



**AUDIT OF THE  
REDWOOD COAST REGIONAL CENTER  
FOR FISCAL YEARS 2013-14 AND 2014-15**

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**Department of Developmental Services  
February 13, 2018**

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# EXECUTIVE SUMMARY

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

The audit period was July 1, 2014, through June 30, 2015, with follow up as needed into prior and subsequent periods. This report identifies some areas where RCRC'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 RCRC's operations. A follow-up review was performed to ensure that RCRC has taken corrective action to resolve the findings identified in the prior DDS audit report.

## Findings that need to be addressed.

### Finding 1: Deleted

After further analysis of the additional documentation provided by RCRC in its response to the draft audit report, it has been determined that this was not an issue and the finding has been deleted.

### Finding 2: Purchase of Service Expenses Not Tied to Consumer Unique Client Identification Number

The review of the Operational Indicator Reports revealed one vendor, J. Holden, Ph.D., Vendor Number H55372, Service Code 785 was reimbursed \$71,128.27 for services provided under a contract Unique Client Identification (UCI) number. This vendor provided services under the HCBS Waiver-billable service code; however, the Purchase of Service (POS) expenditures were not tied to individual consumers' UCI numbers. This is not in compliance with CCR, Title 17, Section 50604(d)(1).

RCRC has taken corrective action to resolve this issue by reclassifying \$17,521.58, identified in Fiscal Year (FY) 2014-15 to individual consumers' UCIs. RCRC was unable to reclassify the remaining \$53,606.69, from FY 2013-14, due to the closed FY.

**Finding 3: Family Cost Participation Program - Overstated Share of Cost (Repeat)**

The review of the prior DDS audit report revealed that RCRC continued to reimburse one vendor for services which, under the requirements of the Family Cost Participation Program (FCPP), are the responsibility of the families. RCRC reimbursed Premier Healthcare Services, Vendor Number HW0321, Service Code 862 for the total authorized number of units after the parents had been assessed a 13.5 percent share of cost. This resulted in overpayments totaling \$357.84. This is not in compliance with CCR, Title 17, Section 50255(a).

**Finding 4: Deleted**

After further analysis of the additional documentation provided by RCRC in its response to the draft audit report, it has been determined that this was not an issue and the finding has been deleted.

**Finding 5: Transportation Services Provided Under Incorrect Service Code**

The review of payments for 110 sampled POS vendor files revealed that RCRC reimbursed one vendor, Riley Cab, Vendor Number HR0447, Service Code 875 under an incorrect service code. Riley Cab was vendorized as a transportation company while providing taxi services, which utilize Service Code 895. This is not in compliance with CCR, Title 17, Section 54342(a)(86).

**Finding 6: Equipment Inventory Procedures**

**A. Inaccurate Equipment Inventory**

RCRC's inventory process was reviewed to determine if a physical inventory was conducted, sensitive items were tagged, survey forms were filed and the current Equipment Inventory listing was accurate. It was noted that 14 out of 66 sampled items were either missing or not recorded on the Equipment Inventory listing. This is not in compliance with the State Contract, Article IV, Section 4(a), and the State's Equipment Management System Guidelines, Section III(D).

**B. Equipment Purchases Not Reported Quarterly**

The review of RCRC's equipment acquisitions revealed that RCRC did not provide DDS with a quarterly listing of 137 nonexpendable and sensitive items purchased from September 2011 through June 2015.

This is not in compliance with the State's Equipment Management System Guidelines, Section III(B).

**C. Equipment Inventory Not Performed Triennially**

The review of the equipment inventory records revealed that RCRC did not conduct its inventory triennially. RCRC's current inventory was completed in June 2015, while the prior inventory was completed in September 2011. This is not in compliance with the State Administrative Manual, Section 8652.

**Finding 7: Segregation of Duties (Repeat)**

The review of the internal controls over the operational expenses process revealed a lack of separation of duties. The Senior Fiscal Clerk continues to have the ability to create vendor profiles in the Uniform Fiscal System (UFS), delete vendors' files, print vendor invoices, and issue checks. In addition, the Senior Fiscal Clerk still has full access to all AS400 files and is responsible for troubleshooting all IT-related issues. This weakness in RCRC's controls increases the risk of fraud and decreases chances of detecting errors. This issue was noted in the prior audit report.

**Finding 8: Policies and Procedures for Vendor Audits and Reviews (Repeat)**

The review of RCRC's list of 54 vendors who were required to contract with an independent accounting firm for an audit or review of its financial statements revealed that 44 vendors did not submit an audit or review. It was found that RCRC is not following up with vendors who have not submitted the required audit reports or reviews. This issue was also identified in the prior audit report. This is not in compliance with W&I Code, Sections 4652.5(a)(1)(A)(B) and (b) and RCRC's Management and Operations Manual, Subject: Vendor Audits, Logging, Review of and Follow up, Section D(2).

## BACKGROUND

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DDS is responsible, under the W&I Code, for ensuring that persons with developmental disabilities (DD) receive the services and supports they need to lead more independent, productive, and integrated lives. To ensure that these services and supports are available, DDS contracts with 21 private, nonprofit community agencies/corporations that provide fixed points of contact in the community for serving eligible individuals with DD and their families in California. These fixed points of contact are referred to as regional centers (RCs). The RCs are responsible under State law to help ensure that such persons receive access to the programs and services that are best suited to them throughout their lifetime.

DDS is also responsible for providing assurance to the Department of Health and Human Services (DHCS), Centers for Medicare and Medicaid Services (CMS), that services billed under California's HCBS Waiver program are provided and that criteria set forth for receiving funds have been met. As part of DDS' program for providing this assurance, the Audit Section conducts fiscal compliance audits of each RC no less than every two years, and completes follow-up reviews in alternate years. Also, DDS requires RCs to contract with independent Certified Public Accountants (CPAs) to conduct an annual financial statement audit. The DDS audit is designed to wrap around the independent CPA's audit to ensure comprehensive financial accountability.

In addition to the fiscal compliance audit, each RC will also be monitored by the DDS Federal Programs Operations Section to assess overall programmatic compliance with HCBS Waiver requirements. The HCBS Waiver compliance monitoring review has its own criteria and processes. These audits and program reviews are an essential part of an overall DDS monitoring system that provides information on RCs' fiscal, administrative, and program operations.

DDS and Redwood Coast Developmental Services Corporation (RCDSC) entered into State Contract HD099013 effective July 1, 2009, through June 30, 2016. This contract specifies that RCDSC will operate an agency known as RCRC to provide services to individuals with DD and their families in Del Norte, Humboldt, Mendocino, and Lake Counties. The contract is funded by state and federal funds that are dependent upon RCRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at RCRC from October 13, 2015, through November 6, 2015, by the Audit Section of DDS.

## **AUTHORITY**

The audit was conducted under the authority of California's W&I Code, Section 4780.5, and Article IV, Section 3 of the State Contract.

## **CRITERIA**

The following criteria were used for this audit:

- W&I Code or the Lanterman Act,
- "Approved Application for the HCBS Waiver for the Developmentally Disabled,"
- CCR, Title 17,
- Federal Office of Management and Budget (OMB) Circulars A-122 and 133, and
- The State Contract between DDS and RCRC, 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 the RCs' fiscal, administrative, and program operations. The objectives of this audit were:

- To determine compliance with the W&I Code,
- To determine compliance with CCR, Title 17 Regulations,
- To determine compliance with the provisions of the HCBS Waiver Program for the Developmentally Disabled,
- To determine compliance with OMB Circulars A-122 and 133, and
- To determine that costs claimed were in compliance with the provisions of the State Contract between DDS and RCRC.

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. However, the procedures do not constitute an audit of RCRC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that RCRC was in compliance with the objectives identified above.

Accordingly, DDS examined transactions on a test basis to determine whether RCRC was in compliance with the W&I Code; the HCBS Waiver for the Developmentally Disabled; CCR, Title 17; OMB Circulars A-122 and 133; and the State Contract between DDS and RCRC.

DDS' review of RCRC's internal control structure was conducted to gain an understanding of the transaction flow and the policies and procedures, as necessary, to develop appropriate auditing procedures.

DDS reviewed the annual audit report that was conducted by an independent CPA firm, for FY 2013-14, issued on March 5, 2015. It was noted that a management letter was issued for RCRC. This review was performed to determine the impact, if any, upon the DDS audit and, as necessary to develop appropriate audit procedures.

