



**AUDIT OF THE
FAR NORTHERN REGIONAL CENTER
FOR FISCAL YEARS 2006-07 and 2007-08**

Department of Developmental Services

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

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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. The audit indicated that, overall, 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.

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

Finding 1: Over-Stated Claims

A review of FNRC's Transportation Programs revealed instances in which FNRC over claimed expenses to the State. These payments were a result of an unauthorized rate increase to a vendor. The total overpayment was \$4,646.48. This is not in compliance with the Welfare and Institutions Code, Section 4648.4(b).

Finding 2: Targeted Case Management Time Study - Recording of Attendance

The review of the Targeted Case Management (TCM) time study revealed that for 6 of the 20 sampled employees, vacation and sick-hours recorded on the employee timesheets did not properly reflect what was recorded on the TCM time study forms (DS 1916).

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 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 Far Northern Coordinating Council on Developmental Disabilities (FNCC), entered into contract HD049005, effective July 1, 2004, through June 30, 2009. The contract specifies that FNCC 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 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 February 17, 2009, through March 18, 2009, 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 (W&I)
- "Approved Application for the Home and Community-Based Services Waiver (HCBS) for the Developmentally Disabled"
- California Code of Regulations Title 17 (Title 17)
- Federal Office of Management Budget (OMB) Circular A-133
- FNRC's contract with the DDS

AUDIT PERIOD

The audit period was from July 1, 2006, through June 30, 2008, 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 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, the 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 fiscal years:

- FY 2006-07, issued on November 12, 2007
- FY 2007-08, issued on October 28, 2008

In addition, we reviewed the associated management letters that were issued by the independent accounting firm for FY's 2006-07 and 2007-08. 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 retroactive Social Security benefit payments were not held for a period longer than nine months. We also reviewed these accounts to ensure that the interest earnings were distributed quarterly, personal and incidental funds were paid before the tenth of each month, and that proper documentation for expenditures were maintained.
- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, is 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 the DDS.
- We selected a sample of bank reconciliations for Operations and Consumer Trust bank accounts to determine if the reconciliations were properly completed on a monthly basis.

II. Regional Center Operations

We audited FNRC 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 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 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 determines DDS rate of reimbursement from the Federal Government. The following procedures were performed upon the study:

- Reviewed applicable TCM records and verified that the information submitted by FNRC to calculate the TCM rate can be traced to the general ledgers and payroll registers.
- Reviewed FNRC's Case Management Time Study. We selected a sample of payroll time sheets for this review and compared to the DS 1916 forms to ensure that the DS 1916 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 the 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 the 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 number of 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 FNRC 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 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 FNRC and reviewed supporting documentation to determine the degree and completeness of FNRC's 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, the HCBS waiver, and the terms of FNRC's contract with DDS for the audit period July 1, 2006, through June 30, 2008.

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 FNRC has taken appropriate corrective actions to resolve all prior audit issues.

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft report on September 25, 2009. The findings in the report were discussed at an exit conference with FNRC on October 8, 2009. At the exit conference, we stated that the final report will incorporate the views of responsible officials.

RESTRICTED USE

This report is solely for the information and use of the Department of Developmental Services, Department of Health Care Services, the Centers for Medicare and Medicaid Services, and the 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.

FINDINGS AND RECOMMENDATIONS

These 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: Over-Stated Claims

A review of the FNRC's Transportation Programs revealed instances in which FNRC over claimed expenses to the State. The instances of overpayments were a result of an unauthorized rate increase made to Philia House, Vendor Number HF0309, Service Code 880 by FNRC. The total overpayment was \$4,646.48. (See Attachment A)

W&I Code, Section 4648.4(b) states:

“Notwithstanding any other provisions of law or regulation, except for subdivision (a) during the 2006-07 fiscal year, no regional center may pay any provider of the following services or supports a rate that is greater than the rate that is in effect on or after July 1, 2006, unless the increase is required by a contract between the regional center and the vendor that is in effect on June 30, 2006, or the regional center demonstrates that the approval is necessary to protect the consumer's health or safety and the department has granted prior written authorization.”

Recommendation:

FNRC should seek reimbursement from the transportation vendor in the amount of \$4,646.48. FNRC should also develop and implement procedures to ensure staff is aware of the W&I Code restriction and that any increases in compensation needs to be approved by DDS.

