



**AUDIT OF THE
FAR NORTHERN REGIONAL CENTER
FOR FISCAL YEARS 2003-04, 2004-05, and 2005-06**

Department of Developmental Services

This report was prepared by the
California Department of Developmental Services
1600 Ninth Street
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TABLE OF CONTENTS

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.....	7
III. Targeted Case Management and Regional Center Rate Study	7
IV. Service Coordinator Caseload Survey	7
V. Early Intervention Program (Part C Funding)	8
VI. Family Cost Participation Program.....	8
VII. Other Sources of Funding	9
VIII. Follow-up Review on Prior DDS’ Audit Findings	9
CONCLUSIONS.....	10
VIEWS OF RESPONSIBLE OFFICIALS.....	11
RESTRICTED USE.....	12
FINDINGS AND RECOMMENDATIONS.....	13
EVALUATION OF RESPONSE.....	16
REGIONAL CENTER’S RESPONSE.....	Appendix A

EXECUTIVE SUMMARY

The fiscal compliance audit of Far Northern Regional Center (FNRC) revealed that FNRC 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 (DDS). Overall, the audit indicated that FNRC maintains accounting records and supporting documentation for transactions in an organized manner. This report identifies some areas where FNRC'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 FNRC's operations.

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

Finding 1: Client Trust Disbursements Not Supported

A review of the client trust money management disbursements revealed that FNRC did not have receipts to support four purchases for vacations, clothing, or seasonal spending made by the vendor for the consumer. Without supporting receipts, there is no evidence to ensure that the disbursements from the client trust funds are appropriate. This is not in compliance with the Social Security Handbook, Sections 1623.1 and 1616.

Finding 2: Start Up Contracts (Repeat)

A review of the Start Up contracts revealed that 15 of the 16 contracts were found to have been signed and dated after the start date. All contracts should be signed and dated prior to the effective date of the contract. This issue was also identified in the prior DDS audit.

Finding 3: Missing Consultant Contracts

The review of FNRC's consultant contracts revealed 18 vendors that did not have contracts on file. These vendors are used by FNRC on an infrequent or periodic basis. For good internal control practices, written and signed contracts should be in place.

Finding 4: Incorrect Target Case Management (TCM) Rate

The review of FNRC's Target Case Management (TCM) rate study worksheets for May 2004, revealed that FNRC inadvertently used the operating expense total from fiscal year 1999-00, rather than from fiscal year 2002-03. This resulted in an incorrect calculation for the May 2004 TCM rate.

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 Far Northern Coordinating Council on Developmental Disabilities, Inc., entered into two contracts: HD999005, effective July 1, 1999 through June 30, 2004; and HD049005, effective July 1, 2004, through June 30, 2009. These contracts specifies that Far Northern Coordinating Council on Developmental Disabilities, Inc., will operate an agency known as the Far Northern Regional Center (FNRC) to provide services to persons with DD and their families in the Butte, Glenn, Lassen, Modoc, Plumas, Shasta, Siskiyou, Tehama and Trinity Counties. The contracts are 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 March 26, 2007, through May 11, 2007, 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 FNRC'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
- FNRC's contract with DDS

AUDIT PERIOD

The audit period was from July 1, 2003, through June 30, 2006, 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 FNRC's contract with DDS.

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

Our review of FNRC'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 following fiscal years (FYs):

- 2003-04, issued September 14, 2004
- 2004-05, issued September 2, 2005
- 2005-06, issued October 3, 2006

In addition, we reviewed associated management letters issued by the independent accounting firm for FYs 2003-04 and 2005-06. 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 FNRC. 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 FNRC. An interview with FNRC staff revealed that FNRC 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 FNRC's bank accounts to determine if DDS had signatory authority as required by the contract with DDS.
- We selected a sample of bank reconciliations for Operations and Consumer Trust bank accounts to determine if the reconciliations are properly completed on a monthly basis.

