel M., M.D.
63	PF1104	[REDACTED]
64	PF1201	[REDACTED]
65	PF1297	Butte Valley Health Ctr
66	PF1311	California Psychiatric
67	PF1616	Bethesda Lutheran
68	PF1760	[REDACTED]
69	PF2026	Accurate Document Imaging
70	PF2182	Hayfork Drug Store
71	PF2188	Computers For Classrooms,
72	PF2194	Raley's Pharmacy, #233
73	PF2198	Raley's Pharmacy, #248
74	PF2202	Ferry's Pharmacy, Inc.
75	PF2225	Physicians Choice Medical
76	PF2243	Willows Pharmacy

**Far Northern Regional Center
Vendors Not Enrolled in Electronic Billing
Fiscal Years 2012-13 and 2013-14**

	Vendor Number	Vendor Name
77	PF2386	Foothill Pharmacy
78	PF2438	[REDACTED]
79	PF2455	Feather River Hospital
80	PF2524	Accellence Home Medical
81	PF2573	Hue & Cry Security
82	PF2684	Huseth, Scott W., DDS
83	PF2696	[REDACTED]
84	PF2822	[REDACTED]
85	PF2823	Lafein, Scott, MFT
86	PF2875	Spectrum Orthotics & Prosthetics, Inc.
87	PF2885	[REDACTED]
88	PF2893	Rose Center, The
89	PF2952	Chico Dental Group
90	PF2953	Friden, Jonathan C., OD
91	PF2965	[REDACTED]
92	PF3059	Philia House
93	PF3072	Bidwell Pharmacy & Medical Supply
94	PF3079	Telelanguage, Inc.
95	PF3103	Oxford Suites -- Redding
96	PF3238	Siskiyou Home Health
97	PF3329	Walton House
98	PF3376	[REDACTED]
99	PF3389	[REDACTED]
100	PF3438	Lassen Life Skills & Job
101	PF3482	Shasta Community Health
102	PF3494	Northeastern Health
103	PF3495	Shasta Regional Medical
104	PF3503	Amjamb Supported Living
105	PF3534	Buehler, Sean P., DDS
106	PF3615	Noah's Vision, Inc.
107	PF3617	[REDACTED]
108	PF3639	MDH Residential
109	PF3642	[REDACTED]
110	PF3646	[REDACTED]
111	PF3647	Walgreen Drug Stores
112	PF3787	[REDACTED]
113	PF3796	Rite Aid Corp-Susanville
114	PF3798	[REDACTED]

**Far Northern Regional Center
Vendors Not Enrolled in Electronic Billing
Fiscal Years 2012-13 and 2013-14**

	Vendor Number	Vendor Name
115	PF3803	Miller, Harvey E., DDS
116	PF3812	Dan's Optical
117	PF3827	[REDACTED]
118	PF3832	[REDACTED]
119	PF3857	[REDACTED]
120	PF3860	[REDACTED]
121	PF3861	[REDACTED]
122	PF3937	[REDACTED]
123	PF3955	[REDACTED]
124	PF3956	[REDACTED]
125	PF3957	[REDACTED]
126	PF3959	[REDACTED]
127	PF3960	[REDACTED]
128	PF3962	[REDACTED]
129	PF3965	[REDACTED]
130	PF3966	[REDACTED]
131	PF3974	[REDACTED]
132	PF3985	[REDACTED]
133	PF3991	[REDACTED]
134	PF3994	[REDACTED]
135	PF3998	[REDACTED]
136	PF4187	[REDACTED]
137	PF4236	[REDACTED]
138	PF4250	[REDACTED]
139	PF4272	[REDACTED]
140	PF4289	[REDACTED]
141	PF4293	[REDACTED]
142	PF4295	[REDACTED]
143	PR0471	Multiplicity Therapeutic
144	PF1385	Mid Valley Providers, Inc.
145	PF1471	Plumas Hearing Ceneter
146	HF0403	PTL Pediatric Daycare

APPENDIX A

Far Northern Regional Center

**RESPONSE
TO AUDIT FINDINGS**

(Certain documents provided by the Far Northern Regional Center as attachments to its response are not included in this report due the detailed and sometimes confidential nature of the information)