The audit procedures performed included the following:

**I. Purchase of Service**

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 RCRC. 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 RCRC's bank accounts to determine whether DDS had signatory authority as required by the contract with DDS.
- DDS selected a sample of bank reconciliations for Operations (OPS) accounts and Consumer Trust bank accounts to determine if the reconciliations were properly completed on a monthly basis.

**II. Regional Center Operations**

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

- A sample of the personnel files, timesheets, payroll ledgers, and other support documents were selected to determine if there were any overpayments or errors in the payroll or the payroll deductions.
- A sample of OPS expenses, including but not limited to purchases of office supplies, consultant contracts, insurance expenses, and lease

agreements, were tested to determine compliance with 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 RCRC'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 determines the DDS rate of reimbursement from the federal government. The following procedures were performed upon the study:

- Reviewed applicable TCM records and RCRC's Rate Study. DDS examined the months of March 2014 and April 2015 and traced the reported information to source documents.
- The last Case Management Time Study, performed in May 2013, was reviewed in the prior DDS audit that included FY 2012-13. As a result, there was no Case Management Time Study to review for this audit period.

### **IV. Service Coordinator Caseload Survey**

Under the W&I Code, Section 4640.6(e), RCs are required to provide service coordinator caseload data to DDS. The following average service coordinator-to-consumer ratios apply per W&I Code Section 4640.6(c)(1)(2)(3)(A)(B)(C):

- “(c) Contracts between the department and regional centers shall require regional centers to have service coordinator-to-consumer ratios, as follows:
- (1) An average service coordinator-to-consumer ratio of 1 to 62 for all consumers who have not moved from the developmental centers to the community since April 14, 1993. In no case shall a service coordinator for these consumers have an assigned caseload in excess of 79 consumers for more than 60 days.
  - (2) An average service coordinator-to-consumer ratio of 1 to 45 for all consumers who have moved from a developmental center to the community since April 14, 1993. In no case shall a service coordinator for these consumers have an assigned caseload in

excess of 59 consumers for more than 60 days.

- (3) Commencing January 1, 2004, the following coordinator-to-consumer ratios shall apply:
  - (A) All consumers three years of age and younger and for consumers enrolled in the Home and Community-based Services Waiver program for persons with developmental disabilities, an average service coordinator-to-consumer ratio of 1 to 62.
  - (B) All consumers who have moved from a developmental center to the community since April 14, 1993, and have lived continuously in the community for at least 12 months, an average service coordinator-to-consumer ratio of 1 to 62.
  - (C) All consumers who have not moved from the developmental centers to the community since April 14, 1993, and who are not described in subparagraph (A), an average service coordinator-to-consumer ratio of 1 to 66.”

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

**V. Early Intervention Program (EIP; Part C Funding)**

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

**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) or Individualized Family Services Plan (IFSP). To determine whether RCRC was in compliance with CCR, Title 17, and the W&I Code, DDS performed the following procedures during the audit review:

- Reviewed the list of consumers who received respite, day care, and camping services, for ages 0 through 17 years who live with their parents and are not Medi-Cal eligible, to determine their contribution for the FCPP.

- Reviewed the parents' income documentation to verify their level of participation based on the FCPP Schedule.
- Reviewed copies of the notification letters to verify that the parents were notified of their assessed cost participation within 10 working days of receipt of the parents' complete income documentation.
- Reviewed vendor payments to verify that RCRC was 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 the income level of families with children between the ages of 0 through 17 years receiving qualifying services through the RC. The AFPF fee shall not be assessed or collected if the child receives only respite, day care, or camping services from the RC and a cost for participation was assessed to the parents under FCPP. To determine whether RCRC was in compliance with the W&I Code, DDS requested a list of AFPF assessments and verified the following:

- The adjusted gross family income is at or above 400 percent of the federal poverty level based upon family size.
- The child has a DD or is eligible for services under the California Early Intervention Services Act.
- The child is less than 18 years of age and lives with his or her parent.
- The child or family receives services beyond eligibility determination, needs assessment, and service coordination.
- The child does not receive services through the Medi-Cal program.
- Documentation was maintained by the RC to support reduced assessments.

**VIII. Parental Fee Program (PFP)**

The PFP was created for the purpose of prescribing financial responsibility to parents of children under the age of 18 years who are receiving 24-hour, out-of-home care services through an RC or who are residents of a state hospital or on leave from a state hospital. Parents shall be required to pay a fee depending upon their ability to pay, but not to exceed (1) the cost of caring for a child without a DD at home, as determined by the Director of DDS, or (2) the cost of services

provided, whichever is less. To determine whether RCRC was in compliance with the W&I Code, DDS requested a list of PFP assessments and verified the following:

- Identified all children with DD who are receiving the following services:
  - (a) All 24-hour, out-of-home community care received through an RC for children under the age of 18 years;
  - (b) All 24-hour care for such minor children in state hospitals. Provided, however, that no ability to pay determination shall be made for services required by state or federal law, or both, to be provided to children without charge to their parents.
- Provided DDS with a listing of new placements, terminated cases, and client deaths for those clients. Such listings shall be provided not later than the 20th day of the month following the month of such occurrence.
- Informed parents of children who will be receiving services that DDS is required to determine parents' ability to pay and to assess, bill, and collect parental fees.
- Within 10 working days after placement of a minor child, provide the parent(s) a package containing an informational letter, a Family Financial Statement (FFS), and a return envelope.
- A copy of each informational letter given or sent to parents, indicating the addressee and the date given or mailed, shall be submitted to DDS.

## **IX. Procurement**

The Request for Proposal (RFP) process was implemented to ensure RCs outline the vendor selection process when using the RFP process to address consumer service needs. As of January 1, 2011, DDS requires RCs to document their contracting practices, as well as how particular vendors are selected to provide consumer services. By implementing a procurement process, RCs will ensure that the most cost-effective service providers, amongst comparable service providers, are selected, as required by the W&I Code and the State Contract, as amended. To determine whether RCRC implemented the required RFP process, DDS performed the following procedures during the audit review:

- Reviewed the RCRC contracting process to ensure the existence of a

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

- Reviewed the RFP contracting policy to determine whether the protocols in place included applicable dollar thresholds and comply with Article II of the State Contract, as amended.
- Reviewed the RFP notification process to verify that it is open to the public and clearly communicated to all vendors. All submitted proposals are evaluated by a team of individuals to determine whether proposals are properly documented, recorded, and authorized by appropriate officials at RCRC. The process was reviewed to ensure that the vendor selection process is transparent and impartial and avoids the appearance of favoritism. Additionally, DDS verified that supporting documentation is retained for the selection process and, in instances where a vendor with a higher bid is selected, there is written documentation retained as justification for such a selection.

DDS performed the following procedures to determine compliance with Article II of the State Contract for contracts in place as of January 1, 2011.

- Selected a sample of Operational, Community Placement Plan (CPP), and negotiated POS contracts subject to competitive bidding to ensure RCRC notified the vendor community and the public of contracting opportunities available.
- Reviewed the contracts to ensure that RCRC has adequate and detailed documentation for the selection and evaluation process of vendor proposals and 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 contracts in place as of March 24, 2011:

- Reviewed to ensure RCRC 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 RCRC Board-approved Operational, Start-Up, and POS vendor contracts of \$250,000 or more, to ensure the inclusion of a provision for fair and equitable recoupment of funds for vendors that cease to provide services to

consumers. Verified that the funds provided were specifically used to establish new or additional services to consumers, the usage of funds is of direct benefit to consumers, and contracts are supported with sufficiently detailed and measurable performance expectations and results.

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

**X. Statewide/Regional Center Median Rates**

The Statewide and RC Median Rates were implemented on July 1, 2008, and amended on December 15, 2011, to ensure that RCs are not negotiating rates higher than the set median rates for services. Despite the median rate requirement, rate increases could be obtained from DDS under health and safety exemptions where RCs demonstrate the exemption is necessary for the health and safety of the consumers.