II. Regional Center Operations

We audited FNRC'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, the transactions were being recorded on a timely basis, and the 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 DDS.
- We reviewed FNRC'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 following procedures were performed upon the study:

- Reviewed applicable TCM records and FNRC's Rate Study. We examined the month of May 2004,q and traced the reported information to source documents.
- Reviewed FNRC's Case Management Time Study. We selected a sample of payroll time sheets for this review and compared to the DS1916 forms to ensure that the DS1916 forms were properly completed and supported.

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 a service coordinator-to-consumer ratio of 1:62 for all consumers who have not moved from developmental centers to the community since April 14, 1993, and a ratio of 1:45 ratio for all consumers who have moved from developmental centers to the community since April 14, 1993. However, for the period commencing January, 1, 2004, to June 30, 2007, inclusive, 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 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 performed the following procedures upon FNRC's caseload survey.

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 FNRC'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 FNRC, we performed sample tests to ensure that the accounting staff was inputting data properly and 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
- Wellness Program

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 finding was conducted. We identified the prior audit finding that was reported to FNRC and reviewed supporting documentation to determine the degree and completeness of FNRC'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, FNRC was in substantial compliance to applicable sections of Title 17, HCBS waiver, and the terms of FNRC's contract with DDS for the audit period July 1, 2003, through June 30, 2006.

Except for those items described in the Findings and Recommendation Section, 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 not taken appropriate corrective action to resolve the prior audit issue which is included as Finding two in the Findings and Recommendations Section.

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft report on February 25, 2008. The findings in the report were discussed at an exit conference with FNRC on March 5, 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 Far Northern 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 following findings need to be addressed, but do not significantly impair the financial integrity of FNRC or seriously compromise its ability to account for or manage State funds.

Finding 1: Client Trust Disbursements Not Supported

A review of client trust money management disbursements revealed that four money management checks disbursed to the vendors for consumer purchases of clothing, seasonal spending and/or vacations were not supported with receipts. Although FNRC has a written policy requiring staff to maintain receipts for money management disbursements, the current practice has been to require only price quotes for the purchases of furniture and equipment. No receipts were required by FNRC for purchases of clothes, vacations, and seasonal spending. (See Attachment A.)

Without supporting receipts, there is no evidence to ensure that the disbursements from the client trust funds are appropriate. In addition, Social Security benefits received from the Social Security Administration (SSA) are included in the client trust funds. Social Security Handbook Chapter: 16, Section 1623.1 states:

“Representative payees shall explain how Social Security benefits and/or SSI payments were used during the 12 months report period. Payees should keep records throughout the year so that an accurate accounting of benefits can be provided.”

Social Security Handbook Chapter: 16, Section 1616 states:

“The responsibilities of a representative payee are to:

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

Also, FNRC’s Policies and Procedures, Policy Number 1302 entitled “Trust: Cash Disbursements,” Section B. Documentation requirements for Cash draws and Christmas Spending Money states:

“CMS documentation needed: purchase quote, invoice, receipt...”

Recommendation:

As the representative payee for its clients, FNRC should enforce its written policies and procedures requiring supporting receipts for disbursements made from the client trust accounts. The receipts should be documented in the consumer’s file with the money management check requests for the expenditures.

This will ensure all money management checks disbursed to vendors are for an appropriate purpose and that there is an accurate accounting for Social Security benefits.

Finding 2: Start Up Contracts (Repeat)

The review of 16 Start Up contracts revealed that 15 of the contracts were found to have been signed and dated after the start date. Though the written contracts included the scope of services to be provided and the compensation that will be paid for the services, all contracts should be signed and dated prior to the effective date of the contract. This issue was also identified in the prior DDS audit.

For good internal control and business practices, all contracts should be in place with signatures and dates from all contracting parties prior to the effective date of the contract. This is to ensure that there will be no misunderstanding regarding the terms of service, the contract period, and the compensation for the services to be provided.

Recommendation:

FNRC should establish policies and procedures to ensure that all contracts are signed and dated prior to the effective date of the contract.