Far Northern Regional Center
Response to Findings in DDS FY 2012-13 and 2013-14 Audit Report

Finding 1: Duplicate Payment for Administrative and Management Services

The sampled review of 131 vendor files revealed that Access Homes (Access), Vendor Number P82367, Services Code 101, received duplicate payments for providing administrative and management services to 24 residential facilities, which resulted in overpayments totaling \$647,732.80 (the assessed amount) from July 2012 to March 2015. These properties are owned by Access, but operated by the residential providers. The duplicate payments consisted of payments from FNRC under Service Code 101 and monthly rental payments from the residential service providers operating the residential facilities.

Response 1: In the sample reviews of Access Home, Vendor Number P82367, Service Code 101, auditors included payments made under the following authorizations in the assessed amount :

Authorization # [REDACTED] - Housing modifications; [REDACTED] [REDACTED] [REDACTED]; Paid \$5,232.00

Authorization # [REDACTED] - Housing modifications; [REDACTED] [REDACTED] [REDACTED]; Paid \$60,201.01

Total Paid for Housing Modifications on [REDACTED] [REDACTED] - \$65,433.01.

Housing modifications contracts are funds reimbursed to Access for accessibility modifications and rehabilitation of the property based on actual costs and invoices for equipment or work performed by contractors. Modifications are needed to meet the needs of individuals transitioning from developmental centers or those who are at risk of being institutionalized. The reimbursement is based on a contractor's usual and customary rates, and no administrative overhead is included in the rate of payment. [REDACTED] [REDACTED] [REDACTED] is attached for review of exact language. As written and distinguished in separate contracts with Access, these modification funds should not be included in the overpayment finding for administrative or property management fees paid to Access. Far Northern Regional Center requests the \$65,433.01 be excluded from the assessed amount, since these funds were used strictly for housing modifications.

Other invoices audited under Access Home, Vendor Number P82367, Service Code 101 include:

Authorization # [REDACTED] - Housing services; [REDACTED] [REDACTED] [REDACTED] \$216,314.93 paid

Authorization # [REDACTED] - Housing services; [REDACTED] [REDACTED] [REDACTED] \$207,411.58 paid

Authorization # [REDACTED] - Housing services; [REDACTED] [REDACTED] [REDACTED] \$158,573.28 paid

Total Paid for Housing Services - \$582,299.79

The contract schedule in the above contracts between FNRC and Access states that Access bills FNRC for "property management fees @ 4% or 6% of rent". The audit performed by DDS did not separate the actual amount of funding FNRC paid Access for property management fees that might have been paid by tenants, and instead identified the entire amount paid on these contracts as an overpayment. FNRC's Associate Director of Administrative Services audited Access and found they collected \$40,131.00 in property management fees from providers renting certain properties from July 2015 to March 2015, as well as from FNRC for the same time period. The \$40,131.00 collected from both service provider tenants in their monthly rents and FNRC in the contract for Housing Services is the correct amount of the overpayment.

Note: Property management fees include but are not limited to; collecting and recording rent payments, performing day-to-day and minor maintenance, obtaining and maintaining signed leases with tenants, and taking calls related to tenant questions. Access contracts these services with outside contractors.

The remaining \$542,168.79 in funding to Access over the audit period is for additional and differentiated services that are not duplicated by property management services provided by outside contractors and they are not paid for in rental contracts between Access and residential provider tenants.

Access was established in 1997 as a private non-profit organization (NPO) to provide stable and affordable housing options for people with developmental disabilities in FNRC's service area. Access has entered into contractual relationships with DDS for control over 24 single family homes to ensure that this real estate is purchased once and stays permanently in the developmental disabilities system. Community Placement Plan (CPP) funds were, and continue to be, used by Access for development, acquisition and rehabilitation of properties for targeted populations coming out of developmental centers. Access maintains compliance with DDS requirements related to these CPP homes including, but not limited to, Restrictive Covenants, Deeds of Trust, Profit Participation Agreements, Promissory Notes, Requests for Notice, and Agreements to Provide Notice and Cure Rights.