To determine whether RCRC was in compliance with the Lanterman Act, DDS performed the following procedures during the audit review:

- Reviewed sample vendor files to determine whether RCRC is using appropriately vendorized service providers and correct service codes, and that RCRC is paying authorized contract rates and complying with the median rate requirements of W&I Code, Section 4691.9.
- Reviewed vendor contracts to ensure that RCRC is reimbursing vendors using authorized contract median rates and verified that rates paid represented the lower of the statewide or RC median rate set after June 30, 2008. Additionally, DDS verified that providers vendorized before June 30, 2008, did not receive any unauthorized rate increases, except in situations where required by regulation, or health and safety exemptions were granted by DDS.
- Reviewed vendor contracts to ensure that RCRC did not negotiate rates with new service providers for services which are higher than the RC's median rate for the same service code and unit of service, or the statewide median rate for the same service code and unit of service, whichever is lower. DDS also ensured that units of service designations conformed with existing RC designations or, if none exists, ensured that units of service conformed to a designation used to calculate the statewide median rate for the same service code.



## **XI. Other Sources of Funding from DDS**

RCs may receive other sources of funding from DDS. DDS performed sample tests on identified sources of funds from DDS to ensure RCRC's accounting staff were inputting data properly, and that transactions were properly recorded and claimed. In addition, tests were performed to determine if the expenditures were reasonable and supported by documentation. The sources of funding from DDS identified in this audit are:

- CPP
- EIP Part C Funding
- First Five

## **XII. Follow-up Review on Prior DDS Audit Findings**

As an essential part of the overall DDS monitoring system, a follow-up review of the prior DDS audit findings was conducted. DDS identified prior audit findings that were reported to RCRC and reviewed supporting documentation to determine the degree of completeness of RCRC's implementation of corrective actions.

## CONCLUSIONS

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Based upon the audit procedures performed, DDS has determined that except for the items identified in the Findings and Recommendations section, RCRC was in compliance with applicable sections of the W&I Code; the HCBS Waiver for the Developmentally Disabled; CCR, Title 17; OMB Circulars A-122 & 133; and the State Contract between DDS and RCRC 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 the prior audit issues, it has been determined that RCRC has not taken appropriate corrective action to resolve three prior audit issues.

## **VIEWS OF RESPONSIBLE OFFICIALS**

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DDS issued a draft audit report on January 11, 2017. The findings in the audit report were discussed at a formal exit conference with RCRC on February 17, 2017. The views of the responsible officials are included in this audit report.

## **RESTRICTED USE**

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This audit report is solely for the information and use of DDS, DHCS, CMS, and RCRC. This restriction does not limit distribution of this audit report, which is a matter of public record.

## FINDINGS AND RECOMMENDATIONS

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### Findings that need to be addressed.

#### Finding 1: Deleted

After further analysis of the additional documentation provided by RCRC in its response to the draft audit report, it has been determined that this was not an issue and the finding has been deleted.

#### Finding 2: Purchase of Service Expenses Not Tied to Consumer Unique Client Identification Number

The review of the Operational Indicator Reports revealed that RCRC reimbursed one vendor, J. Holden, Ph.D., Vendor Number H55372, Service Code 785, for services provided to consumers under a contract UCI number. RCRC reimbursed \$71,128.27 in POS funds from July 2013 through April 2015 for services provided under an HCBS Waiver-billable service code; however, RCRC did not tie the POS expenses to individual consumers. RCRC indicated this occurred due to an error. (See Attachment A)

RCRC has taken corrective action to resolve this issue by reclassifying \$17,521.58 identified in FY 2014-15 to individual consumers' UCIs. RCRC was unable to reclassify the remaining \$53,606.69 from FY 2013-14 due to the closed FY.

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

“(d) All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program. Service records used to support service providers' billing/invoicing shall include, but not be limited to:

(1) Information identifying each regional center consumer including the Unique Consumer Identifier and consumer name.”

#### Recommendation:

RCRC must ensure all POS payments are accurately accounted for and services can be properly billed to the HCBS Waiver. In addition, RCRC should ensure all services are identified to individual consumers.

**Finding 3: Family Cost Participation Program - Overstated Share of Cost  
(Repeat)**

The review of the prior DDS audit report revealed that RCRC continued to reimburse one vendor for services which, under the requirements of the FCPP, are the responsibility of the families. RCRC reimbursed Premier Healthcare Services, Vendor Number HW0321, Service Code 862, for the total authorized number of units after the parents had been assessed a 13.5 percent share of cost. This resulted in overpayments totaling \$357.84 from July through December 2014. RCRC stated it used the units noted in the IPP instead of using the FCPP assessment which indicates RCRC's share of cost. (See Attachment B)

CCR, Title 17, Section 50255(a) states in part:

“The parents of a child who meet the definition under Section 4783(a)(1) of the Welfare and Institutions Code shall be jointly and severally responsible for the assessed amount of family cost participation.”

**Recommendation:**

RCRC must reimburse to DDS the \$357.84 that resulted from incorrectly paying for the families' share of cost. In addition, RCRC should ensure that only its share of cost is entered into UFS in order to prevent the possibility of overpayments.

**Finding 4: Deleted**

After further analysis of the additional documentation provided by RCRC in its response to the draft audit report, it has been determined that this was not an issue and the finding has been deleted.

**Finding 5: Transportation Services Provided Under Incorrect Service Code**

The review of payments for 110 sampled POS vendor files revealed that RCRC reimbursed one vendor, Riley Cab, Vendor Number HR0447 under the incorrect service code 875. Riley Cab was vendorized as a transportation company while providing taxi services, which utilize Service Code 895. RCRC indicated it was an error on its part for not vendorizing Riley Cab under Service Code 895.

CCR, Title 17, Section 54342(a)(86) states:

“Transportation – Public Transportation Authority, Dial-A-Ride, Rental Car Agency or Taxi – Service Code 895. A regional center shall classify a vendor as a public transit authority, dial-a-ride rental car agency or taxi provider if the vendor is licensed to perform such services, and if the rate charged in the use of these services to consumers is the same as that charged to the general public for the same service.”

**Recommendation:**

RCRC must ensure Riley Cab is vendored utilizing Service Code 895, for taxi services.

**Finding 6: Equipment Inventory Procedures**

**A. Inaccurate Equipment Inventory**

RCRC’s inventory process was reviewed to determine if a physical inventory was conducted, sensitive items were tagged, survey forms were filed, and the current Equipment Inventory listing was accurate. It was noted that 14 out of 66 sampled items were either missing or not recorded on the Equipment Inventory listing. RCRC stated that this was due to the prior custodian’s failure to accurately update the Equipment Inventory. (See Attachment C)

State Contract, Article IV, Section 4(a) states in part:

“Contractor shall maintain and administer, in accordance with sound business practice, a program for the utilization, care, maintenance, protection and preservation of State of California property so as to assure its full availability and usefulness for the performance of this contract. 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.”

State’s Equipment Management System Guidelines, Section III(D) 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.”

**Recommendation:**

RCRC should follow the State Contract and the State’s Equipment Management Guidelines to ensure all state-owned, nonexpendable, and sensitive equipment is properly safeguarded and recorded on the Equipment Inventory listing.

**B. Equipment Purchases Not Reported Quarterly**

The review of RCRC’s equipment acquisitions revealed that RCRC did not provide DDS with a quarterly listing of all state-owned, nonexpendable, and sensitive equipment acquired. RCRC purchased 137 items, at a cost of \$77,387.81 from September 2011 through June 2015, that was not reported to DDS. RCRC stated this occurred due to oversight. (See Attachment D)

State’s Equipment Management System Guidelines, Section III(B) states:

“RCs will also provide the Department of Developmental Services’ (DDS) Customer Support Section (CSS) with a list of all state-owned, nonexpendable and sensitive equipment received during each calendar quarter. This information is to be provided to CSS quarterly, utilizing the *Equipment Acquired under Contract* form (DS 2130), or a suitable electronic alternative.”

**Recommendation:**

RCRC must provide to DDS a listing of all state-owned, nonexpendable, and sensitive equipment quarterly as required per the State’s Equipment Management System Guidelines.

**C. Equipment Inventory Not Performed Triennially**

The review of RCRC’s inventory records revealed that RCRC did not conduct its inventory triennially. Its current physical inventory was conducted in June 2015, four years after the last physical inventory was conducted in September 2011. RCRC’s Property Custodian was not aware physical inventory needed to be completed at least once every three years.



State's Equipment Management System Guidelines, Section III(F) states in part:

"Each RC shall conduct a comprehensive physical inventory of all state-owned, nonexpendable equipment and sensitive equipment, as defined in Attachment A, at least once every three years."

**Recommendation:**

RCRC must ensure that a physical inventory is conducted triennially per State's Equipment Management Systems Guidelines.