Finding 3: Missing Consultant Contracts

The review of FNRC's contracts with its vendors revealed 18 consultant vendors that did not have contracts on file. (See Attachment B.)

For good internal control practices, written contracts should be in place with signatures from all contracting parties. The written contracts should include the scope of services to be provided and the compensation that will be paid for the services. This is to ensure that there will be no misunderstanding regarding the agreement between the two parties.

Recommendation:

FNRC should develop and implement procedures to ensure all its consultants have written contracts that are signed and dated prior to the effective date of the contract. In addition, FNRC should maintain the signed contracts on file.

Finding 4: Incorrect Targeted Case Management (TCM) Rate

The review of FNRC's TCM rate study worksheets for May 2004 revealed that FNRC inadvertently used the year end operating expense total from fiscal year 1999-00, rather than from fiscal year 2002-03. The amount reported in column 1 of the TCM worksheet was \$2,351,271. The correct amount that should have been recorded in column 1 of the TCM worksheet was \$2,276,173. This resulted in a difference of \$75,097 in the calculation of the TCM rate for May 2004. Though the difference did not have a significant impact on the TCM rate, year end amounts recorded incorrectly in the rate study can affect the TCM rate billed to the Federal government.

For good business and internal control practices, the correct year end totals used to calculate the TCM rate should be recorded on the worksheets accurately. Year end totals recorded incorrectly in the TCM rate study may result in an incorrect calculation of the TCM rate, which could result in the requirement to return overpayments on the TCM rate to the Federal government.

Recommendation:

FNRC should implement policies and procedures to include a review of the TCM rate study worksheets to ensure the correct fiscal year end totals are used and inputted in the correct columns before submission to DDS. In addition, FNRC should inform DDS's Fiscal Systems section to the incorrect operating expense amount used in the calculation of the May 2004 TCM rate study.

EVALUATION OF RESPONSE

As part of the audit report process, FNRC is provided with a draft report and is requested to provide a response to each finding. FNRC's response dated March 14, 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 FNRC's response. FNRC'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 FNRC's corrective actions identified in the response during the follow-up review or the next scheduled audit.

**Far Northern Regional Center
Client Trust Disbursements not Supported
Fiscal Years 2003-04, 2004-05 and 2005-06**

	Unique Client Identification Number	Money Management Disbursement Amount	Check Number	Check Date
1		\$665.00	498279/498578	08/10/06
2		\$300.00	464190	11/29/05
3		\$300.00	464118	11/22/05
4		\$300.00	464156	11/22/05

**Far Northern Regional Center
Operation Consultants with no Contracts
Fiscal Years 2003-04, 2004-05, and 2005-06**

	Consultant	Vendor Number	2002-03	2004-05	2005-06
1	Associated Pension Consultants	10168	No	No	No
2	██████████	10654	No	No	No
3	██████████	11625	N/A	No	No
4	Medical Transcription	11951	No	No	N/A
5	██████████	11976	No	N/A	N/A
6	██████████	12463	No	N/A	N/A
7	██████████	12424	No	No	No
8	██████████	12621	No	N/A	N/A
9	██████████	12642	No	N/A	N/A
10	Labor Relations	12663	No	N/A	N/A
11	██████████	12730	N/A	No	N/A
12	██████████	12784	N/A	No	N/A
13	██████████	12603	N/A	No	No
14	██████████	12617	N/A	N/A	No
15	██████████	12619	N/A	No	No
16	██████████	12890	N/A	N/A	No
17	██████████	12703	N/A	N/A	No
18	██████████	12804	N/A	N/A	No

No - No contract on file

N/A - Not applicable

APPENDIX A

FAR NORTHERN REGIONAL CENTER

RESPONSE

TO AUDIT FINDINGS

Certain documents provided by the Regional Center as attachments to their response are not included in this report due to the detailed and sometimes confidential nature of the information.



Far Northern Regional Center

Providing services and supports which allow persons with developmental disabilities to live productive and valued lives.

