AUDIT OF THE
HARBOR REGIONAL CENTER
FOR FISCAL YEARS 2013-14 AND 2014-15

Department of Developmental Services

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EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) conducted a fiscal compliance audit of Harbor Regional Center (HRC) to ensure HRC is compliant with the requirements set forth in the Lanterman Developmental Disabilities Services Act and Related Laws/Welfare and Institutions (W&I) Code; the Home and Community-Based Services (HCBS) Waiver for the Developmentally Disabled; California Code of Regulations (CCR), Title 17; Federal Office of Management and Budget (OMB) Circulars A-122 and A-133; and the State contract between DDS and HRC. Overall, the audit indicated that HRC maintains accounting records and supporting documentation for transactions in an organized manner.

The audit period was July 1, 2013, through June 30, 2015, with follow-up, as needed, into prior and subsequent periods. This report identifies some areas where HRC'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 HRC's operations. A follow-up review was performed to ensure that HRC has taken corrective action to resolve the findings identified in the prior DDS audit report.

Findings that need to be addressed.

Finding 1: **Credit Cards**

A. Unsupported Credit Card Expenditures (Repeat)

The review of operational expenditures revealed HRC continues to not comply with its credit card procedures. The review noted 73 credit card transactions totaling $4,105.03 that had insufficient documentation to support the items purchased. This issue was noted in the prior audit report. This is not in compliance with HRC's Procedures for Credit Cards, Section III, Cardholder Responsibilities.

B. Unallowable Credit Card Expenditures

The review of operational expenditures revealed employees made unallowable purchases using the credit card. The employees used the credit card to purchase personal items totaling $1,107.34. This is not in compliance with HRC's Procedures for Credit Cards, Rationale and Section V, Card Use Appropriateness. HRC has provided documentation indicating the employees reimbursed the regional center for the personal expenses.

C. Credit Card Issued to Vendor

The review of operational expenditures revealed that HRC issued a credit card to an employee of National Mentor Healthcare, LLC (Mentor) exclusively for making purchases for the Family Resource Center (FRC). This is not in compliance with the contract between HRC and Mentor and HRC's Procedures for Credit Cards, Section I, General Guidelines. Issuing a credit card to a vendor could have exposed HRC to unnecessary financial liabilities. HRC has since cancelled the credit card.

Finding 2: Deleted

Further analysis of the additional documentation provided by HRC after the exit conference determined that this was not an issue and the finding has been deleted.

Finding 3: Purchase of Service (POS) Expenses Not Tied To Consumer Unique Consumer Identification (UCI) Numbers

The review of 126 POS vendors' expenditures revealed one vendor, Mentor, LLC, Vendor Number PH0272, Service Code 102, was reimbursed $247,690.08 for services provided under a contract UCI number. This vendor provided services under the HCBS Waiver-billable service code; however, the POS expenditures were not tied to individual consumers' UCI numbers. This is not in compliance with CCR, Title 17, Section 50604(d)(1).

HRC provided a sample of Individual Family Services Plans (IFSP) indicating that services were requested for the consumers. However, the POS expenses are still not tied to authorizations and consumer UCI numbers to ensure services can be billed to the HCBS Waiver.

Finding 4: Annual Family Program Fee (AFPF)

The sampled review of 58 consumer files revealed HRC was unable to provide income documentation to support the reduced assessment fees for six families. This resulted in an underpayment to the State totaling $600 in AFPF fees. This is not in compliance with the State Contract, Article IV, Section 3(a) and (b) and the DDS Annual Family Program Fee Procedures, Section C.

HRC provided additional documentation with its response indicating three of the assessments were supported by source documentation with three still outstanding. The total underpayment outstanding is $150.

Finding 5: **<u>Notification of Whistleblower Policy Not Conducted Annually</u>**

HRC is not notifying its consumers and families and the vendor community annually of the Whistleblower policy. This is not in compliance with the State Contract, Article I, Sections 18(b)(6) and (c).

Finding that has been addressed and corrected.

Finding 6: **<u>Improper Allocation of Community Placement Plan (CPP) Funds</u>**

The review of HRC's CPP expenditures for 36 sampled consumers who moved from the Developmental Centers (DC) to the community for FYs 2013-14 and 2014-15 revealed that HRC continued to use CPP funds for services for one consumer beyond the FY of their initial placement. The total cost of services provided amounted to $12,062.50. This is not in compliance with W&I Code, Section 4418.25; the State Contract, Exhibit E; and Guidelines for Regional Center Community Placement Plan, Section (III)(A).

HRC resolved this issue by reclassifying the CPP payments to regular POS.

BACKGROUND

DDS is responsible, under the W&I Code, for ensuring that persons with developmental disabilities (DD) receive the services and supports they need to lead more independent, productive, and integrated 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 (RCs). 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 (HHS), 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 Section 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 (CPAs) 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 Harbor Developmental Disabilities Foundation, Inc. entered into State Contract HD099007 effective July 1, 2009, through June 30, 2016. This contract specifies that Harbor Developmental Disabilities Foundation, Inc. will operate an agency known as HRC to provide services to individuals with DD and their families in the Bellflower, Harbor, Long Beach and Torrance areas. The contract is funded by state and federal funds that are dependent upon HRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at HRC from October 19, 2015, through December 16, 2015 by the Audit Section of DDS.

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 between DDS and HRC.