**Finding 7: Segregation of Duties (Repeat)**

The review of the internal controls over the operational expenses process revealed a lack of separation of duties. The Senior Fiscal Clerk continues to have the ability to create vendor profiles in the UFS, delete vendor files, print vendor invoices, and issue checks. In addition, the Senior Fiscal Clerk still has full access to all AS400 files and is responsible for troubleshooting all IT-related issues. This weakness in RCRC's controls increases the risk of fraud and decreases chances of detecting errors. This issue was noted in the prior audit report. In its response, RCRC stated it would generate a monthly report that would identify all vendor additions or deletions in UFS and that the report would be reviewed monthly by the Controller to ensure all activities were authorized. However, RCRC has not implemented the new controls as stated in its response.

Good business practices require that RCRC maintain adequate internal controls over the operational functions of the organization. The ability to add and delete vendors should not be performed by an individual who has the ability to create and print checks, unless mitigating controls are in place.

**Recommendation:**

RCRC must generate a monthly report that will identify all vendor additions or deletions in UFS and ensure that these reports are reviewed by the Controller, in order to verify that all activities are authorized, as stated in its response to the prior audit report. This will strengthen RCRC controls, reduce the risk of fraud, and increase chances of detecting errors.

**Finding 8: Policies and Procedures for Vendor Audits and Reviews (Repeat)**

The review of RCRC's list of 54 vendors who were required to contract with an independent accounting firm for an audit or review of financial statements revealed that 44 vendors did not submit an audit or review. This issue was also identified in the prior DDS audit. RCRC indicated that it has implemented procedures to follow up with vendors; however, these procedures were not followed since RCRC's Controller was new to the position and was not aware of the procedures in place.

W&I Code Section 4652.5(a)(1)(A)(B) and (b) states in part:

- (a)(1) An entity receiving payments from one or more regional centers shall contract with an independent accounting firm for an audit or review of its financial statements subject to all of the following:
  - (A) When the amount received from the regional center or regional centers during the entity's fiscal year is more than or equal to two hundred fifty thousand dollars (\$250,000) but less than five hundred thousand dollars (\$500,000), the entity shall obtain an independent audit or independent review report of its financial statements for the period...
  - (B) When the amount received from the regional center or regional centers during the entity's fiscal year is equal to or more than five hundred thousand dollars (\$500,000), the entity shall obtain an independent audit of its financial statements for the period...
- (b) An entity subject to subdivision (a) shall provide copies of the independent audit or independent review report required by subdivision (a), and accompanying management letters, to the vendoring regional center within 30 days after completion of the audit or review."

RCRC's Management and Operations Manual, Subject: Vendor Audits, Logging, Review of and Follow-up, Section D(2) states:

"At the end of each quarter, a review of the Vendor Audit/Review spreadsheet in conjunction with the Vendor Contact Log will be performed to determine which vendors need follow-up in the coming quarter. If a first letter has been sent in a prior quarter, based upon the responses and actions subsequent to sending the first letter, a second letter may be sent or the matter referred to the Director of Clinical and Community Services."

**Recommendation:**

RCRC must follow its policies to ensure it is properly tracking and following up with vendors who are required to, but have not yet, submitted audit reports or reviews. Failure to receive these reports limits RCRC's ability to detect issues that may have an impact on RC services.

## EVALUATION OF RESPONSE

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As part of the audit report process, RCRC was provided with a draft audit report and was requested to provide a response to each finding. RCRC's response dated January 11, 2017, is provided as Appendix A.

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

**Finding 1: Deleted**

After further analysis of the additional documentation provided by RCRC in its response to the draft report, it has been determined that this was not an issue and the finding has been deleted.

**Finding 2: Purchase of Service Expenses Not Tied to Consumer Unique Client Identification Number**

RCRC stated that it has taken corrective action to reclassify \$17,521 from FY 2014-15, but could not reclassify \$53,606.69 from FY 2013-14, as this FY is closed. DDS will conduct a follow up review during the next scheduled audit to ensure RCRC's POS expenses are tied to consumer UCIs.

**Finding 3: Family Cost Participation Program - Overstated Share of Cost (Repeat)**

RCRC has reimbursed DDS the overpayment to the vendor totaling \$357.84. A follow-up review will be conducted during the next scheduled audit to ensure RCRC is adhering to its FCPP procedures.

**Finding 4: Deleted**

After further analysis of the additional documentation provided by RCRC in its response to the draft audit report, it has been determined that this was not an issue and the finding has been deleted.

**Finding 5: Transportation Services Provided Under Incorrect Service Code**

RCRC provided documentation with its response indicating that Riley Cab has been re-vendorized using Service Code 895, which has resolved this issue.

**Finding 6: Equipment Inventory Procedures**

**A. Inaccurate Equipment Inventory**

RCRC stated that it would complete survey forms for the items that were missing during the next physical inventory scheduled for May 2017. A follow-up review will be conducted during the next scheduled audit to ensure the survey forms have been filed and sent to DGS for approval.

**B. Equipment Purchases Not Reported Quarterly**

RCRC agrees with the finding and stated it will amend its procedures to ensure equipment purchased is reported quarterly. DDS will conduct a follow-up review to ensure all state-owned, nonexpendable, and sensitive equipment acquired is reported quarterly.

**C. Equipment Inventory Not Performed Triennially**

RCRC stated that it will conduct a physical inventory in Calendar Year 2017. DDS will conduct a follow-up review during the next scheduled audit to ensure that a triennial inventory has been conducted.

**Finding 7: Segregation of Duties (Repeat)**

RCRC stated the Senior Fiscal Clerk no longer has the responsibility to delete and create new vendor profiles; this responsibility is now assigned to the Fiscal Clerk. In addition, as a mitigating control, RCRC stated that the Controller runs a report that shows newly created and deleted vendors entered into the system. A follow-up review will be conducted during the next scheduled audit to ensure RCRC is adhering to its new procedures.

**Finding 8: Policies and Procedures for Vendor Audits and Reviews (Repeat)**

RCRC stated that it will adhere to its policies and procedures to track and follow up with vendors required to have an audit or review completed to ensure compliance with W&I Code, Section 4652.5(a)(1).

**Redwood Coast Regional Center**  
**Purchase of Service Expenses not Tied to Consumer Unique Client Identification Number**  
**Fiscal Years 2013-14 and 2014-15**

Unique Client Identification Number	Vendor Number	Vendor Name	Service Month	Service Code	Sub Code	Authorization Number	Amount Paid	Amount Reclassified	Amount Outstanding
[REDACTED]	H55372	J. Holden, Ph.D.	Jul-13	785	EXPSE	[REDACTED]	\$1,044.66	\$0.00	\$1,044.66
			Jul-13	785	HRLY	[REDACTED]	\$7,678.65	\$0.00	\$7,678.65
			Aug-13	785	EXPSE	[REDACTED]	\$220.50	\$0.00	\$220.50
			Aug-13	785	HRLY	[REDACTED]	\$3,713.15	\$0.00	\$3,713.15
			Sep-13	785	EXPSE	[REDACTED]	\$316.78	\$0.00	\$316.78
			Sep-13	785	HRLY	[REDACTED]	\$4,686.50	\$0.00	\$4,686.50
			Oct-13	785	EXPSE	[REDACTED]	\$2,502.59	\$0.00	\$2,502.59
			Oct-13	785	HRLY	[REDACTED]	\$5,587.75	\$0.00	\$5,587.75
			Nov-13	785	EXPSE	[REDACTED]	\$486.56	\$0.00	\$486.56
			Nov-13	785	HRLY	[REDACTED]	\$3,803.28	\$0.00	\$3,803.28
			Dec-13	785	HRLY	[REDACTED]	\$2,469.43	\$0.00	\$2,469.43
			Jan-14	785	HRLY	[REDACTED]	\$3,280.55	\$0.00	\$3,280.55
			Feb-14	785	HRLY	[REDACTED]	\$4,091.68	\$0.00	\$4,091.68
			Mar-14	785	EXPSE	[REDACTED]	\$361.20	\$0.00	\$361.20
			Mar-14	785	EXPSE	[REDACTED]	\$1,178.49	\$0.00	\$1,178.49
			Mar-14	785	HRLY	[REDACTED]	\$4,326.00	\$0.00	\$4,326.00
			Apr-14	785	HRLY	[REDACTED]	\$1,820.53	\$0.00	\$1,820.53
			May-14	785	HRLY	[REDACTED]	\$2,433.38	\$0.00	\$2,433.38
			Jun-14	785	HRLY	[REDACTED]	\$3,046.23	\$0.00	\$3,046.23
			Jun-14	785	HRLY	[REDACTED]	\$558.78	\$0.00	\$558.78
			Jul-14	785	HRLY	[REDACTED]	\$1,442.00	\$1,442.00	\$0.00
			Aug-14	785	EXPSE	[REDACTED]	\$672.20	\$672.20	\$0.00
			Aug-14	785	HRLY	[REDACTED]	\$2,235.10	\$2,235.10	\$0.00
			Sep-14	785	HRLY	[REDACTED]	\$2,920.05	\$2,920.05	\$0.00
			Oct-14	785	EXPSE	[REDACTED]	\$500.00	\$500.00	\$0.00
Oct-14	785	HRLY	[REDACTED]	\$1,694.35	\$1,694.35	\$0.00			
Nov-14	785	EXPSE	[REDACTED]	\$1,706.00	\$1,706.00	\$0.00			