Laura Larson
Executive Director



March 14, 2008

Mr. Edward Yan
Chief, Audit Section
State of California Department of Developmental Services
1600 Ninth Street, Room 320, MS 2-10
Sacramento, CA 95814

Dear Ed:

Attached please find the Far Northern Regional Center's response to the draft audit report for the fiscal years ending June 30, 2004, 2005, and 2006. Thank you for your diligence in getting our report issued. If you have any questions on this information, please call me at (530) 222-8795, extension 3321. I would also request to see your revised language on the Trust Cash disbursements finding before the final report is issued.

Sincerely,

Michael J. Miniline
Associate Director, Administrative Services

Cc: Laura Larson, Executive Director

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Finding 1: Client Trust Disbursements Not Supported

Response:

The Regional Center's written policy has been revised to require more documentation for seasonal (Christmas) spending, clothing, and vacation disbursements. Obtaining receipts for these disbursements is often difficult because consumers need funds in order to make a purchase and they can be indifferent or indignant about furnishing receipts. It should also be noted the four disbursements listed in the finding were documented by pre-approved check requests signed by a Case Management Supervisor familiar with the consumer.

In an effort to set reasonable documentation standards, the Regional Center consulted with the Social Security Administration in Redding, California. The Social Security Administration specified that a list of persons receiving gifts and the estimated amount of spending per person would be documented on Christmas spending requests. Also, they agreed that the Regional Center would send out a standard letter requesting receipts for all electronics, furniture, and appliance purchases that exceeded \$250. Vacation disbursements are supported by itineraries from travel companies. A copy of the revised documentation schedule and a letter from the Social Security Administration on this topic are included as Exhibit I and II.

Finding 2: Start Up Contracts (Repeat)

Response:

Since the written Start Up contracts include the term and scope of the services to be provided and the compensation paid for the services, the Regional Center has eliminated the date of the signatures on the written contracts and added the following language above the signature line.

"IN WITNESS WHEREOF, the parties attest and agree to the above terms and conditions:"

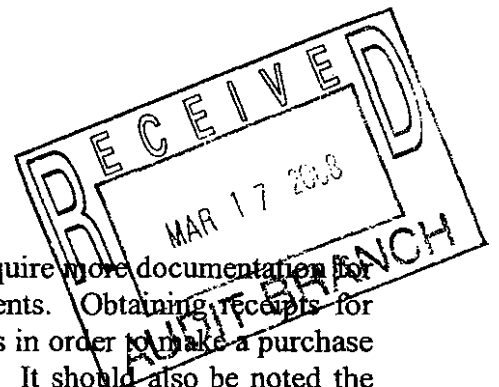
Finding 3: Missing Consultant Contracts

Response:

A summary of the amounts paid to the service vendors listed in the Department of Developmental Services Exhibit B follows:

Fiscal Year ending June 30, 2004 - \$ 34,599
Fiscal Year ending June 30, 2005 - \$ 8,847
Fiscal Year ending June 30, 2006 - \$ 24,426

The amounts for the fiscal year ending June 20, 2004 included infrequent payments to two vendors for medical transcription services (\$10,810) and preparation of the annual pension



plan report (\$8,512). The amount for the fiscal year ending June 30, 2006 included one-time payments made to an autism conference speaker (\$5,022), consumer life quality consultant (\$4,023) and payroll system consultant (\$4,389). All payments were supported by invoices approved by the Associate Director of Administrative Services, who determined that the services were necessary and usual and customary or discounted rates were charged by the vendor. However, future purchases for this type of vendor will be documented through purchase orders or via a standard letter of understanding that describes the terms of payment and scope of the work the vendor will perform.

Finding 4: Incorrect Target Case Management (TCM) Rate

Operating expense cost totals for the previous time study report were used erroneously in the May 2004 report. The Regional Center has notified the Department of Developmental Services Fiscal Systems Section of the error. The Associate Director of Administrative Services prepared the 2007 TCM rate study. Agreement of operating expense report totals to general ledger totals is documented in a work paper file.