



**AUDIT OF THE
NORTH LOS ANGELES COUNTY REGIONAL CENTER
FOR FISCAL YEARS 2004-05, 2005-06, and 2006-07**

Department of Developmental Services

This report was prepared by the
California Department of Developmental Services
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EXECUTIVE SUMMARY

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

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

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

Finding 1: Unallowable Operational Expense

The review of the Operational expense report revealed NLACRC purchased alcoholic beverages on two separate occasions. The unallowable alcoholic purchases were made during an annual board retreat and board dinner which totaled \$2,349.45. This is not in compliance with the Federal Office of Management and Budget (OMB) Circular No. A-122, Attachment B and the State contract.

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

Finding 2: Over/Under-Stated Claims

A detailed review of the Residential, Day Programs, and Operational Indicator reports revealed 12 instances in which NLACRC over or under claimed expenses to the State. These were either due to duplicate payments, incorrect rate calculations, or miscalculated billings for the service months. The total overpayment was \$7,002.54 and the total underpayment \$78.02. This is not in compliance with Title 17, Section 54326 (a)(10).

NLACRC has taken corrective action by making billing adjustments for the under and over payments.

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 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 center fiscal, administrative and program operations.

DDS and North Los Angeles County Regional Center, Inc., entered into contract, HD049012, effective July 1, 2004, through June 30, 2009. The contract specifies that North Los Angeles County Regional Center, Inc., will operate an agency known as the North Los Angeles County Regional Center (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 November 5, 2007, through December 14, 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 NLACRC'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
- NLACRC's contract with the DDS

AUDIT PERIOD

The audit period was from July 1, 2004, through June 30, 2007, 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 NLACRC'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 NLACRC's financial statements. We limited our scope to planning and performing audit procedures necessary to obtain reasonable assurance that NLACRC was in compliance with the objectives identified above. Accordingly, we examined transactions, on a test basis, to determine whether NLACRC was in compliance with Title 17, the HCBS Waiver for the Developmentally Disabled, and the contract with DDS.

Our review of NLACRC's internal control structure was limited to gaining an understanding of the transaction flow and the policies and procedures as necessary to develop appropriate auditing procedures.

We reviewed the annual audit report that was conducted by an independent accounting firm for Fiscal Years (FYs):

- 2004-05, issued October 26, 2005
- 2005-06, issued November 3, 2006

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 NLACRC. 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 not used by NLACRC. An interview with NLACRC staff revealed that NLACRC 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 NLACRC's bank accounts to determine if the DDS had signatory authority as required by the contract with the DDS.
- We selected a sample of bank reconciliations for Operations and Consumer Trust bank accounts to determine if the reconciliations are properly completed on a monthly basis.

II. Regional Center Operations

We audited NLACRC 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 the DDS.
- We reviewed NLACRC'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 DDS rate of reimbursement from the Federal Government. The last rate study to determine the TCM rate was performed in May 2004 which was reviewed in the last DDS biannual audit. As a result, there was no rate to review for this audit period.

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 NLACRC'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 NLACRC 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 NLACRC, 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.
- 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 NLACRC and reviewed supporting documentation to determine the degree and completeness of NLACRC'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, NLACRC was in substantial compliance to applicable sections of Title 17, the HCBS waiver, and the terms of NLACRC's contract with DDS for the audit period July 1, 2004, through June 30, 2007.

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

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft report on August 12, 2008. The findings in the report were discussed at an exit conference with NLACRC on August 26, 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 North Los Angeles County 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. The following findings need to be addressed, but do not significantly impair the financial integrity of NLACRC or seriously compromise its ability to account for or manage State funds.

Finding 1: Unallowable Operational Expense

The review of the Operational expense report revealed NLACRC purchased alcoholic beverages on two separate occasions. The alcoholic purchases were made at the Hilton Hotel Burbank Airport during the NLACRC's annual board retreat and the Hilton Universal City and Towers Hotel for a NLACRC board dinner. The alcoholic purchases totaled \$2,349.45.

State Contract Article II, Section 3b states in part:

“Contractor shall ensure that costs that may be reimbursed with Federal Funds are claimed in accordance with the applicable cost principles set forth in Office of Management and Budget Circular (OMB), A-122 and requirements set forth in OMB A-110.”

OMB Circular No. A-122, Attachment B, states:

“Costs of alcoholic beverages are unallowable.”

In addition, the use of State funds for the purchase alcohol for consumption is not a requirement under the terms of the State contract for NLACRC to provide services to its consumer population.

