AUDIT OF THE INLAND 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

Karyn A. Meyreles, Deputy Director, Administration Division
Edward Yan, Acting Manager, Audit Branch
Staci Yasui, Supervisor, Audit Branch

Audit Staff: Richard Hanna, Jeffery Heng, Soi Ly, Gladys Onejeme, and Oscar Perez

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

TABLE OF CONTENTS

EXECUTIVE SUMMARY 1

BACKGROUND 2
Authority 3
Criteria 3
Audit Period 3

OBJECTIVES, SCOPE AND METHODOLOGY 4

I. Purchase of Service 5

II. Regional Center Operations 6

III. Targeted Case Management and Regional Center Rate Study 6

IV. Service Coordinator Caseload Study 7

V. Early Intervention Program (Part C Funding) 7

VI. Family Cost Participation Program 7

VII. Other Sources of Funding 8

VIII. Follow-up Review on Prior DDS' Audit Findings 8

CONCLUSIONS 9

VIEWS OF RESPONSIBLE OFFICIAL 10

RESTRICTED USE 11

FINDINGS AND RECOMMENDATIONS 12

EVALUATION OF RESPONSE 14

REGIONAL CENTER'S RESPONSE ..... Appendix A

EXECUTIVE SUMMARY

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

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

Finding 1: <u>**Client Trust Funds Used to Offset Purchase of Service (POS) Claims**</u>

The review of the Client Trust disbursements revealed that consumers with excessive balances had their funds used to offset Purchase of Service (POS) claims for Day Programs and Community Integration Training services. These excessive funds were an accumulation from the consumer's monthly Social Security Income (SSI) benefit. It was found that a total of $36,857.46 from 30 Consumer Trust accounts for Fiscal Year (FY) 2007-08, and a total of $10,671.19 from 10 Consumer Trust accounts for FY 2008-09, were used to offset POS claims. The SSI benefits are designated for consumers' personal expenses and current needs and not for Day Programs and Community Integration Training services. This is not in compliance with Social Security Handbook Section 1618.1.

Finding 2: <u>**Family Cost Participation Program (FCPP) – Certification of Income**</u>

The review of IRC's Family Cost Participation Program (FCPP) guidelines revealed IRC only accepts the most recent federal tax return as income documentation to assess the parent's share of cost. This is not in compliance with Welfare and Institution Code, Section 4783 (g)(2).

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 Inland Counties Regional Center, Inc., entered into contract HD049009, effective July 1, 2004, through June 30, 2009. The contract specifies that Inland Counties Regional Center, Inc., will operate an agency known as the Inland Regional Center (IRC) to provide services to persons with DD and their families in the Riverside and San Bernardino Counties. The contract is funded by State and federal funds that are dependent upon IRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at IRC from October 20, 2008, through November 14, 2008, and was conducted by DDS's Audit Branch.

AUTHORITY

The audit was conducted under the authority of the Welfare and Institutions (W&I) Code, Section 4780.5, and Article IV, Provision Number 3 of IRC'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
- IRC'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 IRC'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 IRC's financial statements. We limited our scope to planning and performing audit procedures necessary to obtain reasonable assurance that IRC was in compliance with the objectives identified above. Accordingly, we examined transactions, on a test basis, to determine whether IRC was in compliance with Title 17, the HCBS Waiver for the Developmentally Disabled, and the contract with DDS.

Our review of IRC'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:

- FY 2006-07 issued on December 18, 2007

This review was performed to determine the impact, if any, upon our audit and as necessary, develop appropriate audit procedures.

The audit procedures performed included the following:

I. Purchase of Service

We selected a sample of Purchase of Service (POS) claimed and billed to DDS. The sample included consumer services, vendor rates, and consumer trust accounts. The sample also included consumers who were eligible for the HCBS Waiver. For POS the following procedures were performed:

- We tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.

- We selected a sample of invoices for service providers with daily and hourly rates, standard monthly rates, and mileage rates to determine if supporting attendance documentation was maintained by IRC. 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 $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 used by IRC. An interview with IRC staff revealed that IRC 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 IRC'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 IRC 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 be 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 DDS.