CRITERIA

The following criteria were used for this audit:

- W&I Code,
- "Approved Application for the HCBS Waiver for the Developmentally Disabled,"
- CCR, Title 17,
- OMB Circulars A-122 and A-133, and
- The State Contract between DDS and HRC, effective July 1, 2009.

AUDIT PERIOD

The audit period was July 1, 2013, through June 30, 2015, 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 RCs' fiscal, administrative, and program operations. The objectives of this audit were:

- To determine compliance with the W&I Code,
- 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 compliance with OMB Circulars A-122 and A-133, and
- To determine that costs claimed were in compliance with the provisions of the State Contract between DDS and HRC.

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. However, the procedures do not constitute an audit of HRC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that HRC was in compliance with the objectives identified above. Accordingly, DDS examined transactions on a test basis to determine whether HRC was in compliance with the W&I Code; HCBS Waiver for the Developmentally Disabled; CCR, Title 17; OMB Circulars A-122 and A-133; and the Contract between DDS and HRC.

DDS' review of HRC'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 CPA firm for FY 2013-14, issued on December 14, 2014. It was noted that no management letter was issued for HRC. 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. POS

DDS selected a sample of 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 HRC. The rates charged for the services provided to individual consumers were reviewed to ensure compliance with the provisions of the W&I Code; the HCBS Waiver for the Developmentally Disabled; CCR, Title 17; OMB Circulars A-122 and A-133; and the State Contract between DDS and HRC.

- DDS selected a sample of individual Consumer Trust Accounts to determine if there were any unusual activities and whether any account balances exceeded $2,000, as prohibited by the Social Security Administration. In addition, DDS determined if any retroactive Social Security benefit payments received exceeded the $2,000 resource limit for longer than nine months. DDS also reviewed these accounts to ensure that the interest earnings were distributed quarterly, personal and incidental funds were paid before the 10th of each month, and proper documentation for expenditures was maintained.

- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, was tested to determine whether funds received were properly identified to a consumer or returned to the Social Security Administration in a timely manner. If the correct recipient cannot be determined, the funds are returned to the Social Security Administration, or other sources, in a timely manner.

- DDS selected a sample of Uniform Fiscal Systems (UFS) reconciliations to determine if any accounts were out of balance or if there were any outstanding items that were not reconciled.

- DDS analyzed all of HRC's bank accounts to determine whether DDS had signatory authority, as required by State Contract.

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

II. <u>Regional Center Operations</u>

DDS selected a sample of OPS claims billed to DDS to determine compliance with the State Contract. The sample included various expenditures claimed for administration that were reviewed to ensure HRC's accounting staff were properly inputting data, transactions were recorded on a timely basis, and expenditures charged to various operating areas were valid and reasonable. The following procedures were performed:

- A sample of the personnel files, timesheets, 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 OPS expenses, including but not limited to purchases of office supplies, consultant contracts, insurance expenses, and lease agreements, were tested to determine compliance with the State Contract.

- A sample of equipment was selected and physically inspected to determine compliance with requirements of the State Contract.

- DDS reviewed HRC'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. <u>Targeted Case Management (TCM) and Regional Center Rate Study</u>

The TCM Rate Study determines the DDS rate of reimbursement from the federal government. The following procedure was performed upon the study:

- Reviewed applicable TCM records and HRC's Rate Studies. DDS examined the months of March 2014 and April 2015, and traced the reported information to source documents.

The Case Management Time Study conducted in May 2013 was reviewed in the prior DDS audit that included FY 2012-13. As a result, there was no Case Management Time Study reviewed for this audit period.

IV. Service Coordinator Caseload Survey

Under W&I Code, Section 4640.6(e), RCs 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)(1)(2)(3)(A)(B)(C):

"(1) An average service coordinator-to-consumer ratio of 1 to 62 for all consumers who have not moved from the developmental centers to the community since April 14, 1993. In no case shall a service coordinator for these consumers have an assigned caseload in excess of 79 consumers for more than 60 days.

(2) An average service coordinator-to-consumer ratio of 1 to 45 for all consumers who have moved from a developmental center to the community since April 14, 1993. In no case shall a service coordinator for these consumers have an assigned caseload in excess of 59 consumers for more than 60 days.

(3) Commencing January 1, 2004, the following coordinator-to-consumer ratios shall apply:

(A) All consumers three years of age and younger and for consumers enrolled in the Home and Community-based Services Waiver program for persons with developmental disabilities, an average service coordinator-to-consumer ratio of 1 to 62.

(B) 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, an average service coordinator-to-consumer ratio of 1 to 62.

(C) All consumers who have not moved from the developmental centers to the community since April 14, 1993, and who are not described in sub-paragraph (A), an average service coordinator-to-consumer ratio of 1 to 66."

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 (EIP, Part C Funding)

For the EIP, 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 EIP, including the Early Start Plan and Federal Part C funding, to determine if the funds were properly accounted for in HRC's accounting records.

VI. Family Cost Participation Program (FCPP)

The 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)/Individualized Family Services Plan (IFSP). To determine whether HRC was 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 HRC was paying for only its assessed share of cost.

VII. AFPF

The AFPF was created for the purpose of assessing an annual fee of up to $200 based on the income level of families with children between the ages of 0 through 17 years receiving qualifying services through the RC. The AFPF fee shall not be assessed or collected if the child receives only respite, day care, or camping services from the RC and a cost for participation was assessed to the parents under FCPP. To determine whether HRC was 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 DD 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 RC to support reduced assessments.