Additional services provided by Access through their contract with FNRC for housing services include:

- Coordinate with FNRC & residential providers on property requirements for targeted population
- Search for and acquire appropriate real estate through purchase or lease
- Inspect new properties prior to purchase
- Coordinate all closing activities on properties
- Secure funding for acquisition from qualified lenders
- Establish pro formas for each property
- Contract with, and oversee professional agencies for day-to-day property management tasks
- Consult with FNRC & residential providers on modifications and rehabilitation required for properties based on targeted population needs
- Obtain bids for rehabilitation/modification of properties
- Work with architect related to rehabilitation, modification or building on properties
- Supervise contractors during work on properties
- Work with city and county building officials on review and permit process
- Coordinate with State of CA Community Care Licensing staff regarding regulations for site licensure of new and rehabilitated properties
- Obtain and maintain tax exemption status for qualified residential providers or tenants
- Perform annual inspections of owned properties
- Calculate, secure, invest and oversee deferred maintenance funds for the properties
- Schedule and supervise large capital improvement or deferred maintenance projects such as septic tank replacement, bathroom modifications, and roofing work
- Train and assist residential providers related to property issues (mainly septic tank issues)
- Advocate for, and pursue development of local low income housing projects
- Participate in the Community Development Block Grant (CDBG) & housing Consolidated Plan process
- Research sources for special funding in rural areas
- Obtain accessible housing units in multi-family developments

None of the activities listed above are paid for in monthly rental payments by residential providers, nor are they activities provided by independent or outside property management companies who charge a fee of 4% or 6% of the property costs. These services are funded by the contracts between FNRC and Access for additional housing services totalling \$542,168.79 and we request they be excluded from the assessed amount.

Finding 2: Equipment Inventory

A. Improper Capitalization

The review of FNRC's equipment inventory listing revealed that FNRC capitalized all of its equipment rather than items valued at or above \$5,000. FNRC was not aware that only items valued at or above \$5,000 are to be capitalized. This is not in compliance with State Equipment Management Guidelines, Attachment D, Section 8602.

B. Equipment Acquired Under Contract Form (052130) Not Used

The review of the equipment inventory listing revealed that FNRC has not been completing the required Equipment Acquired under Contract form (DS2130) for newly acquired equipment. This is not in compliance with the State's Equipment Management System Guidelines, Section III (B).

Response 2: The Regional Center records all equipment as equipment expense, keeping memorandum equipment records in accordance with established Regional Center best practices. The general ledger's memorandum equipment records were adjusted to list only items valued at or above \$5,000 starting on February 28, 2015.

The Regional Center has been completing the equivalent of the Form 2130 for its own records, but did not submit that information or a Form 2130 to the Department of Developmental Services during the audit period. The Regional Center kept timely records of all acquired equipment during the audit period and has continued to maintain current records. In May 2015, the Regional Center sent a cumulative list of acquired equipment to DDS and has subsequently provided a Form 2130 or its electronic equivalent to the state on a quarterly basis.

Finding 3: Vendors Not Enrolled in Electronic Billing

The review of FNRC's electronic billing (EB) vendor listing revealed that 146 out of 2,006 vendors have not been enrolled in EB as of July 1, 2012. None of these vendors were paid by voucher or demonstrated that submitting billings electronically for services would present a substantial financial hardship, which would have precluded them from enrolling in the EB process. This is not in compliance with W&I Code, Section 4641.5(a).

Response 3:

The Regional Center has made diligent efforts to enroll vendors in the EB system. Management believes it is in substantial compliance with the Code, as 99% of dollars paid are processed through that system.

Health care providers comprise a significant part of the listing. They provide occasional or small dollar amounts of specialized services needed by a consumer. Some of them are pharmacies that may be the only option for a consumer in a rural area. Other providers, such as UC Davis, have ignored repeated requests to complete substantial financial hardship forms. Some providers may cease providing services if they are requested to bill using the Regional Center's EB system, which differs from a traditional health care billing system. It may not be practical to achieve 100% compliance with the Code.

The Regional Center will again review the listing provided by DDS and will seek to enroll the vendor, obtain a substantial financial hardship statement letter, or document why the vendor renders a service that is important to consumer health and welfare.