- We reviewed IRC'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 the DDS rate of reimbursement from the Federal Government. The following procedures were performed upon the study:

- Reviewed applicable TCM records and verified the information submitted by IRC to calculate the TCM rate can be traced to the general ledgers and payroll registers.

- Reviewed IRC's Case Management Time Study. We selected a sample of payroll time sheets for this review and compared those 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 service coordinator-to-consumer ratio of 1:62 for all consumers who had not moved from developmental centers to the community since April 14, 1993, and a ratio of 1:45 for all consumers who had moved from developmental centers to the community since April 14, 1993. However, commencing January 1, 2004, the following service coordinator-to-consumer ratios apply:

A. For all consumers that are three years of age and younger and for consumers that are enrolled on the HCBS Waiver, the required average ratio shall be 1:62.

B. For all consumers who have moved from a developmental center to the community since April 14, 1993, and have lived in the community continuously for at least 12 months, the required average ratio shall be 1:62.

C. For all consumers who have not moved from the developmental centers to the community since April 14, 1993, and who are not covered under A above, the required average ratio shall be 1:66.

We also reviewed the Service Coordinator Caseload Survey methodology used in calculating the caseload ratio to determine reasonableness and that supporting documentation is maintained to support the survey and the ratios as required by W&I Code, Section 4640.6

V. Early Intervention Program (Part C Funding)

For the Early Intervention Program, there are several sections contained in the Early Start Plan. However, only the Part C section was applicable for this review.

For this program we reviewed the Early Intervention Program, including Early Start Plan and Federal Part C funding to determine if the funds were properly accounted for in IRC'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 IRC 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 IRC, 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:

- Family Resource Center Program.

- Wellness.

- 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 IRC and reviewed supporting documentation to determine the degree and completeness of IRC'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, IRC was in substantial compliance to applicable sections of Title 17, the HCBS waiver, and the terms of IRC'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 IRC has taken appropriate corrective actions to resolve all prior audit issues.

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft report on June 17, 2009. The findings in the report were discussed at an exit conference with IRC on June 29, 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 Inland 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

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

Finding 1: **Client Trust Funds Used to Offset Purchase of Service (POS) Claims**

The review of the Client Trust disbursements revealed that consumers with excessive balances had their funds used to offset Purchase of Service (POS) claims for Day Programs and Community Integration Training services. These excessive funds were an accumulation from the consumer's monthly Social Security Income (SSI) benefit. IRC utilized these funds from consumers with excessive balances in an effort to keep their client trust account balances under the Social Security resource limit. The SSI benefits are designated for consumers' personal expenses and current needs and not for Day Programs and Community Integration Training services.

It was found that a total of $36,857.46 from 30 Consumer Trust accounts for FY 2007-08, and a total of $10,671.19 from 10 Consumer Trust accounts for FY 2008-09, was used to offset POS claims. (See Attachment A)

Social Security Handbook Section 1618.1 states:

" 'Current needs' are the immediate and reasonably foreseeable essentials for housing, food, clothing, utilities, medical care and insurance, dental care, personal hygiene, education, and the rehabilitation expenses of the disabled beneficiaries."

Recommendation:

IRC should reimburse the consumers' funds that were used to offset POS claims. In addition, IRC should discontinue the practice of using consumers' excess funds to offset Day Programs and Community Integration Training services.

Finding 2: **Family Cost Participation Program (FCPP) - Certification of Income**

The review of IRC's FCPP guidelines revealed IRC only accepts the most recent federal tax return as income documentation to assess the parent's share of cost.

W&I Code, Section 4783 (g)(2) states:

"Parents shall self-certify their gross annual income to the regional center by providing copies of W-2 Wage Earners Statements, payroll stubs, a copy of the prior year's state income tax return, or other documents and proof of other income."

Recommendation:

IRC should revise its policies and procedures to comply with W&I Code, Section 4783 (g)(2), which allows different forms of documentation as certification of the parent's income when assessing the share of costs.

EVALUATION OF RESPONSE

As part of the audit report process, IRC is provided with a draft report and is requested to provide a response to each finding. IRC's response dated September 3, 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' Audit Branch has evaluated IRC's response. Except as noted below, IRC's response addressed the audit findings and provided reasonable assurance that corrective action would be taken to resolve the issues. DDS' Audit Branch will confirm IRC's corrective actions identified in the response during the follow-up review of the next scheduled audit.