VIII. <u>Parental Fee Program (PFP)</u>

The PFP was created for the purpose of prescribing financial responsibility to parents of children under the age of 18 years who are receiving 24-hour out-of-home care services through a RC or who are residents of a state hospital or on leave from a state hospital. Parents shall be required to pay a fee depending upon their ability to pay, but not to exceed (1) the cost of caring for a child without DD at home, as determined by the Director of DDS, or (2) the cost of services provided, whichever is less. To determine whether HRC was in compliance with the W&I Code, DDS requested a list of PFP assessments and verified the following:

- Identified all children with DD who are receiving the following services:

  (a) All 24-hour out-of-home community care received through an RC for children under the age of 18 years;

  (b) All 24-hour care for such minor children in state hospitals. Provided, however, that no ability to pay determination shall be made for services required by state or federal law, or both, to be provided to children without charge to their parents.

- Provided DDS with a listing of new placements, terminated cases, and client deaths for those clients. Such listings shall be provided not later than the 20th day of the month following the month of such occurrence.

- Informed parents of children who will be receiving services, that DDS is required to determine parents' ability to pay and to assess, bill, and collect parental fees.

- Within 10 working days after placement of a minor child, provide the parents a package containing an informational letter, a Family Financial Statement (FFS), and a return envelope.

- A copy of each informational letter given or sent to parents, indicating the addressee and the date given or mailed, shall be submitted to DDS.

IX. Procurement

The Request for Proposal (RFP) process was implemented to ensure RCs outline the vendor selection process when using the RFP process to address consumer service needs. As of January 1, 2011, DDS requires RCs to document their contracting practices, as well as how particular vendors are selected to provide consumer services. By implementing a procurement process, RCs 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 HRC implemented the required RFP process, DDS performed the following procedures during the audit review:

- Reviewed the HRC contracting process to ensure the existence of a Board-approved procurement policy and to verify that the RFP process ensures competitive bidding, as required by Article II of the State Contract, as amended.

- Reviewed the RFP contracting policy to determine whether the protocols in place included applicable dollar thresholds and comply with Article II of the State Contract, as amended.

- Reviewed the RFP notification process to verify that it is open to the public and clearly communicated to all vendors. All submitted proposals are evaluated by a team of individuals to determine whether proposals are properly documented, recorded, and authorized by appropriate officials at HRC. The process was reviewed to ensure that the vendor selection process is transparent and 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 contracts in place as of January 1, 2011.

- Selected a sample of Operational, CPP, and negotiated POS contracts subject to competitive bidding to ensure HRC notified the vendor community and the public of contracting opportunities available.

- Reviewed the contracts to ensure that HRC has adequate and detailed documentation for the selection and evaluation process of vendor proposals and written justification for final vendor selection decisions and that 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 contracts in place as of March 24, 2011:

- Reviewed to ensure HRC 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 HRC's Board-approved Operational, Start-Up, and POS 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, the usage of funds is of direct benefit to consumers, and the contracts are supported with sufficiently detailed and measurable performance expectations and results.

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

X. <u>Statewide/Regional Center Median Rates</u>

The Statewide and RC Median Rates were implemented on July 1, 2008, and amended on December 15, 2011, to ensure that RCs 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 HRC was in compliance with the Lanterman Act, DDS performed the following procedures during the audit review:

- Reviewed sample vendor files to determine whether HRC is using appropriately vendorized service providers and correct service codes, and that HRC is paying authorized contract rates and complying with the median rate requirements of W&I Code, Section 4691.9.

- Reviewed vendor contracts to ensure that HRC is reimbursing vendors using authorized contract median rates and verified that rates paid represented the lower of the statewide or RC 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 required by regulation, or health and safety exemptions were granted by DDS.

- Reviewed vendor contracts to ensure that HRC did not negotiate rates with new service providers for services which are higher than the RC's median rate for the same service code and unit of service, or the statewide median rate for the same service code and unit of service, whichever is lower. DDS also ensured that units of service designations conformed with existing RC designations or, if none exists, ensured that units of service conformed to a designation used to calculate the statewide median rate for the same service code.

XI. Other Sources of Funding from DDS

RCs may receive other sources of funding from DDS. DDS performed sample tests on identified sources of funds from DDS to ensure HRC'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:

- CPP.
- Denti-Cal.
- Family Resource Center.
- First Five.
- EIP-Part C Funding.

XII. 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 HRC and reviewed supporting documentation to determine the degree of completeness of HRC's implementation of corrective actions.

CONCLUSIONS

Based upon the audit procedures performed, DDS has determined that except for the items identified in the Findings and Recommendations section, HRC was in compliance with applicable sections of the W&I Code; CCR, Title 17; the HCBS Waiver; OMB Circulars A-122 and A-133; and the State Contract with DDS for the audit period, July 1, 2013, through June 30, 2015.

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 HRC has not taken appropriate corrective action to resolve one prior audit issue.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued a draft audit report on December 19, 2017. The findings in the draft audit report were discussed at a formal exit conference with HRC on December 21, 2017. The views of the responsible officials are included in this audit report.

