



**AUDIT OF THE  
NORTH LOS ANGELES COUNTY REGIONAL CENTER  
FOR FISCAL YEARS 2013-14 AND 2014-15**

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**Department of Developmental Services**

This audit report was prepared by the  
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(Appendix A will be included in the Final Report)	

# EXECUTIVE SUMMARY

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The Department of Developmental Services' (DDS) fiscal compliance audit of North Los Angeles County Regional Center (NLACRC) was conducted to ensure NLACRC's compliance with the requirements set forth in the California Code of Regulations (CCR), 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 DDS. The audit indicated that, overall, NLACRC maintains accounting records and supporting documentation for transactions in an organized manner. This report identified one area NLACRC's administrative, operational controls could be strengthened, however the Finding identified in this report is not of a nature that would indicate systemic issues or constitute major concerns regarding NLACRC's operations. A follow-up review was performed to ensure NLACRC has taken corrective action to resolve the Findings identified in the prior DDS audit report.

## II. Finding addressed and corrected by NLACRC

### **Finding 1: Overstated Claims**

The review of NLACRC's Operational Indicator report revealed 27 instances in which NLACRC over claimed expenses to the State. The total overpayment was \$10,360.73. This is not in compliance with CCR, Title 17, Sections 54326(a)(10) and 56917(i).

NLACRC has taken corrective action and provided documentation indicating that it has collected, from the vendors, the overpayments totaling \$10,360.73.

## BACKGROUND

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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 (RCs). The RCs are responsible under State law to help ensure that such persons receive access to 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 HCBS Waiver program are provided and that criteria set forth for receiving funds are met. As part of DDS' program for providing this assurance, the Audit Branch 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 (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 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 North Los Angeles County Regional Center, Inc., entered into a contract, HD099012, effective July 1, 2009, through June 30, 2016. This contract specifies that North Los Angeles County Regional Center, Inc., will operate an agency known as the NLACRC to provide services to persons with DD and their families in the East Valley, San Fernando, West Valley, and Antelope Valley areas. The contract is funded by State and federal funds that are dependent upon NLACRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at NLACRC from August 31, 2015, through October 2, 2015, and was conducted by DDS' Audit Branch.

## **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.

## **CRITERIA**

The following criteria were used for this audit:

- California's W&I Code
- "Approved Application for the HCBS Waiver for the Developmentally Disabled"
- CCR, Title 17
- Federal Office of Management Budget (OMB) Circular A-133
- State Contract between DDS and NLACRC, 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

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

- To determine compliance with the W&I Code (or the Lanterman Act),
- To determine compliance with CCR, Title 17 Regulations,
- To determine compliance with the provisions of the HCBS Waiver Program for the Developmentally Disabled, and
- To determine that costs claimed were in compliance with the provisions of the State Contract.

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 the NLACRC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that NLACRC was in compliance with the objectives identified above. Accordingly, DDS examined transactions, on a test basis, to determine whether NLACRC was in compliance with the Lanterman Act, CCR, Title 17, the HCBS Waiver for the Developmentally Disabled, and the State Contract.

DDS' review of NLACRC'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 accounting firm for Fiscal Year 2013-14, issued on February 4, 2015. It was noted that no management letter was issued for NLACRC. 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. Purchase of Services (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 NLACRC. The rates charged for the services provided to individual consumers were reviewed to ensure that the rates paid were set in accordance with the provisions of CCR, Title 17 and the W&I Code.
- DDS analyzed all of NLACRC's bank accounts to determine whether DDS had signatory authority as required by the contracts with DDS.
- DDS selected a sample of bank reconciliations for Operations accounts to determine if the reconciliations were properly completed on a monthly basis.

**II. Regional Center Operations (OPS)**

DDS audited NLACRC's operations and conducted tests to determine compliance with the State Contract. The tests included various expenditures claimed for administration to ensure that NLACRC's accounting staff was properly inputting data, transactions were recorded on a timely basis, and to ensure that expenditures charged to various operating areas were valid and reasonable. These tests included the following:

- A sample of the personnel files, time sheets, payroll ledgers and other support documents were selected to determine if there were any overpayments or errors in 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 were tested to determine compliance with CCR, Title 17 and the State Contract.
- A sample of equipment was selected and physically inspected to determine compliance with requirements of the State Contract.



- DDS reviewed NLACRC'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. Targeted Case Management (TCM) and Regional Center Rate Study**

The 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 NLACRC's Rate Study. DDS examined the month of May 2013 and traced the reported information to source documents.
- Reviewed NLACRC's TCM Time Study. DDS selected a sample of payroll timesheets for this review and compared them to the DS 1916 forms to ensure that the DS 1916 forms were properly completed and supported.

### **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)(3):

- A. For all consumers who are three years of age and younger and for consumers enrolled in the 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. The required average ratio shall be 1:45 for consumers who have moved within the first year.
- 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.