**Redwood Coast Regional Center**  
**Purchase of Service Expenses not Tied to Consumer Unique Client Identification Number**  
**Fiscal Years 2013-14 and 2014-15**

Unique Client Identification Number	Vendor Number	Vendor Name	Service Month	Service Code	Sub Code	Authorization Number	Amount Paid	Amount Reclassified	Amount Outstanding
[REDACTED]	H55372	J. Holden, Ph.D. (Continued)	Nov-14	785	HRLY	[REDACTED]	\$2,560.27	\$2,560.27	\$0.00
			Dec-14	785	EXPSE	[REDACTED]	\$475.00	\$475.00	\$0.00
			Dec-14	785	HRLY	[REDACTED]	\$1,099.53	\$1,099.53	\$0.00
			Jan-15	785	HRLY	[REDACTED]	\$1,478.05	\$1,478.05	\$0.00
			Feb-15	785	HRLY	[REDACTED]	\$558.78	\$558.78	\$0.00
			Mar-15	785	HRLY	[REDACTED]	\$72.10	\$72.10	\$0.00
			Apr-15	785	HRLY	[REDACTED]	\$108.15	\$108.15	\$0.00
<b>Total Payments Not Tied to Consumer Unique Client Identification Number</b>							<b>\$71,128.27</b>	<b>\$17,521.58</b>	<b>\$53,606.69</b>

**Redwood Coast Regional Center  
Family Cost Participation Program - Overstated Share of Cost  
Fiscal Years 2013-14 and 2014-15**

Unique Client Identification Number	Vendor Number	Vendor Name	Service Code	Authorization Number	Payment Period	Overpayments
[REDACTED]	HD0173	Premier Healthcare Services	862	[REDACTED]	Jul-14	\$59.64
					Aug-14	\$59.64
					Sep-14	\$59.64
					Oct-14	\$59.64
					Nov-14	\$59.64
					Dec-14	\$59.64
<b>Total Overstated Share of Cost</b>						<b>\$357.84</b>



**Redwood Coast Regional Center  
Inaccurate Equipment Inventory  
Fiscal Years 2013-14 and 2014-15**

	<b>Item Description</b>	<b>State Tag Number</b>	<b>Comments</b>
1	Router	320847	Missing
2	Server	328236	Missing
3	Phone	328198	Missing
4	PC	342394	Missing
5	Monitor	320819	Missing
6	PC	328276	Missing
7	APC	324329	Missing
8	Router	324300	Missing
9	Phone	328193	Missing
10	Monitor	320817	Missing
11	Power Supply	362185	Not on Equipment Listing
12	Micro Server	362181	Not on Equipment Listing
13	TV	362454	Not on Equipment Listing
14	Server	362226	Not on Equipment Listing

**Redwood Coast Regional Center  
Equipment Purchases Not Reported Quarterly  
Fiscal Years 2013-14 and 2014-15**

	<b>Item Description</b>	<b>State Tag Number</b>	<b>Month Purchased</b>	<b>Purchase Price</b>
1	Acer 21.5 in LCD Monitor	362175	Sep-11	\$113.21
2	Acer 20 in S201HL LED Monitor	362277	Sep-11	\$147.01
3	Acer 20 in S201HL LED Monitor	362279	Sep-11	\$139.51
4	Acer 20 in S201HL LED Monitor	362324	Nov-11	\$114.94
5	Whitaker Bros. Check Writer	362265	Nov-11	\$3,915.70
6	Acer 20 in S201HL LED Monitor	362327	Nov-11	\$147.01
7	Acer 20 in S201HL LED Monitor	362329	Nov-11	\$140.05
8	Samsung 21.5 in LED Monitor	362275	Nov-11	\$150.84
9	HP LaserJet 4000n	362278	Nov-11	\$315.00
10	Acer 20 in S201HL LED Monitor	362325	Mar-12	\$140.05
11	Acer 20 in S201HL LED Monitor	362279	Jan-12	\$114.94
12	Acer 20 in S201HL LED Monitor	362311	Jan-12	\$114.94
13	Samsung 21.5 in LED Monitor	362224	Jun-12	\$140.22
14	Samsung 21.5 in LED Monitor	362232	Jun-12	\$140.23
15	HP 2311x 23 in Monitor	362313	Jun-12	\$190.33
16	AOC 20 in LCD Monitor	362280	Jun-12	\$137.28
17	AOC 22 in LED Monitor	362163	May-12	\$129.44
18	AOC 22 in LED Monitor	362328	May-12	\$129.44
19	AOC 20 in LED Monitor	362312	May-12	\$147.18
20	Cisco 48 pt 10/100/1000 ETH Switch	362365	Aug-12	\$1,434.97
21	Cisco 48 pt 10/100/1000 ETH Switch	362286	Aug-12	\$1,434.97
22	Cisco 48 pt 10/100/1000 ETH Switch	362226	Aug-12	\$1,434.97
23	Cisco 48 pt 10/100/1000 ETH Switch	362288	Aug-12	\$1,434.97
24	Cisco 48 pt 10/100/1000 ETH Switch	362287	Aug-12	\$1,434.97
25	Cisco 24 pt GIG	362235	Aug-12	\$664.82
26	Cisco 24 pt GIG	362367	Aug-12	\$664.82
27	Cisco 24 pt GIG	362322	Aug-12	\$664.82
28	Cisco 24 pt GIG	362366	Aug-12	\$664.82
29	Samsung 21.5 in LED Monitor	362234	Sep-12	\$140.23
30	HP Lasterjet 4000N	362263	Sep-12	\$370.00
31	Acer 20 in S201HL LED Monitor	362321	Dec-12	\$114.94
32	Acer 20 in S201HL LED Monitor	362165	Dec-12	\$114.94
33	ASUS S200E Laptop	353272	Dec-12	\$544.58
34	Acer 20 in S201HL LED Monitor	362317	Jan-13	\$140.55
35	Acer 20 in S201HL LED Monitor	362318	Feb-13	\$126.55
36	Samsung 21.5 in LED Monitor	362233	Feb-13	\$147.21
37	AOC 22 in LED Monitor	362338	Mar-13	\$119.07
38	AOC 22 in LED Monitor	362213	Mar-13	\$119.06
39	AOC 22 in LED Monitor	362214	Mar-13	\$128.95