RESTRICTED USE

This audit report is solely for the information and use of DDS, Department of Health Care Services, CMS, and HRC. 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: <u>Credit Cards</u>

A. <u>Unsupported Credit Card Expenditures</u> (Repeat)

The review of operational expenditures revealed HRC continues to not comply with its credit card procedures. This issue was noted in the prior audit report. HRC reimbursed DDS $623.23 for the unsupported credit card expenditures identified in the prior report. However, the current review noted 58 credit card transactions totaling $3,535.84 that had insufficient documentation to detail the items purchased and 15 credit card transactions totaling $569.19 that had missing receipts. The total unsupported credit card expenditures is $4,105.03. (See Attachment A)

HRC's Procedures for Credit Cards, Section III, Cardholder Responsibilities states in part:

> "It is the cardholder's responsibility to obtain itemized transaction receipts from the vendor each time the credit card is used. Each month [City National Bank] will mail each cardholder a billing statement. It is the cardholder's responsibility to ensure that the charges are valid by attaching individual transaction receipts for each charge. The cardholder will obtain approval of the billing statement and receipts from his/her supervisor or the CFO."

Recommendation:

HRC must enforce its credit card procedures and reimburse to DDS a total of $4,105.03 for the unsupported expenditures.

B. <u>Unallowable Credit Card Expenditures</u>

The review of the operational expenditures revealed the employees made unallowable purchases using the credit card. Four employees used the credit card to purchase personal items totaling $1,107.34. This occurred due to the employees not following its credit card procedures. However, HRC has provided documentation indicating the employees reimbursed the regional center for the personal expenses. (See Attachment B)

HRC's Procedures for Credit Cards states:

> "Rationale: Corporate credit cards allows for an efficient and alternative means of payment for approved expenses, especially related to business travel and to purchase items for pick up or delivery on behalf of Harbor Regional Center. Corporate credit cards can be used for purchases for HRC expenses and are not to be used for personal expenses."

HRC's Procedures for Credit Cards, Section V, Card Use Appropriateness states in part:

> "Failure to use the credit card in accordance with the HRC policies including, but not limited to, conflict of interest, may result in revocation of the credit card and may involve appropriate disciplinary action up to and including termination and prosecution.
>
> Violations include, but are not limited to:
>
> - Purchasing items with the credit card for personal use."

Recommendation:

HRC must enforce its credit card policy to ensure employees do not use the credit card for personal use.

C. <u>Credit Card Issued to Vendor</u>

The review of operational expenditures revealed that HRC issued a credit card to an employee of Mentor exclusively for making purchases for the FRC from July 2009 through May 2015. Issuing the credit card to a vendor could have exposed HRC to unnecessary financial liabilities. HRC has since cancelled the credit card.

HRC's Procedures for Credit Cards, Section I, General Guidelines states in part:

> "Harbor Regional Center (HRC) may issue corporate credit cards to senior staff and other limited staff under special circumstances as approved by the Executive Director."

Recommendation:

HRC must follow its credit card procedures to ensure only HRC staff are issued company credit cards.

Finding 2: **Deleted**

Further analysis of the additional documentation provided by HRC after the exit conference determined that this was not an issue and the finding has been deleted.

Finding 3: **Purchase of Service Expenses Not Tied To Consumer UCI Numbers**

The review of 126 POS vendor files revealed that HRC reimbursed one vendor, Mentor, Vendor Number PH0272, under Service Code 102, Individual or Family training at a flat monthly rate of $10,320.42 for services provided to consumers under a contract UCI number. HRC reimbursed $247,690.08 in POS funds from July 2013 through June 2015 for services provided under an HCBS Waiver-billable service code; however, HRC did not tie the POS expenses to individual consumers in UFS. (See Attachment C).

HRC provided a sample of IFSPs indicating that services were requested for the consumers. However, the POS expenses are still not tied to authorizations and consumer UCI numbers to ensure services can be billed to the HCBS Waiver.

CCR, Title 17, Section 50604(d)(1) states in part:

> "(d) All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program… Service records used to support service providers' billing/invoicing shall include, but not be limited to:
>
> (1) Information identifying each regional center consumer including the Unique Consumer Identifier and consumer name."

CCR, Title 17, Section 50612(a) states in part:

> "A purchase of service authorization shall be obtained from the regional center for all services purchased out of center funds."

Recommendation:

HRC must reimburse DDS for unsupported billings totaling $247,690.08 that could not be tied to consumers' IPPs, authorizations, and consumers' UCI numbers. HRC must ensure all POS payments are accurately accounted for and services can be billed to the HCBS Waiver.

Finding 4: AFPF

The sampled review of 58 consumer files revealed HRC was unable to provide income documentation to support the reduced assessment fees for six families. Four families paid a reduced share of cost of $150 each and two families did not pay a share of cost when the maximum share of cost was $200 per consumer. This resulted in an underpayment to the State totaling $600 in AFPF fees. (See Attachment D)

HRC provided additional documentation with its response indicating three of the assessments were supported by source documentation with three still outstanding. The total underpayment outstanding is $150.

The State Contract, Article IV, Sections 3(a) and (b) states in part:

> "Contractor shall keep records, as follows:
>
> a. The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures, and consumers served under this contract….
>
> b. The Contractor shall make available at the office of the Contractor at any time during the term of this agreement during normal working hours, and for a period of three years after final payment under this annual contract, any of its records (personnel records excepted) for the inspection, audit, examination or reproduction by an authorized representative of the State, federal auditor, the State Auditor of the State of California, or any other appropriate State agency, which shall be conducted with the minimum amount of disruption to Contractor's program."