Finding 1: **Client Trust Funds Used to Offset Purchase of Service (POS) Claims**

DDS agrees with IRC's assessment that the cited case of Clemente v. Amundson is not applicable to the finding since the additional information provided showed the client funds used to offset POS services were not co-payments and did not cover any respite services. In addition, it was determined that DDS' citation of the May 1990, legal opinion from the California Attorney General's Office regarding the use of P&I funds is not applicable to the finding since in the additional information provided by IRC, it was shown that P&I funds were not used to offset the POS expenses.

However, it was found that some consumers had their funds used to offset Day Programs and Community Integration Training services, which is not in compliance with the Social Security guidelines. A total of $36,857.46 from 30 Consumer Trust accounts for FY 2007-08, and a total of $10,671.19 from 10 Consumer Trust accounts for FY 2008-09, were used to offset POS claims. As a result, the finding has been revised to reflect the new amounts. Additional follow-up will be performed in the next scheduled DDS audit to determine if corrective actions have been taken to resolve the issue.

Finding 2: **Family Cost Participation Program (FCPP) - Certification of Income**

DDS agrees that the Federal Income Tax Return Form 1040, is an appropriate form of documentation to certify income. However, DDS disagrees as to IRC's interpretation of W&I Code, Section 4783 (g)(2) that the Executive Director may specifically choose only this form of documentation to certify income. Rather, the documentation must be consistent with W&I Code, Section 4783 (g)(2) which allows different forms of documentation as certification of the parent's income when assessing the share of costs. Therefore, the finding remains unchanged and additional follow-up will be performed in the next schedule DDS audit.

Inland Regional Center
Client Trust Funds Used to Offset POS Claims
Fiscal Years 2006-07 & 2007-08

	Unique Client Identification Number	Fiscal Year	
		2007-08 Total	2008-09 Total
1	[redacted]	$620.40	
2		$950.00	
3		$951.00	
4		$2,256.00	
5		$1,733.75	
6		$1,401.25	
7		$941.92	
8			$1,040.20
9		$647.19	
10		$1,444.95	$824.18
11		$2,340.95	
12		$1,174.80	
13		$414.00	
14		$451.00	
15		$318.00	
16		$403.75	
17		$411.00	
18		$533.00	
19			$1,029.00
20			$497.00
21		$416.00	
22		$409.00	
23		$4,180.72	$695.00
24		$1,374.00	
25		$679.00	
26		$964.08	
27			$3,378.81
28			$1,128.00
29		$4,393.76	
30		$974.00	
31			$754.00
32			$707.00
33			$618.00
34		$2,953.20	

Inland Regional Center
Client Trust Funds Used to Offset POS Claims
Fiscal Years 2006-07 & 2007-08

	Unique Client Identification Number	Fiscal Year	
		2007-08 Total	2008-09 Total
35	[redacted]	$955.98	
36		$955.00	
37		$548.00	
38		$1,061.76	
	Totals	**$36,857.46**	**$10,671.19**

APPENDIX A

INLAND 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.

Yasui, Staci@DDS

From: Hunt, John@DDS Reg Ctr
Sent: Thursday, September 03, 2009 4:55 PM
To: Yan, Ed@DDS; Yasui, Staci@DDS
Cc: Clark, Mary Lynn@DDS Reg Ctr; Goehring, Janet@DDS Reg Ctr; Debra Mannon
Subject: RE: Out of Office AutoReply: Draft audit response
Attachments: Finding 1 response0001.pdf; Finding 2 response0001.pdf

Good afternoon Ed. Thank you for the opportunity to respond the audit findings presented in the draft audit report issued by DDS for the fiscal years 2006-07 and 2007-08.
Attached are IRC's responses.

