



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

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**Department of Developmental Services**

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## EXECUTIVE SUMMARY

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The fiscal compliance audit of Redwood Coast Regional Center (RCRC) revealed that the RCRC 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, RCRC maintains accounting records and supporting documentation for transactions in an organized manner. 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.

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

**Finding 1: Self Determination - Unused Funds Carried Over to the Next Fiscal Year**

The review of the Self Determination program revealed that RCRC did not fully offset the advance funds with expenses submitted by the vendor or request the vendor to return the advance to RCRC. This resulted in a total of \$350,661.06 of unused advance being carried over to the following fiscal year.

**Finding 2: Lack of Written Policies and Procedures**

The review of the bank reconciliations, consultant contracts, operations expenses, contract payments, Self Determination Program, state claims, Part C, Petty Cash, and rental/leases areas revealed that RCRC does not have any formal written policies and procedures in place.

**Finding 3: Residential Services – Partial Month Prorating for Social Security Benefits**

RCRC is not using the partial-month proration factor of 30.44, to establish a per day rate for its Social Security Income (SSI) portion of the board and care rate to calculate for non temporary partial month stays in residential programs. This is a violation of Title 17, Sections 56917 (b), (h), and (i).

**Finding 4: Petty Cash Monthly Reconciliation (Repeat)**

The review of the petty cash receipts revealed that the RCRC offices located at Ukiah, Lakeport, Fort Bragg, Eureka, and Crescent City are not completing monthly reconciliations. Reconciliations are only performed when a request is submitted for replenishment. This issue was identified in the prior audit.

**Finding 5: Missing “Hold Harmless” Clause**

A review of RCRC’s six lease agreements revealed three did not include the “Hold Harmless” clause as required by Article VII, Section 1 of DDS’s contract with RCRC.

**Finding 6: Improper Accounting of Security Deposits**

The review of RCRC’s lease agreements revealed security deposits totaling \$24,435 were not properly reflected in the General Ledger’s prepaid lease account, but were recorded as an expense in the facility rent account.

**Finding 7: Equipment Procedures**

**A. Missing Equipment**

A sample of 35 items from the equipment inventory list provided by RCRC revealed that six items could not be located. This is not in compliance with Article IV, Section 4 (a) of the contract with DDS.

**B. Lack of Reporting on New Equipment**

RCRC has not been completing the required DS 2130 form titled “Equipment Acquired Under Contract” for newly acquired equipment. This is not in compliance with the State’s Equipment Management Systems Guidelines, Section III (B).

**C. Purchasing Procedures not Followed**

The review of the internal controls revealed that RCRC’s policy on purchasing of equipment is not being followed. It was identified that some purchases did not have the required purchase request form and/or the required authorizations, as per RCRC’s equipment purchase procedures. This is not in compliance with RCRC’s Management and Operations Manual, Procedures for Equipment, Books and Subscriptions - Policy AD-09, Sections 1, 2 and 5.

## BACKGROUND

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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 support they need to lead more independent, productive, and normal lives. To ensure that these services and support systems 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 and to the 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's 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. 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 Redwood Coast Developmental Services Corporation entered into two contracts, HD999013, effective July 1, 1999, through June 30, 2004, and HD049014, effective July 1, 2004, through June 30, 2009. These contracts specify that Redwood Coast Developmental Services Corporation will operate an agency known as the Redwood Coast Regional Center (RCRC) to provide services to persons with DD and their families in the 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 16, 2006, through November 17, 2006, 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 RCRC'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
- RCRC's contract with DDS

## **AUDIT PERIOD**

The audit period was July 1, 2003, through June 30, 2006, 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 regional centers' fiscal, administrative, and program operations. The objectives of this audit are:

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

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

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

We reviewed the annual audit reports that were conducted by an independent accounting firm for the following Fiscal Years (FYs):

- 2003-04 issued October 1, 2004
- 2004-05 issued September 29, 2005

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

In addition, we reviewed an associated management letter that was issued by the independent accounting firm for FY 2003-04. This review was performed to determine the impact, if any, upon our audit and as necessary, develop appropriate audit procedures.