DDS Annual Family Program Fee Procedures, Section C states in part:

> "Upon request from the parents, regional centers shall review, and when applicable, adjust the family's fee assessment if it is demonstrated that the adjusted gross family income is less than 800 percent of the federal poverty level (FPL). Families shall provide the regional center with records to show their total adjusted gross family income as defined in WIC Section 4785 (j)(1). See appendix E for the 2011 FPLs that must be used to determine the fee. If the parents' income is determined to be below 800 percent of the current year FPL, the regional center shall adjust the annual family fee to $150.00. If the parents' adjusted gross family income is below 400 percent of the current year FPL, the family shall not be assessed the AFPF."

Recommendation:

HRC must remit the $150 for the reduced share of cost. In addition, HRC must retain either current payroll and/or income tax records as support for the reduced assessments.

Finding 5: **Notification of Whistleblower Policy Not Conducted Annually**

A review of the consumer files and discussion with HRC staff revealed consumers, families, and the vendor community are not notified annually of the Whistleblower policy. This occurred because HRC does not have a process in place to document its annual notifications of the Whistleblower policy for the consumers, families, and the vendor community.

The State Contract, Article I, Sections 18(b)(6) and (c) states:

> "(b)(6) Include a process for ensuring notification of employees, board members, consumers/families, and vendor community of both the regional center and the State's Whistleblower policy within 30 days of the effective date of the regional center's policy and annually thereafter.
>
> (c) In addition, Contractor shall ensure that the regional center's and the State's Whistleblower Policies are posted on the regional center's website by January 15, 2011."

Recommendation:

HRC must develop a process to ensure that consumers, families, and the vendor community are notified annually about the Whistleblower policy.

Finding that has been addressed and corrected.

Finding 6: **Improper Allocation of CPP Funds**

The review of HRC's CPP expenditures for 36 sampled consumers who moved from the DC to the community in FYs 2013-14 and 2014-15 revealed that HRC continued to use CPP funds for services provided to one consumer beyond the initial FY of placement. The total cost of services provided amounted to $12,062.50 from July 2015 through September 2015.

Guidelines for Regional Center Community Placement Plan (III)(A) states in part:

> "Placement funding will be allocated based on claims associated with reconciled CPP placements that occur during each FY. As part of the POS claims review process, the Department may periodically request verification of consumers who have transitioned to the community and their associated costs."

HRC resolved this issue during the fieldwork by reclassifying the CPP payments to regular POS.

Recommendation:

HRC must ensure that it does not continue to allocate CPP expenditures to consumers after the end of the initial FY of placement. In addition, HRC must ensure that all CPP claims are allocated to the proper funding sources before claims are made to DDS.

EVALUATION OF RESPONSE

As part of the audit report process, HRC was provided with a draft audit report and requested to provide a response to the findings. HRC's response dated March 14, 2018, is provided as Appendix A.

DDS' Audit Section has evaluated HRC's response and will confirm the appropriate corrective actions have been taken during the next scheduled audit.

Finding 1: <u>Credit Cards</u>

A. <u>Unsupported Credit Card Expenditures</u> (Repeat)

HRC objects to the finding and stated that the expenditures were allowable even though some transactions were missing receipts. DDS is not questioning the validity of the expenditures but that HRC continues not to comply with its own credit card procedures under Section III. The procedures state that it is the cardholder's responsibility to obtain itemized transaction receipts from the vendor each time the credit card is used.

B. <u>Unallowable Credit Card Expenditures</u>

HRC objects to the finding and states that personal use of the credit cards by its employees was unintentional and HRC was immediately reimbursed for the expenses when the error was identified. DDS has no issue with the employees who were assigned credit cards, but rather the employees who used the HRC credit cards for personal expenditures. This is not in compliance with HRC's own credit card procedures which state that corporate credit cards can only be used for HRC expenditures.

C. <u>Credit Card Issued to Vendor</u>

HRC objects to the finding and stated that it noticed the potential issues and cancelled the credit card before the DDS audit started. DDS agrees with HRC that it cancelled the credit card issued to an employee of Mentor in May 2015 just before the audit started in October 2015. However, the Mentor employee had the credit card for over 5 years which could have exposed HRC to unnecessary financial liabilities. Although the credit card had been cancelled, HRC is not following its own credit card procedures, which state that credit cards can only be issued to senior staff and other limited staff under special circumstances as approved by the Executive Director. Therefore, the credit card should not have been issued to a Mentor employee.

Finding 2: **Deleted**

Further analysis of the additional documentation provided by HRC after the exit conference determined that this was not an issue and the finding has been deleted.

Finding 3: **Purchase of Service Expenses Not Tied To Consumer UCI Numbers**

HRC objects to the finding and provided a sample of IFSPs indicating that services were requested for the consumers. However, the POS expenses are still not tied to consumer UCI numbers which would allow services provided to be billed to the HCBS Waiver. HRC must ensure that services requested in the IFSP and reimbursed using POS funds are tied to authorizations, and individual consumer UCI numbers. Therefore, HRC must reimburse DDS for unsupported billings totaling $247,690.08. DDS will conduct a follow-up during the next scheduled audit to ensure that this issue has been corrected.