Recommendation:

NLACRC should reimburse to DDS the \$2,349.45 for the alcoholic purchases. In addition, NLACRC should review and revise its procedures for the payment of operational expenses to ensure submitted expense claims are only allowable items under OMB Circular No. A-122 and the State contract.

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

Finding 2: Over/Under-Stated Claims

A detailed review of the Residential, Day Programs, and Operational Indicator reports revealed 12 instances in which NLACRC over or under claimed expenses to the State. There were 10 instances of overpayments totaling \$7,002.54 due to

duplicate payments or incorrect rate calculations. The remaining two instances were underpayments totaling \$78.02 due to miscalculated billings for the service months.

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.”

NLACRC has taken corrective action by making billing adjustments for the underpayments and overpayments.

Recommendation:

NLACRC should continue to review the payment invoices, rate letters, and Operational Indicator reports to ensure any over/under payments and duplicate payments that may have occurred in the course of doing business with its vendors are addressed and corrected.

EVALUATION OF RESPONSE

As part of the audit report process, NLACRC is provided with a draft report and is requested to provide a response to each finding. NLACRC's response dated September 29, 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 NLACRC's response. Except as noted below, NLACRC'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 NLACRC's corrective actions identified in the response during the follow-up review of the next scheduled audit.

Finding 1: Unallowable Operational Expense

NLACRC agrees that alcohol was purchased in the amount of \$2,349.45 during NLACRC's annual board retreat and annual board dinner. However, NLACRC disagrees with DDS's recommendation to reimburse to DDS the amount of \$2,349.45 for the alcoholic purchases. NLACRC responds that the purchase of the alcohol was not through Federal funds. NLACRC states that Federal reimbursement to DDS is based on specific activities the regional centers performs and that board governance is not a federally reimbursable service nor does DDS allocate any Operations funds for board governance. Also, NLACRC states that the alcoholic purchases were made through the interest earned from its cash advance from DDS.

The advance of monies provided to NLACRC under the State contract is State funds. It is an inappropriate use of State funds to purchase alcohol for consumption. Therefore, the NLACRC purchase of alcohol for consumption by board members is an inappropriate use of State funds. The finding remains unchanged and NLACRC should reimburse to DDS the \$2,349.45 for the alcoholic purchases. Additional follow-up on this issue will be conducted in the next DDS audit.

APPENDIX A

NORTH LOS ANGELES COUNTY REGIONAL CENTER

RESPONSE

TO AUDIT FINDINGS

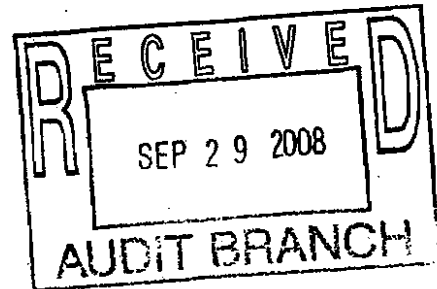


NORTH LOS ANGELES COUNTY REGIONAL CENTER

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September 24, 2008

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



RE: NLACRC's Response to "Audit of NLACRC for Fiscal Years 2004-05, 2005-06 and 2006-2007"

Dear Mr. Lee,

North Los Angeles County Regional Center (NLACRC) wishes to thank your audit team for their thoroughness in conducting our audit and for bringing to our attention some issues that they found while reviewing our records. NLACRC respects their work and the good working relationship that we have developed.

Please find below, NLACRC's written response to the two (2) audit findings identified by the Departmental of Developmental Services (DDS) auditors during the audit of NLACRC's fiscal records:

1. Response to Finding 1: Unallowable Operational Expense

NLACRC agrees that the expenditure for alcoholic purchases in the amount of \$2,349.45 was made during NLACRC's annual board retreat and annual board dinner. However NLACRC disagrees with DDS's recommendation that "NLACRC should reimburse DDS the \$2,349.45 for alcoholic purchases. In addition, NLACRC should review and revise its procedures for the payment of operational expenses to ensure submitted expense claims are allowable items under OMB Circular No. A-122." DDS stated that the alcoholic beverages were unallowable due to the fact that the "Contractor shall ensure that costs that may be reimbursed with Federal Funds are claimed in accordance with the applicable cost principles set forth in Office of Management and Budget Circular (OMB), A-122 and requirements set forth in OMB A-110."