The audit procedures performed included the following:

## **I. Purchase of Service**

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

- We tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.
- We selected a sample of invoices for service providers with daily and hourly rates, standard monthly rates, and mileage rates to determine if supporting attendance documentation was maintained by RCRC. 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 analyzed all of RCRC bank accounts to determine if DDS had signatory authority as required by the contract with DDS.
- We selected a sample of bank reconciliations for Operations bank accounts to determine if the reconciliations are properly completed on a monthly basis.

## **II. Regional Center Operations**

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

- A sample of the personnel files, time sheets, payroll ledgers, and other support documents was selected to determine if there were any overpayments or errors in the payroll or the payroll deductions.
- A sample of operating expenses, including, but not limited to, purchases of office supplies, consultant contracts, insurance expenses, and lease agreements was tested to determine compliance to Title 17 and the contract with DDS.
- A sample of equipment was selected and physically inspected to determine compliance with requirements of the contract with DDS.

- We reviewed RCRC's policies and procedures for compliance to the Title 17 Conflict of Interest requirements, and we selected a sample of personnel files to determine if the policies and procedures were followed.

### **III. Targeted Case Management and Regional Center Rate Study**

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

- Reviewed applicable TCM records and RCRC's Rate Study. We examined the month of May 2004, and traced the reported information to source documents.
- Reviewed RCRC's Case Management Time Study. We selected a sample of payroll time sheets for this review and compared to the DS 1916 forms to ensure that the DS 1916 forms were properly completed and supported.

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

Under the W&I Code, Section 4640.6, regional centers are required to provide service coordinator caseload data to DDS annually for each fiscal year. Prior to January 1, 2004, the survey required regional centers to have a 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, for the period commencing January 1, 2004, to June 30, 2007, inclusive, the following average 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 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 RCRC's accounting records.

**VI. Other Sources of Funding**

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

- Wellness Program
- Family Resource Center Program.
- Self Determination Program
- Start Up Programs.

**VII. Follow-up Review on Prior DDS's Audit Findings**

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

## CONCLUSIONS

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

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 RCRC has taken appropriate corrective actions to resolve all prior audit issues, except for finding four, which is contained in the findings and recommendations section.

## **VIEWS OF RESPONSIBLE OFFICIALS**

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We issued a draft report on February 19, 2008. The findings in the report were discussed at an exit conference with RCRC on March 3, 2008. At the exit conference, we stated that the final report will incorporate the views of responsible officials.

## **RESTRICTED USE**

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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 Redwood Coast 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

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

**Finding 1: Self Determination - Unused Funds Carried Over to the Next Fiscal Year**

Forty-four consumer contracts under the Self Determination program were reviewed to determine if funds allocated to each fiscal year for the purchase of services were spent as defined in the consumer's Individual Program Plan (IPP). The review revealed RCRC advanced 25 percent of the contract amount to four vendors, Trust Management Services (TMS), vendor number PK0667, Productive People Employment Service (PPES), vendor number HR0282, Finance For People (FFP), vendor number PR0072, and Ulla Brunnberg-Rand (Ulla), vendor number PR0171, who oversaw the purchasing of the services for the consumers. RCRC reimbursed TMS, PPES, FFP, and Ulla for services purchased on behalf of the consumer and has the responsibility to ensure that the advances to vendors are offset in full to the billings from TMS, PPES, FFP, and Ulla by the end of each fiscal year. However, it was found that at the end of each fiscal year, RCRC did not fully offset the 25 percent advance for 43 of the 44 consumers with expenses submitted by TMS, PPES, FFP, or Ulla, nor did RCRC request TMS, PPES, FFP, or Ulla to return the advance as required under the contract. This resulted in a total of \$350,661.06 of unused advance being carried over to the following fiscal year. (See Attachment A.)

