



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

Department of Developmental Services

This report was prepared by the
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EXECUTIVE SUMMARY

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

The findings of this report have been separated into the categories below.

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

Finding 1: Client Trust Disbursements Not Supported

A review of the client trust money management disbursements revealed that KRC did not have receipts to support purchases made by the vendor for the consumer. Without supporting receipts, there is no evidence to ensure that the disbursements from the client trust funds are appropriate.

Finding 2: Equipment Inventory List Not Updated

The review of KRC's equipment inventory listing revealed that it had not been updated to reflect the current status and location of the equipment. In addition, KRC was not forwarding to the Department of General Services for approval, the required form for the surveying of equipment. This is a violation of the Equipment Management System Guidelines for regional centers.

Finding 3: Missing Consultant Contract

The review of KRC's consultant contracts revealed a vendor, NedaSoft, Inc. did not have a contract on file. This vendor was used by KRC on a continuous basis. For good internal control practices, written and signed contracts should be in place.

Finding 4: Consumer Loans from Petty Cash Fund (Repeat)

The review of the Petty Cash fund and its supporting documentation revealed that KRC continues to use the petty cash fund to issue loans to consumers for small purchases. KRC's Managers and Supervisors are authorizing small loans from the Petty Cash fund in the Bakersfield office to consumers who have spent their entire month's Personal and Incidental (P&I) money for personal items. This issue was identified in the prior audit.

Finding 5: Access to Petty Cash Fund

The review of the Petty Cash fund located at the Bakersfield office revealed that it could be accessed by several KRC Managers in the absence of the petty cash custodian. Allowing several employees to have access to the Petty Cash Fund may decrease the accountability of the petty cash and increase the risk of misappropriations.

II. The following findings were identified during the audit, but have since been addressed and corrected by KRC.

Finding 6: Client Trust Balances Over the Resource Limit

A sample review of the Client Trust accounts identified four Client Trust balances exceeded the \$2,000 resource limit. This is a violation of the Social Security Handbook, Section 2153.2.

KRC addressed and corrected this issue after the end of the audit fieldwork.

Finding 7: Under Payments to Residential Vendors

A review of the Residential vendor files, invoices, and payments revealed KRC had underpaid 23 vendors in the amount of \$3,360 for the months of July and August 2003. This was due to a rate increase in June 2003, but was not adjusted to reflect the new rate for the months of July and August 2003.

Corrective action was taken by KRC during the fieldwork to reimburse the vendors the underpaid amount for the services provided for the months of July and August 2003.

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's Federal Programs Operations Section staff to assess overall programmatic compliance with HCBS Waiver requirements. The HCBS Waiver compliance monitoring review will have its own criteria and processes. These audits and program reviews are an essential part of an overall DDS monitoring system that provides information on regional centers' fiscal, administrative, and program operations.

DDS and Kern Regional Center, Inc., entered into two contracts, HD999009, effective July 1, 1999, through June 30, 2004 and HD049010, effective July 1, 2004, through June 30, 2009. These contracts specifies that Kern Regional Center, Inc. will operate an agency known as the Kern Regional Center (KRC) to provide services to persons with DD and their families in the Inyo, Kern, and Mono Counties. The contracts are funded by state and federal funds that are dependent upon the KRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at KRC from October 30, 2006, through January 19, 2007, and was conducted by DDS's Audit Branch.

AUTHORITY

The audit was conducted under the authority of the Welfare and Institutions (W&I) Code, Section 4780.5, and Article IV, Provision Number 3 of KRC'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
- KRC's contract with DDS

AUDIT PERIOD

The audit period was from July 1, 2003, through June 30, 2006, with follow-up as needed into prior and subsequent periods.

OBJECTIVES, SCOPE, AND METHODOLOGY

This audit was conducted as part of the overall DDS monitoring system that provides information on regional centers' fiscal, administrative, and program operations. The objectives of this audit are:

- To determine compliance to Title 17, California Code of Regulations (Title 17),
- To determine compliance to the provisions of HCBS Waiver for the developmentally disabled, and
- To determine that costs claimed were in compliance to the provisions of KRC's contract with DDS.

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

Our review of KRC'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 reports that were conducted by an independent accounting firm for the following fiscal years (FYs):

- 2003-04 issued January 28, 2005
- 2004-05 issued May 11, 2006

The annual audit for FY 2005-06 had not yet been conducted.

No management letters were issued by the independent accounting firm. 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 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 KRC. 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 to determine if any individual account balances were not above \$2,000 for over six months as required by the Social Security Administration (SSA). 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 proper documentation for expenditures are maintained.
- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, is not used by KRC. An interview with KRC's staff revealed that KRC 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 KRC'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 KRC's operations and conducted tests to determine compliance to the contract with DDS. The tests included various expenditures claimed for administration to ensure that the accounting staff was properly inputting data, transactions were recorded on a timely basis, and 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 KRC's policies and procedures for compliance to Title 17 Conflict of Interest requirements and we selected a sample of personnel files to determine if the policies and procedures were followed.