Thanks again

John R. Hunt, CPA

Chief Financial Officer
Inland Regional Center
674 East Brier Dr.
San Bernardino, CA 92408
(909) 890 3375 Phone
(909) 890 3379 Fax

From: Yan, Ed@DDS [mailto:eyan@DDS.CA.GOV]
Sent: Wednesday, September 02, 2009 5:00 PM
To: John Hunt
Subject: Out of Office AutoReply: Draft audit response

I am currently out of the office and will return on September 8, 2009. Please contact Mike Masui at (916) 654-2769 if you need immediate assistance. Thank you.

Finding 1: <u>Client Trust Funds Used to Offset Purchase of Service (POS) Claims</u>

The SSI benefit is designated for the consumers' Personal & Incidental expenses and residential board and care services. The consumer's Personal and Incidental portion is intended for their own personal use and should not be used to relieve any outstanding POS claims that are to be paid by IRC. (See Attachment A)

Per the legal opinion of DDS...Based on the AG Opinion and our review of the analysis in that opinion, we conclude that a clients's P&I funds may not be used for the cost of a client's board and care nor for the cost of other services provided by the regional center.

Also, per the court decision in the case of Clemente v Amundson regional centers may not impose a copayment in the absence of statutory authorization.

Recommendation :

IRC should reimburse and discontinue

Each month IRC pays consumers their P&I portion (currently $125) from the benefits received, utilizing the UFS advance P&I program. Monthly amounts in excess of the amount paid for residential care and P&I, accumulate in the consumer trust account held by IRC. This amount, and amounts held in reserve (encumbered) for residential payments, and any other resources (facility trust account, outside bank account, etc) may not exceed $2,000. Should the consumer's resources exceed the $2,000 limit, they are no longer eligible to receive SSI AND equally important Medi-Cal.

IRC has several procedures/practices in place to protect the consumer's benefit eligibility. IRC's Consumer Services Coordinators review consumer resources and submit disbursement requests for any personal items needed over and above the monthly P&I already disbursed. (Items anywhere from clothing, travel, furniture, burial trusts, computers, games, etc). IRC uses the procedure to offset POS services only as a last resort to protect the consumer's eligibility for benefits. It is not in the consumer's best interest to allow them to lose their benefits and health care, just because there are no prudent expenditures to spend the funds down.

IRC has a long standing policy of becoming the representative payee only as a last resort when the consumer is not capable to be their own payee and when there is no other responsible family member available. The consumer provides his/her consent for IRC to be his/her payee by signing a SSA 4164 (Social Security consent form) .

Social Security requires the representative payee (IRC) to use the benefits to meet the consumer's monthly needs. Those needs are defined as food, clothing, and shelter. Once those needs are met, the representative payee is to use (invest) the remaining money in the consumer's best interest.

Lastly, the court decision in the case of Clemente v Amundson cited by DDS is irrelevant to the finding. The case is specific to the imposition of co-payments for respite services.

1. Excess funds were on used to fund respite services.
2. A copayment is considered a fixed, pre-calculated amount and IRC management has not predetermined a fixed payment.

Finding 2: Family Cost Participation Program (FCPP) – Certification of Income

Inland Regional Center has reviewed and understands the W&I Code (4783(g)(2)) regarding proof of parental income and assessing parent's share of cost. While the W& I Code requires "self-certification" of the gross annual parental income, the management of IRC relies on Title 17 California Code of Regulations, Division 2, Chapter 1 – General Provisions, Sub-Chapter 2.5 – Family Cost Participation, Article 2 – Definitions sub-section 50251. Gross Annual Income which states: ***"Gross annual income is the income of the parents as reported on their latest California State or Federal Income Tax Return and includes any money or benefit acquired, earned, or received as payment for labor or services, support, or return on investments after deducting business expenses... The regional center executive director may determine appropriate documentation necessary for family cost participation consistent with Section 4783 (9)(2)."*** The executive director of IRC has determined that the appropriate documentation necessary for family cost participation consistent with Section 4783 (9)(2) is the Federal Income Tax Return Form 1040.

In addition, for your review, is a letter to parents from Al Czech, Manager of the Parental Fee Program which refers to parental share of cost and proof of gross income. It states in part... ***"Verification of your income with a copy of your current paycheck stub... plus a copy of your most recent federal tax return is also required."*** IRC management interprets this as being the required documentation rather than an option and further validates IRC's policy.