**Redwood Coast Regional Center  
Equipment Purchases Not Reported Quarterly  
Fiscal Years 2013-14 and 2014-15**

	Item Description	State Tag Number	Month Purchased	Purchase Price
40	Acer TMB113 13-3217U 500GB 4GB W8	362337	Feb-13	\$547.13
41	Acer TMB113 13-3217U 500GB 4GB W8	362315	Feb-13	\$547.13
42	Acer TMB113 13-3217U 500GB 4GB W8	353277	Feb-13	\$547.13
43	Acer TMB113 13-3217U 500GB 4GB W8	353276	Feb-13	\$547.13
44	I Phone 5 16GB Cell Phone	-	Jan-13	\$199.99
45	I Phone 5 16GB Cell Phone	-	Jan-13	\$199.99
46	HP LaserJet 4000n	362308	Jun-13	\$459.00
47	HP SB 4440S I5-3210 Laptop	362148	Jul-13	\$723.10
48	Samsung Monitor	362153	Jul-13	\$140.25
49	Badge Printer	362147	Jul-13	\$2,291.58
50	HP DL380P GEN8 E5-2620 SVR/S-Buy	362281	Oct-13	\$2,202.89
51	HP DL380P GEN8 E5-2620 SVR/S-Buy	362282	Oct-13	\$2,202.89
52	HP ML310e Gen8 V2 E3 SVR	362285	Oct-13	\$1,299.00
53	NMSG Server Hardware	362189	Oct-13	\$1,188.74
54	NMSG Server Hardware	352994	Oct-13	\$1,188.74
55	AOC Monitor	362152	Nov-13	\$119.06
56	AOC Monitor	362151	Nov-13	\$162.18
57	HP SB450 G1	362156	Feb-14	\$617.79
58	HP SB450 G1	362154	Feb-14	\$617.79
59	HP proLiant DL360E	362284	Feb-14	\$1,330.40
60	Acer Intel I3	362155	Mar-14	\$573.09
61	Acer Intel I3	362157	Mar-14	\$573.09
62	HP SB450 G1	362159	Jun-14	\$628.87
63	Acer TMB113 13-3217U 500GB 4GB W8	362172	Jul-14	\$503.02
64	Acer TMB113 13-3217U 500GB 4GB W8	362173	Jul-14	\$503.02
65	Acer TMB113 13-3217U 500GB 4GB W8	362174	Jul-14	\$503.02
66	Acer Aspire S7	362261	Aug-14	\$1,336.89
67	HP W2072A 20 in Monitor	362307	Aug-14	\$97.26
68	AOC 24 in Monitor	362333	Aug-14	\$194.83
69	AOC 24 in Monitor	362332	Aug-14	\$194.84
70	Epson XP 200 All in One Printer	362161	Jul-14	\$116.44
71	Nikon Coolpix S3600	362167	Jul-14	\$106.48
72	Nikon Coolpix S3600	362167	Jul-14	\$106.48
73	Nikon Coolpix S3600	362169	Jul-14	\$106.49
74	Samsung 32" LED HDTV	362319	Nov-14	\$497.94
75	Ultra Samill Form Factor Computer	362320	Nov-14	\$1,040.13
76	HP DL360P GEN8 E5-2609 SVR/S-Buy	362184	Oct-14	\$1,888.96
77	HP DL360P GEN8 E5-2609 SVR/S-Buy	362181	Oct-14	\$1,888.96

**Redwood Coast Regional Center  
Equipment Purchases Not Reported Quarterly  
Fiscal Years 2013-14 and 2014-15**

	<b>Item Description</b>	<b>State Tag Number</b>	<b>Month Purchased</b>	<b>Purchase Price</b>
78	HP DL360P GEN8 E5-2609 SVR/S-Buy	362179	Oct-14	\$1,888.96
79	HP DL360P GEN8 E5-2609 SVR/S-Buy	362182	Oct-14	\$1,888.96
80	HP DL360P GEN8 E5-2609 SVR/S-Buy	362180	Oct-14	\$958.02
81	Samsung Monitor	362260	Oct-14	\$172.99
82	HP LaserJet 4000n	362241	Nov-14	\$317.00
83	HP DL380P GEN8 E5-2620 SVR/S-Buy	362183	Oct-14	\$6,121.54
84	HP SB3500 G2030 500GB 2GB	362276	Jan-15	\$398.07
85	HP SB3500 G2030 500GB 2GB	362187	Jan-15	\$397.61
86	HP SB3500 G2030 500GB 2GB	362186	Jan-15	\$397.61
87	Acer Travelmate	362193	Feb-15	\$484.96
88	Acer Travelmate	362194	Feb-15	\$484.96
89	HP Probook 450 G@ I3	362192	Feb-15	\$636.51
90	HP Probook 450 G@ I3	362191	Feb-15	\$636.51
91	Samsung 21.5 in LED Monitor	362234	Feb-15	\$119.00
92	Samsung 21.5 in LED Monitor	362232	Feb-15	\$119.00
93	Samsung 21.5 in LED Monitor	362239	Feb-15	\$119.00
94	Samsung 21.5 in LED Monitor	362233	Feb-15	\$119.00
95	Samsung 21.5 in LED Monitor	362238	Feb-15	\$119.00
96	AOC Non Touch 24 in LCD Monitor	362252	Feb-15	\$170.76
97	AOC Non Touch 24 in LCD Monitor	362255	Feb-15	\$170.76
98	AOC Non Touch 24 in LCD Monitor	362293	Feb-15	\$170.76
99	AOC Non Touch 24 in LCD Monitor	362266	Feb-15	\$170.76
100	AOC Non Touch 24 in LCD Monitor	362220	Feb-15	\$170.76
101	AOC Non Touch 24 in LCD Monitor	362294	Feb-15	\$170.76
102	AOC Non Touch 24 in LCD Monitor	362251	Feb-15	\$170.76
103	AOC Non Touch 24 in LCD Monitor	362336	Feb-15	\$170.76
104	AOC Non Touch 24 in LCD Monitor	362269	Feb-15	\$170.76
105	AOC Non Touch 24 in LCD Monitor	362228	Feb-15	\$170.76
106	AOC Non Touch 24 in LCD Monitor	362229	Feb-15	\$170.76
107	AOC Non Touch 24 in LCD Monitor	362207	Feb-15	\$170.76
108	AOC Non Touch 24 in LCD Monitor	362272	Feb-15	\$170.76
109	AOC Non Touch 24 in LCD Monitor	362254	Feb-15	\$170.76
110	AOC Non Touch 24 in LCD Monitor	362335	Feb-15	\$170.76
111	AOC Non Touch 24 in LCD Monitor	362273	Feb-15	\$170.76
112	HP ProBook 450 G2 I3	362196	Apr-15	\$639.45
113	NUC UNIT	362260	Jun-15	\$487.13
114	NUC UNIT	362661	Jun-15	\$487.13
115	NUC UNIT	362295	Jun-15	\$487.13

**Redwood Coast Regional Center  
Equipment Purchases Not Reported Quarterly  
Fiscal Years 2013-14 and 2014-15**

	<b>Item Description</b>	<b>State Tag Number</b>	<b>Month Purchased</b>	<b>Purchase Price</b>
116	NUC UNIT	362250	Jun-15	\$487.13
117	NUC UNIT	362218	Jun-15	\$487.13
118	NUC UNIT	362262	Jun-15	\$487.13
119	NUC UNIT	362221	Jun-15	\$487.13
120	NUC UNIT	362209	Jun-15	\$487.13
121	NUC UNIT	362212	Jun-15	\$487.13
122	NUC UNIT	362215	Jun-15	\$487.13
123	NUC UNIT	362256	Jun-15	\$487.13
124	NUC UNIT	362253	Jun-15	\$487.13
125	NUC UNIT	362206	Jun-15	\$487.13
126	NUC UNIT	362227	Jun-15	\$487.13
127	NUC UNIT	362334	Jun-15	\$487.13
128	NUC UNIT	362302	Jun-15	\$487.13
129	NUC UNIT	362303	Jun-15	\$487.13
130	NUC UNIT	362304	Jun-15	\$487.13
131	NUC UNIT	362305	Jun-15	\$487.13
132	NUC UNIT	362306	Jun-15	\$487.13
133	NUC UNIT	362297	Jun-15	\$487.13
134	NUC UNIT	362298	Jun-15	\$487.13
135	NUC UNIT	362299	Jun-15	\$487.13
136	NUC UNIT	362300	Jun-15	\$487.13
137	NUC UNIT	362301	Jun-15	\$487.13
<b>Total Equipment Purchases Not Reported Quarterly</b>				<b>\$77,387.81</b>

**APPENDIX A**

**REDWOOD COAST REGIONAL CENTER**

**RESPONSE  
TO AUDIT FINDINGS**

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



# Redwood Coast Regional Center

Respecting Choice in the Redwood Community

February 15, 2017

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



Dear Mr. Yan:

Thank you for your correspondence of January 11, 2017 in which you provided a draft copy of the audit report of your findings from the audit your staff performed addressing the operations of the Redwood Coast Regional Center for fiscal years 2013-2014 and 2014-2015. As provided in your correspondence, I would like to take this opportunity to formally respond in writing to the draft audit report.