RCRC's contract with Trust Management Services, Productive People Employment Services, Finance For People, and Ulla Brunnberg-Rand, Section I, Number 7 states:

“Any advance paid to CONTRACTOR under this agreement will be returned to RCRC at the end of the period the consumer is involved in the Self Determination Project Reimbursement of RCRC will be made by withholding from CONTRACTOR'S final billings, amounts sufficient to repay the advance in full. If final billings are insufficient to repay the advance in full, CONTRACTOR will refund any remaining advance to the RCRC within thirty (30) days of the CONTRACTOR'S final billing.”

Also the State Contract, Article I, (8), and Article III, (4) states in part:

(8) “Fiscal year funds identified above may not be used for any other fiscal year than the fiscal year specified unless authorized by the State.

(4) Any funds which have not been encumbered for services provided or purchased during the term of the contract, shall revert to the State.”

**Recommendation:**

RCRC should ensure that any unused advance funds paid to TMS, PPES, FFP, and Ulla are properly offset with expenses for the period under the contract agreement or returned to RCRC. The \$350,661.06 advance identified for the 43 consumer contracts under the Self Determination program that were carried over to the next fiscal year should be returned to DDS.

**Finding 2: Lack of Written Policies and Procedures**

The review of the bank reconciliations, consultant contracts, operations expenses, contract payments, Self Determination Program, state claims, Part C, Petty Cash, and rental/leases areas revealed that RCRC does not have any formal written policies and procedures in place.

For good internal controls and accounting practices, written policies and procedures should be in place to ensure staff is aware of the tasks to be performed for the areas assigned.

**Recommendation:**

RCRC should develop and implement written policies and procedures in the above mentioned areas. This will ensure staff is aware of the tasks to be performed and to prevent any errors from occurring.

**Finding 3: Residential Services – Partial Month Prorating for Social Security Benefits**

The review of the Residential Services vendor invoices revealed that RCRC did not use the partial-month proration factor of 30.44, to establish a per day rate for its Social Security Income (SSI) portion of the board and care rate for non-temporary partial month stays. Instead, RCRC incorrectly used a factor of 30 days per month.

Title 17, Sections 56917 (b), (h), and (i) states in part:

(b) “The source of funds for the monthly payment of residential service providers shall consist of the Regional Center Supplemental and, where appropriate, any Supplemental Security Income (SSI) and State Supplemental Program (SSP) funds for which the consumer is eligible minus the consumer’s Personal and Incidental Allowance...



- (h) The established rate shall be paid for full month when the consumer is temporary absent from the facility 14 days or less per month.
- (i) The established rate shall be prorated for a partial month of service in all other cases by dividing the established rate by 30.44, then multiplying by the number of days the consumer resided in the facility.”

**Recommendation:**

RCRC should implement policies and procedures to ensure it is in compliance with Title 17, Section 56917 (i) by prorating the Social Security portion of the board and care rate for partial month stays.

**Finding 4: Petty Cash Monthly Reconciliation (Repeat)**

The review of the petty cash receipts revealed, that the RCRC offices located at Ukiah, Lakeport, Fort Bragg, Eureka, and Crescent City are not completing monthly reconciliations. Reconciliations are only performed when a request is submitted for replenishment. This condition was reported in the prior DDS audit. Therefore, RCRC is not following its response.

RCRC’s prior audit response states:

Shortly after the DDS site work, existing policy which requires monthly reconciliation was more carefully enforces. A reimbursement log was started for each petty cash fund and is maintained.

For good internal control and accounting practices, RCRC should implement policies and procedures requiring reconciliation of the petty cash account monthly to ensure clerical accuracy and that expenses are recorded in the month in which it was incurred.

**Recommendation:**

RCRC should implement policies and procedures to ensure monthly reconciliations of the petty cash account. The monthly reconciliation would help in safeguarding against any intentional or unintentional loss of cash and ensure that any errors identified are resolved promptly.

**Finding 5: Missing “Hold Harmless” Clause**

A review of RCRC’s lease agreements for real property revealed that the leases for the Fort Bragg and Lakeport offices and parking spaces in the City of Eureka did not include the “Hold Harmless” clause as required by the contract with DDS.

State Contract Article VII, (1) states:

“The contract shall include in all new leases or rental agreements for real property a clause that holds the State harmless for such leases.”