Finding 2: Targeted Case Management Time Study - Recording of Attendance

The review of the Targeted Case Management (TCM) time study revealed that for 6 of the 20 sampled employees, vacation and sick-hours recorded on the employee timesheets did not properly reflect what was recorded on the TCM study forms (DS 1916). The difference between the employee timesheets and the TCM study forms were 40 hours. Though the difference did not have a significant impact on the TCM rate, hours recorded incorrectly in the TCM study can affect the TCM rate billed to the Federal Government.

For good business and internal control practices, vacation and sick-time should be recorded correctly on the TCM study forms (DS 1916). Time recorded incorrectly may result an incorrect calculation of the TCM rate, which could

result in the requirement to return overpayments of the TCM rate to the Federal Government.

Recommendation:

FNRC should implement policies and procedures to ensure all employee timesheets are in agreement with the TCM study forms (DS 1916).

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 October 14, 2009, is provided as Appendix A. This report includes the complete text of the findings in the Findings and Recommendation section and a summary of the findings in the Executive Summary section.

DDS's 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's Audit Branch will confirm FNRC's corrective actions identified in the response during the follow-up review of the next scheduled audit.

Finding 1: Over-Stated Claims

FNRC agrees with the finding and stated that the overpayment to Philia House, Vendor Number HF0309, Service Code 880 was the fault of FNRC. As a result, FNRC has requested the overpayment amount of \$4,646.48 be deducted from FNRC's FY 2009-10 Operations allocation. In addition, FNRC explained that the person responsible for setting rates at the regional center was made aware that rate increases need to be approved by DDS. DDS concurs with FNRC's request and will reduce their Operations allocation by \$4,646.48 in the next amendment. A follow-up will be performed in the next scheduled audit to determine if the issue has been resolved.

For Discussion Only Transportation Overpayments - Philia House, Vendor Number HF0309, Service Code 880

Fiscal Years 2006-07 and 2007-08

			A	B	C	D	E	
	Year/Month	Unique Client Identification Number	Authorization	Billed Rate	Actual Rate	Difference	Units Paid	Overpayment Amount
1	200804		08213108	\$11.00	\$6.18	\$4.82	22.00	\$106.04
2	200804		08206071	\$11.00	\$6.18	\$4.82	22.00	\$106.04
3	200804		08197840	\$11.00	\$6.18	\$4.82	22.00	\$106.04
4	200804		08197841	\$11.00	\$6.18	\$4.82	19.00	\$91.58
5	200804		08197836	\$11.00	\$6.18	\$4.82	22.00	\$106.04
6	200804		08197835	\$11.00	\$6.18	\$4.82	22.00	\$106.04
7	200805		08213108	\$11.00	\$6.18	\$4.82	18.00	\$86.76
8	200805		08206071	\$11.00	\$6.18	\$4.82	21.00	\$101.22
9	200805		08197840	\$11.00	\$6.18	\$4.82	21.00	\$101.22
10	200805		08197841	\$11.00	\$6.18	\$4.82	18.00	\$86.76
11	200805		08197836	\$11.00	\$6.18	\$4.82	21.00	\$101.22
12	200805		08197835	\$11.00	\$6.18	\$4.82	21.00	\$101.22
13	200806		08213108	\$11.00	\$6.18	\$4.82	21.00	\$101.22
14	200806		08206071	\$11.00	\$6.18	\$4.82	21.00	\$101.22
15	200806		08197840	\$11.00	\$6.18	\$4.82	21.00	\$101.22
16	200806		08197841	\$11.00	\$6.18	\$4.82	16.00	\$77.12
17	200806		08197836	\$11.00	\$6.18	\$4.82	21.00	\$101.22
18	200806		08197835	\$11.00	\$6.18	\$4.82	21.00	\$101.22
19	200807		09213108	\$11.00	\$6.18	\$4.82	20.00	\$96.40
20	200807		09206071	\$11.00	\$6.18	\$4.82	22.00	\$106.04
21	200807		09197840	\$11.00	\$6.18	\$4.82	22.00	\$106.04
22	200807		09197841	\$11.00	\$6.18	\$4.82	18.00	\$86.76
23	200807		09197836	\$11.00	\$6.18	\$4.82	22.00	\$106.04
24	200807		09197835	\$11.00	\$6.18	\$4.82	22.00	\$106.04
25	200808		09213108	\$11.00	\$6.18	\$4.82	21.00	\$101.22
26	200808		09206071	\$11.00	\$6.18	\$4.82	21.00	\$101.22