## **Finding 1: Negotiated Rate Above the Statewide Median Rate**

The review of 110 sampled POS vendor contracts revealed one vendor, Lake House, Vendor Number HR0419, Service Code 113, was contracted above the Statewide Median Rate. Lake House was reimbursed at a rate of \$13,965 per month when the Statewide Median Rate was \$9,000 per month. This resulted in overpayments totaling \$668,259.65 from November 2010, through June 2015. RCRC indicated it used this rate after receiving approval from DDS to exempt Lake House-Turning Point from the Statewide Median Rate requirement, since it was part of a Start-Up project that was approved in RCRC's 2007-08 CPP Plan. However, RCRC was not able to provide adequate support for the approval. (See Attachment A)

### **Recommendation:**

RCRC must reimburse to DDS the \$668,259.65 pursuant to W&I Code, Section 4691.9(b). In addition, RCRC must renegotiate its contract with Lake House to ensure compliance with the Statewide Median Rate.

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Satellite offices:

- 1116 Airport Park Blvd., Ukiah, CA 95482 707-462-3832 \* □ 270 Chestnut St., Ste A, Ft Bragg, CA 95437 707-964-6387
- 1301 A Northrest Dr., Crescent City, CA 95531 707-464-7488 \* □ 180 Third Street., Lakeport, CA 95453 707-262-0470

**Response to Finding 1:**

The process, and hence the rates, used to contract with Turning Point-Lake House first came into being when RCRC submitted its proposed CPP Plan for the 2007-08 FY, more than a year and a half before median rates were implemented (**Exhibit 1**).

In the RCRC proposed CPP Plan for the 2007-08 FY, the type of residence proposed was listed as a "Level 4i" home, which was a typo that occurred during the completion of the DDS provided forms. The type of residence listing error was subsequently corrected with DDS, however, the rate stated as anticipated for the Per Bed/Per Month rates is indicated as \$14,500, which was the correct projection for this Deflection project, for a unique residence for children and adolescents with intellectual/developmental disabilities and mental illness, and which was a median rate for SC 113 homes in the RCRC area and other locations in the state by the 2007-08 fiscal year.

DDS *approved* RCRC's 2007-08 CPP plan (and hence rates) on 7/6/07, a year prior to the implementation of median rates (**Exhibit 2**). The letter of 7/6/07, states in the opening paragraph that "The purpose of this letter is to confirm your approved funding allocation, describe the process for plan revisions, and monitoring, and to inform you of DDS's new housing policy including timelines." On page two of the same letter, under the Deflection section, it states: "DDS has also approved the requested deflection POS for placement into living arrangements funded with deflection start-up POS. DDS's deflection policy allows for funding of start-up, operations and deflection placement and continuation POS for living arrangements. The regional center will be reimbursed only for the cost of placement of individuals in CPP deflection living arrangements during the facilities initial fiscal year of service provision and will be allocated continuation POS for the second fiscal year of operation." This language in the DDS letter of July 6, 2007 is seen as unequivocal as approval of the rates listed in the RCRC CPP proposal for FY 2007-08, and which were required to be known before start-up funds could be committed through start-up development contracts with selected regional center vendors, following the DDS CPP process guidelines and policies.

RCRC utilized the start-up rates established under the CPP project guidelines (**Exhibits 2 and 3**) to craft the Request For Proposals (**Exhibit 4**) that was used to recruit a small, family-centered home for up to three children and adolescents with intellectual/developmental disabilities and mental illness under the approved CPP start-up projects. Turning Point-Lake House responded, was vetted and was



vendored at these rates established per contract effective 6/1/08 (Exhibit 5). After more than a year and a half of process leading up to this point, a contract (**Exhibit 6**) was signed with Turning Point, authorizing development of the residential services for up to three children utilizing the rates per the terms of their contract and the previously approved CCP Plan.

While median rates became effective on 7/1/08, DDS did not notify RCRC of its median rates until 9/17/08, two and a half months after the contract with Turning Point started (**Exhibit 7**).

After the implementation of median rates, and in an effort to assure clarity for CPP projects begun and contractually committed prior to July 1, 2008, RCRC staff verbally spoke with Greg Saul (of DDS) during October, 2008; and followed up with Mr. Saul via email on November 26<sup>th</sup>, 2008 to verify that RCRC could move forward with rate agreements established for the Community Placement Plan services and vendors who received start-up funds under WIC 4781.5. (**Exhibit 8**) Per the time limit requested by RCRC staff in the follow-up email of 11/26/08, there was no response back to RCRC via either email or letter.

In summary, RCRC rigorously followed all DDS procedures and policies for the use of CCP funds, including start-up and continuation funding, through its approved CPP plan for the 2007-08 FY as well as the following two fiscal years included in each overall CPP funding cycle. Additionally, as indicated above and in Exhibit 8, when RCRC was first informed of the just-enacted median rate schedule on 9/17/08, it contacted DDS by phone within a month to seek assurance that the CPP plans already in place were not affected by the new rate schedule, and was assured that they were not. Accordingly, Redwood Coast Regional Center's response to Finding 1 is that no overpayments were made as stated in Finding 1, and that it has herein attached relevant documentation to substantiate this statement.

**Finding 2: Purchase of Service Expenses Not Tied to Consumer Unique Client Identification Number**

The review of the Operational Indicator Reports revealed that RCRC reimbursed one vendor, J. Holden, Ph.D., Vendor Number H55372; Service Code 785, for services provided to consumers under a contract UCI number. RCRC reimbursed \$71,128.27 in POS funds from July 2013, through April 2015, for services provided under an HCBS Waiver-billable Service Code; however, RCRC did not tie the POS expenses to individual consumers. RCRC indicated this occurred due to an error. (Attachment B)

**Recommendation:**

RCRC must reclassify the \$71,128.27 in POS expenditures to ensure that services are identified to individual consumers. This will ensure all POS payments are accurately deemed to be able to bill for services under the HCBS Waiver. In addition, RCRC should ensure that all services are identified to individual consumers.

**Response to Finding 2:**

Of the \$71,128 noted as not being tied to individual clients, \$17,521.58 is from FY 2014-15 and \$53,606.69 is from FY 2013-14. Based on the timing of when RCRC was informed of the specific clients involved, only those charges for FY 2014-15 could be reclassified as fiscal year 2013-14 had "closed" prohibiting reclassification of these expenses.

**Finding 3: Family Cost Participation Program-Overstated Share of Cost**

The Review of the prior DDS audit report revealed that RCRC continued to pay for services which are the responsibility of the families under the requirements of the FCPP. RCRC reimbursed Premier Healthcare Services, Vendor Number HD0173, Service Code 862, for the total authorized units after the parents had been assessed a 13.5 percent share of cost. This resulted in overpayments totaling \$357.84 from July through December 2014. RCRC stated it used the units noted on the IPP instead of using the FCPP assessment which indicates RCRC's share of cost. (See Attachment C)

**Recommendation:**

RCRC must reimburse to DDS \$357.84 that resulted from incorrectly paying for the family's share of cost. In addition, RCRC should ensure that only its share of cost is entered into UFS in order to prevent the possibility of overpayments.

**Response to Finding 3:**

RCRC agrees with the finding and has reimbursed the funds to DDS with check #324290 of 2/6/17. See **Exhibit 9**.

**Finding 4: Transportation Broker Providing Transportation Services**

The sampled review of 110 POS vendor files revealed RCRC utilized a transportation broker vendored by Golden Gate Regional Center (Note: This should be North Bay Regional Center) to provide transportation services. The review indicated that RCRC reimbursed the vendor, R&D Transportation, Vendor Number H88929, Service Code 883, for transportation services totaling \$5,720.33 from April 2014 to July 2015, for one consumer. Vendors who are classified as transportation brokers are not permitted to provide transportation services.

**Recommendation:**

RCRC must reimburse to DDS \$5,720.33 for improperly utilizing a transportation broker to perform the duties of a transportation provider. In addition, RCRC must perform its due diligence when utilizing out of area vendors to ensure that vendors are vendored for the correct service that is performed.

**Response to Finding 4:**

The out-of-area transportation services of Becoming Independent were needed by an RCRC client. Because this service provider is vendored by North Bay Regional Center (NBRC), services were accessed via a courtesy vendorization.

NBRC reimburses Becoming Independent for their total units of service every month based on a group/hourly rate for transportation. This means that Becoming Independent is reimbursed for transportation based on the number of service hours instead of based on the number of people served or on a per trip rate.

NBRC uses R&D Transportation as a transportation broker. R&D is responsible for scheduling clients' transportation according to the most cost-effective vendor and for billing reconciliation for transportation services (specific to service codes 875 and 880) every month. In this capacity, R&D must identify the average cost per client per day for the transportation vendor identified based on scheduled service units. That is the amount that is seen on their invoices.