This clause is needed to ensure the State is held harmless for any claims and/or losses that may be associated with these leases.

**Recommendation:**

RCRC should amend the lease agreements to include the “Hold Harmless” clause. This would ensure RCRC is in compliance with the State contract and protect the State from claims and/or losses resulting from these leases. In addition, RCRC should implement policies and procedures to ensure that any future lease agreements will comply with this requirement.

**Finding 6: Improper Accounting of Security Deposits**

The review of RCRC’s lease revealed three security deposits totaling \$24,435 that were not properly reflected in the General Ledger’s prepaid lease account, but recorded as an expense in the facility rent account. This failed to properly reflect the deposits as a prepaid asset in the prepaid lease account. As a result, the value of RCRC’s prepaid lease account is understated and the facility expenses are overstated. (See Attachment B.)

For good accounting and internal control practices, all accounting transactions should be recorded to reflect the true picture of the transactions. This will ensure the proper accounting and claiming of assets and expenses.

**Recommendation:**

RCRC should record the refundable security deposits to the appropriate General Ledger prepaid expense account. In addition, RCRC should implement policies and procedures to ensure that any security deposits that are refunded to RCRC are refunded to DDS.

**Finding 7: Equipment Procedures**

**A. Missing State Equipment**

A sample of 35 items from the equipment inventory list provided by RCRC revealed six items could not be located. (See Attachment C.)

Article IV, Section 4 (a) of the State Contract with RCRC states in part:

“Contract shall maintain and administer, in accordance with sound business practice, a program for utilizing, 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.”

**Recommendation:**

RCRC should develop and implement procedures to ensure compliance with the State contract requirements regarding State property.

**B. Lack of Reporting on New Equipment**

RCRC has not been completing the required Equipment Acquired Under Contract form (DS 2130), for newly purchased equipment. This form is required by the State Contract and State’s Equipment Management Systems Guidelines Section III (B) which state in part:

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

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

Also the State’s Equipment Management Systems 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 suitable electronic alternative.”

**Recommendation:**

RCRC should comply with the State contract, Article IV, section 4(a) and the State Equipment Management Systems Guideline on completing the DS 2130 - New Equipment Acquired Under Contract form quarterly for all nonexpendable and sensitive equipment purchased during each calendar quarter. In addition, RCRC needs to complete this form quarterly and submit it to DDS Customer Support Section.

### **C. Purchasing Procedures not Followed**

The review of the internal controls identified that RCRC's policy on the purchasing of equipment is not being followed. From the sample review of 16 equipment purchases, it was identified that eight purchases did not have the required purchase request form and 13 purchases (including the eight without purchase request forms) did not have the required authorizations. This is in violation of RCRC's Management and Operations Manual which requires that a purchase request form be used for all equipment purchases and an authorization by a supervisor and administrator prior to making the purchases.

Redwood Coast Regional Center's Management and Operations Manual: Procedures for Equipment, Books and Subscriptions - Policy AD-09 states in part:

1. "A Purchase Request Form is to be completed by the requesting party. This would include the name of the item, a model number if applicable, and the name and address of the supplier. In addition, any order form for the item(s) wanted should be filled out and attached to the Purchase Request Form. This request should then be approved by the requesting party's supervisor and forwarded to the Administrator for further approval.
2. "The Administrator will send the approved request to the fiscal department, where the order will be placed...
5. RCRC staff should not purchase any item for RCRC without approval, or without following the above procedures."

#### **Recommendation:**

RCRC should take steps to enforce compliance to its management and operations manual, which requires the use of a purchase request form that should be approved by a supervisor and an administrator prior to making equipment purchases.

## EVALUATION OF RESPONSE

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As part of the audit report process, RCRC is provided with a draft report and is requested to provide a response to each finding. RCRC's response dated May 1, 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 RCRC's response. Except as noted below, RCRC'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 RCRC's corrective actions identified in the response during the follow-up review or the next scheduled audit.