III. Targeted Case Management and Regional Center Rate Study

The Targeted Case Management (TCM) rate study is the study that determines DDS's rate of reimbursement from the Federal Government. The following procedures were performed upon the study:

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

IV. Service Coordinator Caseload Study

Under the W&I code Section 4640.6, regional centers are required to provide service coordinator caseload data to DDS annually for each fiscal year. Prior to January 1, 2004, the survey required regional centers to have an average service coordinator-to-consumer ratio of 1:62 for all consumers who have not moved from developmental centers to the community since April 14, 1993, and an average ratio of 1:45 ratio for all consumers who have moved from developmental centers to the community since April 14, 1993. However, the period commencing January 1, 2004 to June 30, 2007, inclusive, the following average coordinator-to-consumer ratios apply:

- A. For all consumers that are three years of age and younger and for consumers enrolled in 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 continuously in the community for at least 12 months, the required average ratio shall be 1:62.
- C. For all consumers have not moved from the developmental centers to the community since April 14, 1993, and are not covered under A above, the required average ratio shall be 1:66.

We performed the following procedure upon the KRC's caseload study.

We 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, the following procedure was performed:

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 KRC's accounting records.

VI. Other Sources of Funding

Regional centers may receive many other sources of funding. For the other sources of funding identified for KRC, we performed sample tests to ensure that the accounting staff was inputting data properly and transactions were properly recorded and claimed. In addition, tests were performed to determine if the expenditures were reasonable and supported by documentation. The other sources of funding identified for this audit are:

- Foster Grandparent/Senior Companion Program.
- Start Up Programs.

VII. 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's audit findings was conducted. We identified prior audit findings that were reported to KRC and reviewed supporting documentation to determine the degree and completeness of KRC's implementation of corrective actions.

CONCLUSIONS

Based upon the audit procedures performed, we have determined that, except for the items identified in the findings and recommendations section, KRC was in substantial compliance to applicable sections of Title 17, HCBS waiver, and the terms of the KRC contract with DDS for the audit period of July 1, 2003, through June 30, 2006.

In addition, from the review of prior audit issues, it has been determined that KRC has taken appropriate corrective actions to resolve all prior audit issues, except for finding 4 which is contained in the findings and recommendations section.

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft report on December 6, 2007. The findings in the report were discussed at an exit conference with KRC on January 14, 2008. At the exit conference, we stated that the final report will incorporate the views of responsible officials.

RESTRICTED USE

This report is solely for the information and use of the Department of Developmental Services, Department of Health Care Services, the Centers for Medicare and Medicaid Services, and the Kern Regional Center. It is not intended and should not be used by anyone other than these specified parties. This restriction does not limit distribution of this report, which is a matter of public record.

ARTHUR J. LEE, CPA
Manager
Audit Branch

FINDINGS AND RECOMMENDATIONS

The findings of this report have been separated into the two categories below.

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

Finding 1: Client Trust Disbursements Not Supported

A review of the client trust money management disbursements revealed that 24 money management checks, disbursed to the vendors for consumers' purchases of personal items, were not supported with receipts. Further review revealed that KRC does not have a written policy requiring staff to maintain receipts for money management disbursements.

Without supporting receipts, there is no evidence to ensure that the disbursements from the client trust funds are appropriate. In addition, the Social Security benefits received from the Social Security Administration (SSA) are included in the client trust funds. Social Security Handbook Chapter: 16, Sections 1623.1 and 1623.3 states:

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

Also Social Security Handbook Chapter: 16, Section 1616 states:

“The responsibilities of a representative payee are to:

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

Recommendation:

As the representative payee for its clients, KRC should develop and implement policies and procedures to require supporting receipts be kept in the consumers' file for all money management checks disbursed from the client trust accounts. This will ensure all money management checks disbursed to vendors are for an appropriate purpose and there is an accurate accounting of Social Security benefits.

Finding 2: Equipment List Not Updated (Repeat)

The review of KRC's equipment inventory listing revealed that it had not been updated to reflect the current status and location of the equipment. It was found that of the 30 sampled equipment items, seven had been identified as disposed or stolen but was not removed from the inventory list and six items on the inventory list were either missing a State tag or serial number. In addition, KRC has not been forwarding to the Department of General Services (DGS) for approval, the Form 152 "Property Survey Report" for the surveying of equipment.

Article IV, Section 4a of the contract between DDS and KRC states in part:

"Contractor shall comply with the State's Equipment Management System Guidelines for regional center equipment and appropriate directions and instructions which the State may prescribe as reasonably necessary for the protection of State of California property."