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 (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, DDS reviewed the Early Intervention Program, including the Early Start Plan and Federal Part C funding to determine if the funds were properly accounted for in the RC'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). To determine whether NLACRC 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 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 NLACRC is paying for only its assessed share of cost.

**VII. Annual Family Program Fee (AFPF)**

The AFPF was created for the purpose of assessing an annual fee of up to \$200 based on an income level of families with children between the ages of 0 through 17 years of age receiving qualifying services through a 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 is assessed to the parents under FCPP. To determine whether NLACRC is in compliance with the W&I Code 4785, 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 developmental disability 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. 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 NLACRC implemented the required RFP process by January 1, 2011, DDS performed the following procedures during our audit review:

- Reviewed NLACRC's 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 include 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 communicates 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 NLACRC. The process was reviewed to ensure that the vendor selection process is transparent, 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 new contracts in place as of January 1, 2011:

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

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

- Reviewed to ensure NLACRC 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 NLACRC's Board approved POS, Start-Up and Operational vendor contracts over \$250,000 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 and that the usage of funds is of direct benefit to consumers, and that contracts are supported with sufficiently detailed and measurable performance expectations and results.

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

#### **IX. Statewide/Regional Center Median Rates**

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

- Reviewed sample vendor files to determine whether NLACRC is using appropriately vendorized service providers and correct service codes, and that NLACRC is paying authorized contract rates and complying with the medium rate requirements of the W&I Code, Section 4691.9.
- Reviewed vendor contracts to verify that NLACRC is reimbursing vendors using authorized contract median rates, and verified that rates paid represented the lower of the statewide or regional center 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 health and safety exemptions were granted by DDS.

**X. 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 NLACRC'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:

- Start-Up Funds and Community Placement Program
- Part C
- Family Resource Center
- First Five

**XI. 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 NLACRC and reviewed supporting documentation to determine the degree and completeness of NLACRC's implementation of corrective actions.

## CONCLUSIONS

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Based upon the audit procedures performed, DDS has determined that, except for the item identified in the Findings and Recommendations section, NLACRC was in compliance with applicable sections of CCR, Title 17, the HCBS Waiver, 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 NLACRC has taken appropriate corrective action to resolve the prior audit issues.

## **VIEWS OF RESPONSIBLE OFFICIALS**

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A copy of the draft report was provided to NLACRC on September 21, 2016. NLACRC provided a letter declining a formal exit conference, since there were no unresolved findings identified in the audit.

## **RESTRICTED USE**

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This audit report is solely for the information and use of DDS, Department of Health Care Services, CMS, and NLACRC. This restriction does not limit distribution of this audit report, which is a matter of public record.



## FINDINGS AND RECOMMENDATIONS

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### II. Finding corrected by NLACRC

#### Finding 1: Overstated Claims

The review of NLACRC's Operational Indicator report revealed 27 instances in which NLACRC over claimed expenses to the State. NLACRC overpaid 20 vendors totaling \$10,360.73 due to duplicate payments and overlapping authorizations. NLACRC has taken corrective action and provided documentation indicating that it has collected, from the vendors, the overpayments totaling \$10,360.73.

CCR, Title 17, Section 54326 (a)(10) states:

“All vendors shall...

(10) Bill only for services which are actually provided to consumers and which have been authorized by the referring regional center...”

#### **Recommendation:**

NLACRC must ensure its staff continues to monitor Operational Indicator reports quarterly, attendance documentation and rate letters, to more efficiently detect duplicate payments and correct any overpayments that may have occurred in the course of doing business with the vendors.

## **EVALUATION OF RESPONSE**

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As part of the audit report process, NLACRC was provided with a draft report on September 21, 2016. NLACRC's response dated September 27, 2016, is provided as Appendix A.

**APPENDIX A**

**NORTH LOS ANGELES COUNTY REGIONAL CENTER**

**RESPONSE**

**TO AUDIT FINDINGS**



**NORTH LOS ANGELES COUNTY**  
**REGIONAL CENTER**

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September 27, 2016

Edward Yan, Manager, Audit Branch  
Department of Developmental Services  
1600 Ninth Street  
Sacramento, CA 95814

RE: DDS Audit of NLACRC for the audit period of July 1, 2013 through June 30, 2015

Dear Ed,

This letter is to confirm that North Los Angeles County Regional Center ("NLACRC") agrees to waive the audit exit interview of the FY2013-2014 and FY2014-2015 audit conducted by the Department of Developmental Services ("DDS") of NLACRC's records.

NLACRC looks forward to receiving the final version of the "Final Audit Report" from DDS for our review. Should you have any questions about this information, please feel free to contact either Vini Montague, Controller, 818-756-6388, or myself, at 818-756-6112.

Sincerely,

Kim L. Rolfes  
Chief Financial Officer

Cc George Stevens, Executive Director  
Diane Ambrose, Deputy Director/Program Services Director  
Vini Montague, Controller  
Eduardo Gonzalez, Accounts Payable Supervisor  
Kevin Koch, Audit/Revenue Supervisor  
Yolanda Bosch, Community Services Director