In the response from RCRC, it is indicated that for this audit "field work was conducted almost two years ago at RCRC's Ukiah office." This is not a correct statement. The field work at the RCRC office was performed from October 16, 2006, through November 17, 2006. These dates are documented on page 3 of this report. However, additional documentation necessary to complete the field work was requested from RCRC on July 31, 2007, and was provided by RCRC in August 2007. Therefore, the audit field work was not completed until August 2007. As a result, the time period from the completion of field work and issuance of the draft report on February 19, 2008, was approximately six months. This is substantially less than the two years cited in the response from RCRC.

Except as noted below, RCRC'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 RCRC's corrective actions identified in the response during the follow-up review or the next scheduled audit.

### **Finding 1: Self Determination – Unused Funds Carried Over to the Next Fiscal Year**

RCRC agrees in its written response with the finding that the advances were carried over to fund services provided in subsequent fiscal years. However, RCRC states in its response that it strongly disagrees with DDS's recommendation that it repay the \$350,661.06 that were carried over to a subsequent fiscal year. The response from RCRC states, "The sole issue in the finding is using funds from RCRC's allocation of spending authority from one fiscal year to pay for services provided in the subsequent fiscal year."

In disagreeing with the recommendation, RCRC cites legislation that created the Self Determination Pilot Project as a basis for the project participants to deviate from the requirements under Welfare and Institutions Code and Title 17 regulations to achieve the desired outcome under the Self Determination Pilot Project. However, in the response RCRC does not provide any documentation to support this position.

In addition, RCRC does not address the provisions of the State contract Article I, (8) cited in finding one, which states in part:

“Fiscal year funds identified above may not be used for any other fiscal year than the fiscal year specified unless authorized by the State.”

The DDS contract with RCRC requires that the funds from one fiscal year cannot be carried over to future fiscal years unless authorized by DDS.

RCRC cites that their contract with the financial management services vendors specifies that the advances are to be repaid or reconciled when the consumer leaves the program and not at the end of each budget year or fiscal year. However, as indicated above, the DDS contract with RCRC requires authorization from DDS to use funds in any fiscal year other than the year specified in the contract. RCRC has not provided any documentation to show that RCRC requested or received an authorization for this purpose.

In addition, the RCRC response cites proposed Self Directed Services Program regulations. Finding one in the audit report is for the Self Determination Program, not the Self Directed Services Program. Accordingly, any regulations for the Self Directed Services Program are not applicable to the Self Determination Program. It should also be recognized that any proposed regulations are subject to change and are not effective until they have been legally adapted.

Based upon the above, RCRC has not provided any documentation to support that the funds for the Self Determination Program can be carried over from one fiscal year to pay for services in a subsequent fiscal year. Therefore, the recommendation requiring RCRC to return the \$350,661.06 to DDS remains unchanged.

**Redwood Coast Regional Center**  
**Self Determination**  
**Fiscal Years 2003-04, 2004-05, and 2005-06**

	Vendor Number	Unique Client Identification Number	Fiscal Year	Actual Payments and Advances	Actual Vendor Invoiced Amounts	Funds Carried Over to Next Fiscal Year
1	HR0282		2005-06	\$360.00	\$300.00	\$60.00
2*	HR0282		2005-06	\$8,705.58	\$5,018.85	\$3,686.73
3	HR0282		2004-05	\$586.72	\$0.00	\$586.72
			2005-06	\$13,879.15	\$13,398.70	\$480.45
<b>Sub Total</b>						<b>\$4,813.90</b>
4	PK0667		2003-04	\$43,137.29	\$40,137.29	\$3,000.00
			2005-06	\$27,806.18	\$24,653.69	\$3,152.49
5	PK0667		2004-05	\$15,880.05	\$15,010.28	\$869.77
			2005-06	\$17,663.87	\$17,517.83	\$146.04
6	PK0667		2003-04	\$6,076.61	\$4,076.61	\$2,000.00
			2004-05	\$5,522.19	\$5,482.19	\$40.00
			2005-06	\$7,752.70	\$4,760.35	\$2,992.35
7	PK0667		2005-06	\$3,190.14	\$1,113.88	\$2,076.26
8	PK0667		2004-05	\$3,973.89	\$1,355.00	\$2,618.89
9	PK0667		2003-04	\$2,667.22	\$1,391.13	\$1,276.09
			2005-06	\$2,681.81	\$1,307.43	\$1,374.38
10	PK0667		2004-05	\$54,041.90	\$37,562.44	\$16,479.46
11	PK0667		2005-06	\$47,199.77	\$45,794.83	\$1,404.94
12	PK0667		2003-04	\$3,243.86	\$1,665.46	\$1,578.40
			2005-06	\$4,278.26	\$2,682.03	\$1,596.23
13	PK0667		2004-05	\$3,280.80	\$1,848.45	\$1,432.35
			2005-06	\$5,140.00	\$3,740.00	\$1,400.00
14	PK0667		2003-04	\$38,119.94	\$36,199.94	\$1,920.00
			2004-05	\$56,189.06	\$51,705.47	\$4,483.59
			2005-06	\$54,935.58	\$48,161.58	\$6,774.00