As NBRC's transportation coordinator, R&D will invoice the funding Regional Center (in this case RCRC) on behalf of NBRC. After the payment is received, the full amount is then reimbursed from R&D to NBRC for the individual's transportation costs that were provided by Becoming Independent (and was technically covered by

NBRC). This process is itemized in Section III of NBRC's Out Of Area Procedure, which is attached as **Exhibit 10**.

Because RCRC can not change the terms of the service providers' vendorization (including payment), and per the terms of NBRC's Out Of Area Procedure, it is felt that RCRC reimbursed R&D Transportation correctly by following their procedure.

**Finding 5: Transportation Services Provided Under Incorrect Service Code**

The review of payments for 110 sampled POS vendors revealed that RCRC reimbursed one vendor, Riley Cab, Vendor Number HR0447, Service Code 875, as a transportation company while providing taxi services. RCRC indicated it was an error on its part for not vendorizing Riley Cab under Service Code 895.

**Recommendation:**

RCRC must ensure Riley Cab is vendored utilizing Service Code 895, for taxi services.

**Response to Finding 5:**

Redwood Coast Regional Center has re-vendor Riley Cab under the Service Code 895. Please see **Exhibit 11**, the attached SANDIS screen shot for Riley Cab's vendorization.

**Finding 6: Equipment Inventory**

**A. Inaccurate Equipment Inventory**

RCRC's inventory process was reviewed to determine if a physical inventory was conducted, sensitive items were tagged, survey forms were filed, and if the current Equipment Inventory listing is accurate. It was noted that 14 out of 66 sampled items were either missing or not recorded on the Equipment Inventory listing. RCRC stated that this was due to the prior custodian's failure to accurately update the Equipment Inventory. (See Attachment D)

**Recommendation:**

RCRC should follow the State Contract and the State's Equipment Management Guidelines to ensure all state-owned, nonexpendable equipment and sensitive equipment are properly safeguarded and recorded on the listing.

**Response to Finding 6A:**

Items noted as missing or not on the equipment listing will have appropriate survey out forms filed and approved with DGS or appropriately added to the equipment listing for the next physical inventory scheduled in May 2017.

**B. Equipment Purchases Not Reported Quarterly**

The Review of RCRC's equipment acquisitions revealed that RCRC did not provide DDS with a quarterly listing of all state-owned, nonexpendable and sensitive equipment acquired. RCRC purchased 137 items, at a cost of \$77,387.81 from September 2011 through June 2015 that was not reported to DDS. RCRC stated that this occurred due to oversight. (See Attachment E)

**Recommendation:**

RCRC must provide to DDS, a listing of all state-owned, nonexpendable and sensitive equipment quarterly as required per the State's Equipment Management System Guidelines.

**Response to Finding 6B:**

The Regional Center agrees with the finding regarding the need to submit quarterly reporting. Going forward, the Controller/Fiscal Monitor will:

- Continue to review OPS invoices prior to issuance of checks.
- Continue to select for review the vendor invoices most frequently associated with sensitive and nonexpendable equipment purchases.

- Request the appropriate staff (Office Manager, System Administrator, etc.) to provide the serial number and other needed information if it is not included on the invoice.
- Make trips to each of the five RCRC offices at least quarterly to verify such information and to obtain missing information, pick up e-waste, provide state tags and photograph equipment, in an effort to better match purchase detail with the serial numbers of sensitive and nonexpendable equipment.

**C. Equipment Inventory Not Performed Triennially**

The review of RCRC's inventory records revealed that RCRC did not conduct its inventory triennially. Its current physical inventory was conducted in June 2015, four years after the last physical inventory was conducted in September 2011. RCRC's Property Custodian was not aware physical inventory needed to be completed at least once every three years.

**Recommendation:**

RCRC must ensure physical inventory is conducted triennially per State's Equipment Systems Guidelines.

**Response to Finding 6C:**

RCRC's Property Custodian will ensure a physical inventory is conducted in calendar year 2017.

**Finding 7: Segregation of Duties**

The review of the internal controls over the operational expenses process revealed a lack of separation of duties. The Senior Fiscal Clerk continues to have the ability to create vendor profiles in UFS, delete vendor's files, print vendor invoices and issue checks. In addition, the Senior Fiscal Clerk still has full access to all AS400 files and is responsible for troubleshooting all IT-related issues. This weakness in RCRC's controls increases the risk of fraud and decreases chances of detecting errors. This issue was noted in the prior audit report. In its response, RCRC stated it would generate a monthly report that would identify

all vendor additions or deletions in UFS and it would be reviewed monthly by the Controller, to ensure all activities were authorized. However, RCRC has not implemented the new controls as stated in its response.

Good business practice requires that RCRC maintain adequate internal controls over the operational functions of the organization. The ability to add and delete vendors should not be performed by an individual who has the ability to create and print checks, unless mitigating controls are in place.

**Recommendation:**

RCRC must generate a monthly report that will identify all vendor additions or deletions in UFS and ensure these reports are reviewed by the Controller monthly to ensure all activities were authorized, as stated in its response to the prior audit report. This will strengthen RCRC controls, reduce the risk of fraud and increase chances of detecting errors.

**Response to Finding 7:**

Attached as **Exhibit 12** is a copy of the monthly report that is run to identify new and deleted vendors. The report also identifies which staff member made the addition or deletion. Starting with the month of December, 2015 these reports have been run and reviewed by the Controller. No deleted vendors have been noted and all new vendors that have been added have been added by a Fiscal Clerk and not the Senior Fiscal Clerk.

**Finding 8: Policies and Procedures for Vendor Audits and Reviews**

The review of RCRC's list of 54 vendors who were required to contract with an independent accounting firm for an audit or review of its financial statements revealed 44 vendors did not submit an audit or review. This issue was also identified in the prior DDS audit. RCRC indicated that it has implemented procedures to follow-up with vendors; however, these procedures were not followed.

**Recommendation:**

RCRC must follow its policies to ensure it is properly tracking and following-up with vendors who are required to, but have not yet, submitted audit reports or reviews.

Edward Yan  
February 15, 2017  
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Failure to receive these reports limits RCRC's ability to detect issues that may have an impact on RC services.

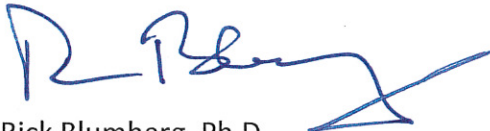
**Response to Finding 8:**

RCRC agrees with the finding and will adhere to its stated policies and procedures regarding tracking and follow-up with vendors required to have either an audit or review.

Should you have any questions or require additional information regarding our above responses, please do not hesitate to contact me.

We greatly appreciate the time and effort that you, your staff and the Department expend to help ensure our Regional Center is in compliance with applicable law, regulation and our service contract. We also greatly appreciate the confidence that you place in our agency, as noted by your comments in the audit that except for the findings noted above, RCRC was in compliance with the applicable sections of CCR, title 17, the HCBS Waiver and the State Contract with DDS for the audit period July 1, 2011 through June 30, 2013.

Sincerely,

A handwritten signature in blue ink, appearing to read "R Blumberg", with a long horizontal flourish extending to the right.

Rick Blumberg, Ph.D.  
Executive Director

attachments

cc: Patrick Okey, RCRC  
Jean Johnson, DDS  
Brian Winfield, DDS  
Ellen Nzima, DDS  
Oscar Perez, DDS



## EXHIBITS

- Finding #1      Exhibit 1 – RCRC 2007-08 CPP Plan  
Exhibit 2 – DDS Approval Letter re: RCRC 2007-08 CPP Plan  
Exhibit 3 – CPP Housing Guidelines  
Exhibit 4 – RCRC’s RFP for Housing Services  
Exhibit 5 – Turning Point-Lake House Vendorization  
Exhibit 6 – Contract: RCRC & Turning Point-Lake House  
Exhibit 7 - DDS Memo Informing RC’s of Their Median Rates  
Exhibit 8 - Letter from RCRC to DDS Confirming Use of Rates
- Finding #3      Exhibit 9 – Check #324290 of 2/6/17
- Finding #4      Exhibit 10 – NBRC Out-Of-Area Process
- Finding #5      Exhibit 11 – SANDIS Screen Shot; Riley Cab Vendorization
- Finding #7      Exhibit 12 – Vendor Add/Delete Report