For Discussion Only Transportation Overpayments - Philia House, Vendor Number HF0309, Service Code 880

Fiscal Years 2006-07 and 2007-08

			A	B	C	D	E	
	Year/Month	Unique Client Identification Number	Authorization	Billed Rate	Actual Rate	Difference	Units Paid	Overpayment Amount
27	200808		09197840	\$11.00	\$6.18	\$4.82	21.00	\$101.22
28	200808		09197841	\$11.00	\$6.18	\$4.82	17.00	\$81.94
29	200808		09197836	\$11.00	\$6.18	\$4.82	21.00	\$101.22
30	200808		09197835	\$11.00	\$6.18	\$4.82	21.00	\$101.22
31	200809		09213108	\$11.00	\$6.18	\$4.82	21.00	\$101.22
32	200809		09206071	\$11.00	\$6.18	\$4.82	20.00	\$96.40
33	200809		09197840	\$11.00	\$6.18	\$4.82	21.00	\$101.22
34	200809		09197841	\$11.00	\$6.18	\$4.82	16.00	\$77.12
35	200809		09197836	\$11.00	\$6.18	\$4.82	21.00	\$101.22
36	200809		09197835	\$11.00	\$6.18	\$4.82	21.00	\$101.22
37	200810		09213108	\$11.00	\$6.18	\$4.82	16.00	\$77.12
38	200810		09206071	\$11.00	\$6.18	\$4.82	22.00	\$106.04
39	200810		09197840	\$11.00	\$6.18	\$4.82	23.00	\$110.86
40	200810		09197841	\$11.00	\$6.18	\$4.82	19.00	\$91.58
41	200810		09197836	\$11.00	\$6.18	\$4.82	23.00	\$110.86
42	200810		09197835	\$11.00	\$6.18	\$4.82	23.00	\$110.86
43	200811		09213108	\$11.00	\$6.18	\$4.82	18.00	\$86.76
44	200811		09206071	\$11.00	\$6.18	\$4.82	18.00	\$86.76
45	200811		09197840	\$11.00	\$6.18	\$4.82	18.00	\$86.76
46	200811		09197841	\$11.00	\$6.18	\$4.82	14.00	\$67.48
47	200811		09197836	\$11.00	\$6.18	\$4.82	14.00	\$67.48
48	200811		09197835	\$11.00	\$6.18	\$4.82	18.00	\$86.76
Transportation Overpayment Total							\$4,646.48	

Legend: C=A-B

E=C*D

APPENDIX A

FAR NORTHERN REGIONAL CENTER

RESPONSE

TO AUDIT FINDINGS



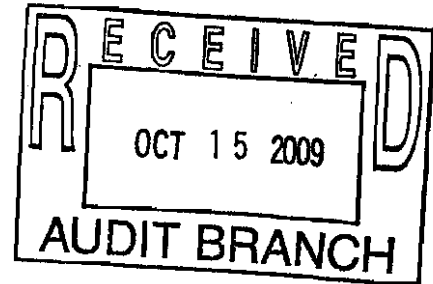
Far Northern Regional Center

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

Laura Larson
Executive Director

October 14, 2009

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, 2007 and 2008. 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. We appreciated the professionalism and courtesy of the audit team and thank you for a positive audit experience.

Sincerely,

Michael J. Mintline
Associate Director, Administrative Services

Cc: Laura Larson, Executive Director

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Far Northern Regional Center
Response to DDS Audit Report
Fiscal Years Ending June 30, 2007 and 2008

Finding 1: Overstated claims

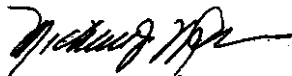
Response:

Because the overpayment of \$4,646.48 was the fault of the Regional Center, not Philia House, the Regional Center requests this amount be deducted as soon as possible from its FY 2009-10 Operations allocation. If this is not possible, the Regional Center will recover the amount from the provider. The persons who are responsible for setting rates at the Regional Center were informed of the overpayment, are aware of the W&I Code restriction, and know rate increases of this type need to be approved by DDS.

Finding 2: Targeted Case Management time Study – Recording of Attendance

Response:

The Associate Director, Administrative Services will modify the instructions for the next time study to emphasize reconciliation of sick leave and vacation time per the TCM (DS 1916) forms to employee timesheets. He will also review all TCM forms and employee timesheets to ensure all hours are recorded properly on TCM forms and will attach a certification statement stating the review was performed.


10/14/09