**Redwood Coast Regional Center**  
**Self Determination**  
**Fiscal Years 2003-04, 2004-05, and 2005-06**

	<b>Vendor Number</b>	<b>Unique Client Identification Number</b>	<b>Fiscal Year</b>	<b>Actual Payments and Advances</b>	<b>Actual Vendor Invoiced Amounts</b>	<b>Funds Carried Over to Next Fiscal Year</b>
15	PK0667		2003-04	\$21,526.11	\$16,341.37	\$5,184.74
			2005-06	\$31,826.62	\$27,225.60	\$4,601.02
16	PK0667		2004-05	\$12,689.32	\$11,497.84	\$1,191.48
			2005-06	\$16,068.17	\$10,690.13	\$5,378.04
17	PK0667		2004-05	\$72,576.30	\$68,619.18	\$3,957.12
			2005-06	\$44,655.02	\$44,127.92	\$527.10
18	PK0667		2005-06	\$156,084.04	\$142,559.07	\$13,524.97
19	PK0667		2003-04	\$102,773.01	\$67,302.04	\$35,470.97
			2005-06	\$107,456.79	\$87,239.12	\$20,217.67
20	PK0667		2004-05	\$25,852.43	\$21,510.68	\$4,341.75
			2005-06	\$23,934.88	\$23,672.59	\$262.29
21	PK0667		2003-04	\$9,993.11	\$8,841.21	\$1,151.90
			2005-06	\$19,250.11	\$12,397.25	\$6,852.86
22	PK0667		2004-05	\$46,559.16	\$31,419.14	\$15,140.02
23	PK0667		2003-04	\$50,640.68	\$49,207.90	\$1,432.78
			2004-05	\$55,970.33	\$45,202.09	\$10,768.24
			2005-06	\$54,263.50	\$43,914.69	\$10,348.81
24	PK0667		2004-05	\$24,618.12	\$22,510.83	\$2,107.29
			2005-06	\$28,747.17	\$26,851.41	\$1,895.76
25	PK0667		2003-04	\$41,155.73	\$36,871.49	\$4,284.24
26	PK0667		2003-04	\$59,033.50	\$48,145.71	\$10,887.79
			2004-05	\$50,740.93	\$50,227.03	\$513.90
			2005-06	\$53,195.52	\$44,442.28	\$8,753.24
27	PK0667		2004-05	\$60,288.27	\$50,674.61	\$9,613.66
28	PK0667		2003-04	\$780.00	\$441.21	\$338.79