Finding 4: **AFPF**

HRC provided additional documentation with its response indicating three of the assessments were supported by source documentation with three still outstanding. The total underpayment still outstanding is $150.

Finding 5: **Notification of Whistleblower Policy Not Conducted Annually**

HRC stated that going forward it will revise its notification process to ensure that all parties are notified of the Whistleblower policy. DDS will conduct a follow-up during the next scheduled audit to ensure that this issue has been corrected.

Finding that has been addressed and corrected.

Finding 6: **Improper Allocation of CPP Funds**

HRC objects and stated that the finding was resolved during the audit. DDS agrees that the finding was resolved during the audit but this has been a recurring issue from a prior audit. In its prior response, HRC stated that it will review the CPP claims to ensure all expenditures are allocated to consumers eligible to receive CPP funding. However, this was not the case and DDS is again emphasizing that HRC ensure CPP funds are allocated correctly.

Harbor Regional Center
Unsupported Credit Card Expenditures (Repeat)
Fiscal Years 2013-14 and 2014-15

No.	Merchant	Statement Date	Tranaction Amount
Summary of Receipts With No Detail			
1	Georgio's Pizzaria	5/12/15	$233.37
2	Elephant Bar	5/12/15	$57.52
3	Applebee's	5/12/15	$64.41
4	BJ's Restaurant	5/12/15	$72.71
5	Islands	6/12/15	$71.11
6	Marriott	9/12/14	$37.98
7	Joe's Crab Shack	9/12/14	$51.94
8	Mayuhel	5/12/15	$85.73
9	Rascal's	10/12/13	$95.92
10	California Tortilla	12/12/13	$21.85
11	Penn Quarter Sports Tavern	12/12/13	$25.00
12	Tony & Joe's Seafood Place	12/12/13	$50.00
13	Grill Concepts	12/12/13	$25.00
14	Cuba Libre	12/12/13	$50.00
15	Clyde's Gallery Place	12/12/13	$45.00
16	Carmine's	12/12/13	$50.00
17	Markos Kebede	12/12/13	$20.00
18	Firewood Café	12/12/13	$15.41
19	Burger Bar	12/12/13	$27.62
20	Ampco Parking	12/12/13	$36.00
21	Johnny Garlic's	6/12/14	$25.00
22	Hilton Harvard Street Grill	6/12/14	$13.52
23	Dos Coyotes	6/12/14	$13.26
24	Dalesio's of Little Italy	8/12/14	$50.50
25	Dick's Last Resort	8/12/14	$47.00
26	Hungry Hunter	11/18/14	$15.00
27	Fred's BBQ Factory	11/18/14	$10.37
28	Romanos	11/18/14	$25.00
29	Big Denweeds Friendly Cat	11/18/14	$11.83
30	Buck Owens Crystal Palace	11/18/14	$25.00
31	Buck Owens Crystal Palace	11/18/14	$13.70
32	Fishwife Resturant	3/12/15	$20.91
33	Seasons 22	6/12/15	$30.38
34	Fat City	6/12/15	$81.38
35	Marie Calendar	11/12/13	$9.98
36	Marie Calendar	4/14/14	$10.98
37	Marie Calendar	8/12/14	$17.50
38	Marie Calendar	11/18/14	$20.97
39	Olive Garden	9/12/13	$289.00
40	Panera Bread	5/12/14	$273.94

Harbor Regional Center
Unsupported Credit Card Expenditures (Repeat)
Fiscal Years 2013-14 and 2014-15

No.	Merchant	Statement Date	Tranaction Amount
41	Sushi Koyo	5/12/14	$20.44
42	Olive Garden	9/12/14	$210.30
43	Café Coyote	2/12/15	$61.73
44	Tandori Fresh	2/12/15	$71.52
45	Elephant Bar	2/12/15	$14.71
46	Rascals	2/12/15	$60.99
47	Rascals	2/12/15	$57.00
48	Rascals	2/12/15	$6.49
49	Seasons 22	2/12/15	$51.29
50	Islands	4/15/15	$28.22
51	Rascals	5/12/15	$102.19
52	Rascals	5/12/15	$100.00
53	Georgio's Pizzaria	2/14/14	$97.16
54	Georgio's Pizzaria	2/12/15	$54.23
55	Rascals	3/12/14	$170.00
56	Rascals	3/12/14	$157.00
57	Nino's Italian Restaurant	4/13/15	$69.55
58	Curry House	1/13/14	$61.23
		Subtotal	**$3,535.84**
Summary of Missing Receipts			
1	Ralphs	10/12/13	$36.66
2	Sushi Deli	10/17/13	$15.94
3	Colibri	12/12/13	$58.05
4	Puccini & Pinetti Bar	12/12/13	$57.05
5	Shell Oil	12/12/13	$59.46
6	Café Mason	12/12/13	$15.45
7	Shell Oil	12/12/13	$50.06
8	World Famous	12/12/13	$30.71
9	Corner Store	12/12/13	$54.44
10	Sitoa Long Island	2/20/14	$41.75
11	Kelly's Place	2/20/14	$10.24
12	Quiznos	2/20/14	$17.45
13	Ampco Parking	2/20/14	$29.00
14	Smart and Final	6/13/14	$49.34
15	Staples	2/14/14	$43.59
		Subtotal	**$569.19**
		Total Unsupported Credit Card Expenditures	**$4,105.03**