Section III (D) of the State's Equipment Management System Guidelines, dated February 1, 2003, states in part:

"A record of state-owned, nonexpendable equipment and sensitive equipment shall be maintained by the RC Property Custodian in a format that includes the following information: description of the equipment item, the location (e.g., RC office or room number), the state I.D. tag number, the serial number (if any), the acquisition date, and the original cost. The RC will also maintain files of all paperwork related to the purchase, disposition, or transfer of all state-owned equipment subject to these guidelines".

Also Section III (E) of the State's Equipment Management System Guidelines, dated February 1, 2003, states in part:

"RCs shall work directly with their regional Department of General Services' (DGS) office to properly dispose of state-owned equipment. RCs will complete a Property Survey Report (Std. 152) for all state-owned equipment subject to disposal. DGS must review and approve the Std. 152 before the equipment is actually disposed. A copy of the Std. 152 shall be forwarded to CSS (Customer Support Section) after the items have been disposed and all required approvals and certifications have been obtained."

Recommendation:

KRC should develop and implement policies and procedures to ensure compliance to the States Equipment Management System Guidelines as required by its contract with DDS. The policies and procedures should include requirements to periodically update its equipment listing to reflect any changes

such as surveying of equipment, listing of State tag and serial numbers, and the completion and filing of all required forms with DDS and DGS.

Finding 3: Missing Consultant Contract

The review of KRC's consultant contracts revealed that KRC did not have a contract on file for a vendor, NedaSoft Inc., who provided services during the audit review period. This vendor was used by KRC on a continuous basis.

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

Recommendation:

KRC should develop and implement procedures to ensure all its consultants have written contracts in place to support the amounts paid.

Finding 4: Consumer Loans From Petty Cash Fund (Repeat)

The review of the Petty Cash fund and its supporting documentation revealed that KRC continues to use the Petty Cash fund to issue loans to consumers for small purchases. KRC's Managers and Supervisors are authorizing small loans from the Petty Cash fund in the Bakersfield office to consumers who have spent their entire month's Personal and Incidental (P&I) money for personal items. These situations usually occurred at the end of the week when staff was not available to issue a check through money management disbursements or generate a loan through the Uniform Fiscal System (UFS). Therefore, in order to accommodate the consumer's cash request, the funds were loaned from the Petty Cash fund. This issue was also identified in the prior audit.

For good internal control and accounting practices, KRC should ensure that there are adequate Petty Cash policies and procedures in place. In addition, the Petty Cash fund is intended for incidental office expenses and not for the funding of loans to KRC consumers.

Recommendation:

KRC should discontinue the practice of issuing loans to consumers from its Petty Cash fund. In addition, KRC should develop policies and procedures to ensure loans for consumers are processed through proper lending mechanisms and not through the Petty Cash fund.

Finding 5: Access to Petty Cash Funds

The review of the Petty Cash fund located at the Bakersfield office revealed that it could be accessed by several KRC Managers in the absence of the petty cash custodian. It was noted that in the absence of the custodian, the Executive Director, Director of Administration, Director of Human Resources, and Associate Director, all had access to the Petty Cash fund. Allowing several employees other than the approved custodian access to the Petty Cash fund may decrease the accountability of the petty cash and increase the risk of misappropriations.

For good internal control and accounting practices, access to the Petty Cash fund should only be through authorized custodians. This is to ensure that there will be accountability and appropriate safeguarding of the Petty Cash fund.

Recommendation:

KRC should develop and implement policies and procedures to ensure that access to the Petty Cash fund is limited to a small number of authorized individuals who have been approved by KRC management.

II. The following findings were identified during the audit, but have since been addressed and corrected by KRC.

Finding 6: Client Trust Balances Over the Resource Limit

The review of the Client Trust accounts revealed four trust accounts with balances that exceeded the \$2,000 resource limit, a violation of the Social Security guidelines. By exceeding the asset limit, consumers are at risk of losing SSI benefits that are used to offset the costs of residential services. Any residential costs not offset by SSI benefits are charged in full to the State. Consequently, not managing the consumer's trust balances within the asset limit exposes the State to an increased share of the residential service costs.

Social Security Handbook, Chapter 21, Section 2153.2 states:

“As of January 2003, the applicable limits are:
A. \$2,000 for an individual without a spouse...”

KRC has since reduced the balances of the four consumers identified in the finding to under the resources limit.

Recommendation:

Recommendation:

KRC should improve the management of consumers' trust accounts by monitoring the balances to ensure the balances remain within the limits established by the Social Security guidelines.