NLACRC disagrees that federal funds were used to purchase or that federal reimbursement was sought for the alcohol expenditure for three reasons. First, the State receives reimbursement of federal funds based on specific activities that the regional centers perform. According to the both the Governor's Budget and our Contract during each of the years audited, reimbursable federal activities included Home and Community-Based Services (HCBS) Waiver, HCBS Waiver Administration, Medicaid Administration, Targeted Case Management (TCM), TCM Administration, Part C, Medicare Part D, HIPPA, and the Family Resource Center. These activities represent the direct services provided by regional center case management staff to consumers. The state does not receive any reimbursement of federal funds for board governance of the regional center. Furthermore, the federal funds received by the State are a reimbursement and not a payment for services. Since board governance is not a federally reimbursable service,

the State would not have received a federal reimbursement and the State would not have sought reimbursement for the alcohol purchased by NLACRC for its board dinner or board retreat.

Secondly, DDS does not allocate any operating funds to the regional center for board governance in its allocation methodology to the regional centers. Therefore, in this situation, NLACRC does not agree that section 3b, Federal Funds, of our contract would apply because the State does not receive federal reimbursement for board governance and DDS does not allocate any operating funds to the regional center for board governance.

Finally, the regional center has several unfunded mandates that it must carry out, which include, but are not limited to, board governance, the consumer advocate and the education advocate positions, SANDIS, development of our software, etc. The only resource the regional center receives to pay for these unfunded mandates is the interest earnings regional centers receive on the funds in our bank account. Most all the interest earned is made from the Advance regional centers receive from DDS at the beginning of each fiscal year. The Advance is composed of general fund dollars and does not include any federal dollars because we have not made any claims for federal reimbursement at the beginning of the fiscal year. Therefore, the interest earnings regional centers receive are generated from state dollars not federal dollars. The interest earnings are utilized by the regional center for unrestricted activities, which include unfunded mandates such as board governance. NLACRC accounts for how expenditures for unfunded mandates are made through our accounting practices. In the future, NLACRC will discuss the purchase of this type of expenditures with its Board and review NLACRC's past practice of purchasing alcohol during these annual board events.

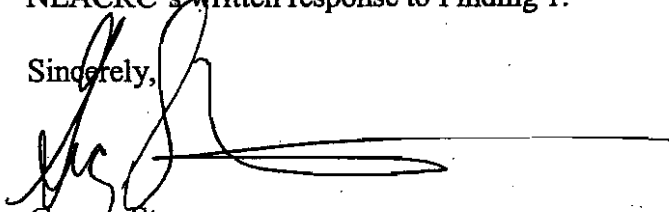
Therefore, for the reasons stated above, NLACRC does not agree that it should reimburse DDS \$2,349.45 for the alcoholic purchases made during the annual board dinner and the annual board retreat because Federal funds were not used to make the purchase.

2. Response to Finding 5: Over/Under-Stated Claims

NLACRC agrees with DDS's recommendation to "review the payment invoices, rate letters, and Operational Indicator reports to ensure any over/under payments and duplicate payments that may have occurred in the course of doing business with its vendors are addressed and corrected". NLACRC has taken corrective action to resolve all the payment issues identified by the DDS auditors in the amount of \$7,002.54. All accounts payable staff are provided training on how to accurately process vendor current vendor invoices and non-current invoices (late bills). Training for current vendor invoices includes the process of reviewing authorizations, rate letters, and invoices prior to making payment. Training for non-current vendor invoices (late bills) requires that the accounts payable staff person review the vendor's payment history, for non-current months, prior to processing a payment to a vendor. Additionally, NLACRC's accounts payable procedures require that each month all accounts payable staff review the "Detail Listing of Duplicate Payment Same Authorization Report (PAI11004)" to ensure that no overpayments were made to vendors and to make adjustments as necessary. NLACRC continues to review the "Detail Listing of Duplicate Payment Same Authorization Report (PAI11004)" every month to ensure that no overpayments have been made to vendors. Furthermore, the Accounts Payable Supervisor and the Audit/Revenue Supervisor continue to review invoices and other reports each month, as necessary, to ensure that payments are made correctly by accounting staff.

If you have any questions regarding NLACRC's response to DDS's audit findings, please contact me at 818-756-6200. Thank you for your support and we look forward to your decision regarding NLACRC's written response to Finding 1.

Sincerely,



George Stevens
Executive Director

c: Ellen L. Stein, Deputy Director/CFO
Kim Rolfes, Controller
Grace Chen, Assistant Controller
Eduardo Gonzales, Accounts Payable Supervisor
Editha Docot, Audit/Revenue Supervisor