Harbor Regional Center
Unallowable Credit Card Expenditures
Fiscal Years 2013-14 and 2014-15

No.	Merchant	Statement Date	Transaction Amount	Amount Reimbursed	Balance
Summary of Personal Expenses					
1	Overstock.com	4/14/14	$121.54	$121.54	$0.00
2	Overstock.com	5/12/14	$149.99	$149.99	$0.00
3	Amazon Market Place	7/12/13	$4.68	$4.68	$0.00
4	Amazon Market Place	7/12/13	$7.38	$7.38	$0.00
5	Amazon Market Place	7/12/13	$9.49	$9.49	$0.00
6	Amazon Market Place	7/12/13	$19.57	$19.57	$0.00
7	Amazon.com	9/12/13	$76.69	$76.69	$0.00
8	Target	12/12/13	$6.39	$6.39	$0.00
9	DSW Torrance	8/12/14	$56.58	$56.58	$0.00
10	Advantage Car	9/12/13	$85.96	$85.96	$0.00
11	Albertson	3/12/14	$32.97	$32.97	$0.00
12	HJIDE Online-M Store Beijing	4/14/14	$54.90	$54.90	$0.00
13	JFIEF Online K Store Beijing	4/14/14	$66.92	$66.92	$0.00
14	Fresh and Easy	9/12/14	$18.01	$18.01	$0.00
15	Southbay Hyundai	11/18/14	$396.27	$396.27	$0.00
Total Unallowable Credit Card Expenditures			**$1,107.34**	**$1,107.34**	**$0.00**

Harbor Regional Center
Purchase of Service Funds Used Without Authorizations
Fiscal Years 2013-14 and 2014-15

No.	Vendor Name	Vendor Number	Service Month	UCI	Service Code	Sub Code	Authorization	POS
1	National Mentor Healthcare, LLC	PH0272	Jul-13	[redacted]	102	GROUP	[redacted]	$10,320.42
2	National Mentor Healthcare, LLC	PH0272	Aug-13	[redacted]	102	GROUP	[redacted]	$10,320.42
3	National Mentor Healthcare, LLC	PH0272	Sep-13	[redacted]	102	GROUP	[redacted]	$10,320.42
4	National Mentor Healthcare, LLC	PH0272	Oct-13	[redacted]	102	GROUP	[redacted]	$10,320.42
5	National Mentor Healthcare, LLC	PH0272	Nov-13	[redacted]	102	GROUP	[redacted]	$10,320.42
6	National Mentor Healthcare, LLC	PH0272	Dec-13	[redacted]	102	GROUP	[redacted]	$10,320.42
7	National Mentor Healthcare, LLC	PH0272	Jan-14	[redacted]	102	GROUP	[redacted]	$10,320.42
8	National Mentor Healthcare, LLC	PH0272	Feb-14	[redacted]	102	GROUP	[redacted]	$10,320.42
9	National Mentor Healthcare, LLC	PH0272	Mar-14	[redacted]	102	GROUP	[redacted]	$10,320.42
10	National Mentor Healthcare, LLC	PH0272	Apr-14	[redacted]	102	GROUP	[redacted]	$10,320.42
11	National Mentor Healthcare, LLC	PH0272	May-14	[redacted]	102	GROUP	[redacted]	$10,320.42
12	National Mentor Healthcare, LLC	PH0272	Jun-14	[redacted]	102	GROUP	[redacted]	$10,320.42
13	National Mentor Healthcare, LLC	PH0272	Jul-14	[redacted]	102	GROUP	[redacted]	$10,320.42
14	National Mentor Healthcare, LLC	PH0272	Aug-14	[redacted]	102	GROUP	[redacted]	$10,320.42
15	National Mentor Healthcare, LLC	PH0272	Sep-14	[redacted]	102	GROUP	[redacted]	$10,320.42
16	National Mentor Healthcare, LLC	PH0272	Oct-14	[redacted]	102	GROUP	[redacted]	$10,320.42
17	National Mentor Healthcare, LLC	PH0272	Nov-14	[redacted]	102	GROUP	[redacted]	$10,320.42
18	National Mentor Healthcare, LLC	PH0272	Dec-14	[redacted]	102	GROUP	[redacted]	$10,320.42
19	National Mentor Healthcare, LLC	PH0272	Jan-15	[redacted]	102	GROUP	[redacted]	$10,320.42
20	National Mentor Healthcare, LLC	PH0272	Feb-15	[redacted]	102	GROUP	[redacted]	$10,320.42
21	National Mentor Healthcare, LLC	PH0272	Mar-15	[redacted]	102	GROUP	[redacted]	$10,320.42
22	National Mentor Healthcare, LLC	PH0272	Apr-15	[redacted]	102	GROUP	[redacted]	$10,320.42
23	National Mentor Healthcare, LLC	PH0272	May-15	[redacted]	102	GROUP	[redacted]	$10,320.42
24	National Mentor Healthcare, LLC	PH0272	Jun-15	[redacted]	102	GROUP	[redacted]	$10,320.42
							Subtotal for PH0272	**$247,690.08**

Harbor Regional Center
Annual Family Program Fee
Fiscal Years 2013-14 and 2014-15