Finding 7: Under Payments to Residential Vendors

A review of the Residential vendor files, turn around invoices, and payments revealed that KRC underpaid 23 vendors in the amount of \$3,360 for the months of July and August 2003. This was due to a rate increase in June 2003, but was not adjusted to reflect the new rate for the months of July and August 2003.

Title 17, Section 56917 (a) states:

“Regional centers shall pay residential service providers monthly at the rate established by the Department pursuant to Section 56902(b) and (c).”

Corrective action was taken by KRC during the fieldwork to reimburse the vendors the underpaid amount for the services provided for the months of July and August 2003.

Recommendation:

KRC should develop and implement procedures to ensure the staff is aware of any rate changes to its services programs and that any rate changes are promptly adjusted to reflect the correct rate paid to its service providers.

EVALUATION OF RESPONSE

As part of the audit report process, KRC is provided with a draft report and is requested to provide a response to each finding. KRC's response dated February 15, 2008 is provided as Appendix A. This report includes the complete text of the findings in the Findings and Recommendation section and a summary of the findings in the Executive Summary section. DDS's Audit Branch has evaluated KRC's response. KRC'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 KRC's corrective actions identified in the response during the follow-up review or the next scheduled audit.

APPENDIX A

KERN REGIONAL CENTER

RESPONSE

TO AUDIT FINDINGS

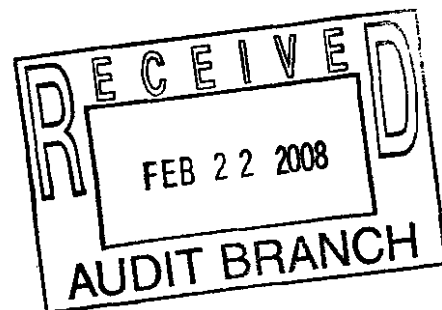
KERN REGIONAL CENTER

Supporting Equality, Independence & Opportunity



February 15, 2008

Ed Yan
Audits Supervisor
Department of Developmental Services
1600 9th Street, Rm 230, MS 2-10
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Ed,

Attached is our response to the audit DDS performed on fiscal years 2003/2004 thru 2005/2006. I have also emailed them to you. If you have any questions, please contact me at 661.852.3302 or jbowman@kernrc.org.

Sincerely,

Jerry Bowman, CPA
Chief Financial Officer



Kern Regional Center response to audit of fiscal years 2003-2004, 2004-2005, and 2005-2006 Findings 1 thru 5:

Finding 1: Client Trust Disbursements Not Supported

A review of the client trust money management disbursements revealed that KRC did not have receipts to support purchases made by the vendor for the consumer. Without supporting receipts, there is no evidence to ensure that the disbursements from the client trust funds are appropriate.

Response: Kern Regional Center case management will obtain receipts from the vendor making the purchase and maintain them in the consumer case file or binder.

Finding 2: Equipment Inventory List Not Updated

The review of KRC's equipment inventory listing revealed that it had not been updated to reflect the current status and location of the equipment. In addition, KRC was not forwarding to the Department of General Services for approval, the required form for the surveying of equipment. This is a violation of the Equipment Management System Guidelines for regional centers.

Response: Kern Regional Center will maintain the current status and location of its equipment through a semi-annual fixed asset scan conducted at the main office. Satellite offices will be scanned once every three years.

In addition, Kern Regional Center will electronically submit to the Department of General Services the property survey report (STD 152) using the California Surplus Property System (CSPS) in order to obtain approval by e-mail for disposal of equipment.

Finding 3: Missing Consultant Contract

The review of KRC's consultant contracts revealed a vendor, NedaSoft, Inc. did not have a contract on file. This vendor was used by KRC on a continuous basis. For good internal control practices, written and signed contracts should be in place.

Response: Kern Regional Center now has a signed contract with NedaSoft, Inc.

Finding 4: Consumer Loans from Petty Cash Fund (Repeat

The review of the Petty Cash fund and its supporting documentation revealed that KRC continues to use the petty cash fund to issue loans to consumers for small purchases. KRC's Managers and Supervisors are authorizing small loans from the Petty Cash fund in the Bakersfield office to consumers who have spent their entire month's Personal and Incidental (P&I) money for personal items. This issue was identified in the prior audit.

Response: Kern Regional Center stopped using the petty cash fund for anything client related. It is only used for operating type expenses. We opened another petty cash fund using non State dollars and use it for client related issues.

Finding 5: Access to Petty Cash Fund

The review of the Petty Cash fund located at the Bakersfield office revealed that it could be accessed by several KRC Managers in the absence of the petty cash custodian. Allowing several employees to have access to the Petty Cash Fund may decrease the accountability of the petty cash and increase the risk of misappropriation.

Response: There are now only two employees authorized to disburse petty cash. Also, the petty cash is now kept in a lock box in a locked file cabinet. The petty cash is reconciled monthly.