No.	Unique Client Identification Number	Assessed Amount	Maximum Assessment	Difference in Assessments	Amount Resolved	Assessment Amount not Supported
1	[redacted]	$150.00	$200.00	$50.00	$50.00	$0.00
2	[redacted]	$150.00	$200.00	$50.00	$0.00	$50.00
3	[redacted]	$0.00	$200.00	$200.00	$200.00	$0.00
4	[redacted]	$0.00	$200.00	$200.00	$200.00	$0.00
5	[redacted]	$150.00	$200.00	$50.00	$0.00	$50.00
6	[redacted]	$150.00	$200.00	$50.00	$0.00	$50.00
Total Amount of Assessments Not Supported				**$600.00**	**$450.00**	**$150.00**

APPENDIX A

HARBOR REGIONAL CENTER

RESPONSE
TO AUDIT FINDINGS

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

HARBOR
REGIONAL
CENTER

March 14, 2018

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

Re: Draft Audit of the Harbor Regional Center for Fiscal Years 2013-14 and 2014-15

Dear Mr. Yan:

On February 9, 2018, Harbor Regional Center (HRC) submitted its response to the Department of Developmental Services (DDS) Draft Audit for Fiscal Years 2013-14 and 2014-15 dated December 19, 2017. Per our discussion, on March 1, 2018, attached please find our revised response confirming the change to Finding 2.

If you have any questions, please contact me at (310) 543-0625 or judy.wada@harborrc.org.

Thank you for your assistance in this matter.

Sincerely,

Judy Wada
Chief Financial Officer

Cc: John Doyle, DDS
Brian Winfield, DDS
Vicky Lovell, DDS
Luciah Ellen Nzima, DDS
Staci Yasui, DDS
Patricia Del Monico, HRC
Kaye Quintero, HRC
Tes Castillo, HRC

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REVISED 3/14/2018

Harbor Regional Center
Response to Draft Audit Findings and Recommendations
February 9, 2018

Findings that need to be addressed.

Finding 1: Credit Cards

A. Unsupported Credit Card Expenditures

HRC objects to this finding. All the identified credit card expenditures were allowable expenditures and even though some transactions were missing receipts or did not include itemized receipts, all transactions were approved by the Chief Financial Officer (CFO, and often by the Executive Director as well, as legitimate expenditures with sufficient documentation. . There is no state or federal statute or regulation or DDS contract requirement which requires that credit card expenditures are allowable only under specified circumstances and HRC has complied with all state and federal requirements in these matters. The finding should be deleted.

B. Unallowable Credit Card Expenditures

HRC objects to this finding. The individuals involved did not intentionally use the credit cards for personal use and there is evidence in each instance in which an HRC credit card was used in error that the individuals who did so immediately reimbursed HRC for the expenditures. The mistaken uses of an HRC credit card were corrected long before the audit was even conducted, and the finding should be deleted.

C. Credit Card Issued to Vendor

HRC objects to this finding. As stated in the Draft Report, "HRC has since cancelled the credit card." HRC in fact recognized the potential issue and cancelled the credit card at the beginning of the audit and informed the DDS Auditors of this action, before the DDS Auditors raised the issue. The finding should be deleted.

Finding 2: Deleted

Upon further analysis of the additional documentation provided by HRC after the exit conference, DDS determined that this was not an issue. DDS has advised that the finding has been deleted.

Finding 3: Purchase of Service (POS) Expenses Not Tied to Consumer Unique Identification (UCI) Numbers

HRC objects to this finding. During the audit, the DDS Auditors were provided with records that document attendance by date, that identify clients by name and UCI number, and that list names of parents/clients in attendance. The Purchase of Service expenditures for this contract are fully supported. During the audit, the DDS Auditors did not inform HRC that the supporting documentation was not sufficient or that this would be a finding. The DDS Auditors should have informed HRC and discussed a method to correct the finding. HRC could have used the documentation on hand to change the billing and could have allocated the expenses by client going back to the beginning of the audit period, Fiscal Year 2013-14. Because HRC received the Draft Report over two years after the audit was completed, we are unable to make the changes if it is in fact what the auditors would have advised. Furthermore, the sections of Title 17 that are cited in the draft report do not substantiate the finding. This finding should be deleted.

Per our conversation with the DDS Manager and Supervisor on January 25, 2018, HRC researched records for a sample of five to ten clients who attended the program in one month during the audit period. On February 9, 2018, we provided ten Individual Person-Center Plans (IPPs) for clients who attended in June 2015. In all ten IPPs, participation in or a referral to the program is stated.

Finding 4: **<u>Annual Family Program Fee</u>**

We located supporting documentation for the reduced assessment amount for three of the six clients listed on the Draft Report, Attachment D. One of the three is supported with income documentation. Two were assessments that were reduced to zero because the families had already been assessed, paid the fee, and were refunded by the fee by DDS. Please see Attachment D which details our findings. We have also reviewed our process for completing these assessments to ensure all income documentation is properly secured going forward.

Finding 5: **<u>Notification of Whistleblower Policy Not Conducted Annually</u>**

HRC believes that proper notification of our Whistleblower Policy was given to both clients and service providers using the HRC E News. Nonetheless, going forward HRC will revise our method of annual notification of the Whistleblower Policy for clients, families and the service provider community.

Findings that have been addressed and corrected.

Finding 6: **<u>Improper Allocation of Community Placement Plan (CPP) Funds</u>**

HRC objects to the inclusion of this finding because it was addressed and corrected while the DDS Audit Branch was at HRC conducting the audit.