**Redwood Coast Regional Center**  
**Self Determination**  
**Fiscal Years 2003-04, 2004-05, and 2005-06**

	Vendor Number	Unique Client Identification Number	Fiscal Year	Actual Payments and Advances	Actual Vendor Invoiced Amounts	Funds Carried Over to Next Fiscal Year	
29	PK0667		2003-04	\$2,559.01	\$2,154.71	\$404.30	
30	PK0667		2004-05	\$1,320.00	\$320.00	\$1,000.00	
31	PK0667		2003-04	\$44,642.22	\$43,504.23	\$1,137.99	
			2005-06	\$83,917.86	\$46,303.98	\$37,613.88	
32	PK0667		2004-05	\$2,380.04	\$411.00	\$1,969.04	
33	PK0667		2004-05	\$30,112.44	\$14,261.61	\$15,850.83	
34	PK0667		2004-05	\$6,163.87	\$3,046.00	\$3,117.87	
35	PK0667		2003-04	\$76,270.42	\$68,384.53	\$7,885.89	
			2005-06	\$44,963.32	\$41,150.35	\$3,812.97	
<b>Sub Total</b>					<b>\$308,154.44</b>		
36	PR0072		2004-05	\$2,112.00	\$1,368.00	\$744.00	
37	PR0072		2004-05	\$23,882.89	\$22,139.56	\$1,743.33	
38	PR0072		2003-04	\$24,220.16	\$22,553.99	\$1,666.17	
			2004-05	\$17,583.32	\$16,219.82	\$1,363.50	
39	PR0072	2003-04	\$967.40	\$933.87	\$33.53		
		2005-06	\$2,709.97	\$1,645.45	\$1,064.52		
40	PR0072	2004-05	\$17,956.52	\$1,495.29	\$16,461.23		
41	PR0072	2003-04	\$10,738.26	\$9,714.49	\$1,023.77		
		2004-05	\$11,925.95	\$10,363.21	\$1,562.74		
		2005-06	\$8,992.75	\$6,544.50	\$2,448.25		
42	PR0072	2004-05	\$3,128.42	\$1,371.93	\$1,756.49		
2*	PR0072	2004-05	\$3,057.28	\$2,160.73	\$896.55		
<b>Sub Total</b>					<b>\$30,764.08</b>		
43	PR0171	2003-04	\$11,743.55	\$8,517.48	\$3,226.07		
		2005-06	\$10,517.47	\$6,814.90	\$3,702.57		
<b>Sub Total</b>					<b>\$6,928.64</b>		
<b>Total Amount</b>						<b>\$350,661.06</b>	

**Redwood Coast Regional Center  
Security Deposits  
Fiscal Years 2003-04, 2004-05, and 2005-06**

	<b>Location</b>	<b>Landlord</b>	<b>Lease Term</b>	<b>Security Deposit</b>
1	Eureka	A & K Investments	10 year lease; 11/1/00-11/1/10	\$20,000
2	Fort Bragg	Dr. Richard Miller	3 year lease; 4/14/05-9/30/08	\$2,875
3	Lakeport	Seagull	8 year lease; 10/5/01-5/5/09	\$1,560

**Total Security Deposits** \$24,435

**Redwood Coast Regional Center  
Missing State Equipment  
Fiscal Years 2003-04, 2004-05, and 2005-06**

	<b>ITEM DESCRIPTION</b>	<b>SERIAL NUMBER</b>	<b>STATE TAG NUMBER</b>
1	Laptop-Toshiba	60688966U-1	328120
2	Compaq-Deskpro	6933CL9q0003	324358
3	Notebook Toshiba	4529581	311089
4	Monitor-19" viewsonic	31E012101919	328190
5	Phone Merlin	99SP43695248	328221
6	Compaq Deskpro	6028DV96E134	328129

**APPENDIX A**

**REDWOOD COAST REGIONAL CENTER**

**RESPONSE**

**TO AUDIT FINDINGS**



# Redwood Coast Regional Center

Respecting Choice in the Redwood Community

May 1, 2008

Arthur J Lee  
Department of Developmental Services  
1600 Ninth Street, Room 230, MS 2-10  
Sacramento, CA 95814



Dear Mr. Lee:

This is in response to the audit findings presented to RCRC Management on March 3, 2008. The field work was conducted almost two years ago at RCRC's Ukiah office. The audit period included Fiscal Years 2003 - 2004, FY 2004 - 2005 and FY 2005 - 2006.

Before responding to the specific audit findings, we would like to share a more global concern with you. We find the timing of the audit to be problematic. During the duration between the field work and the exit conference two of the periods have been closed. Mitigating audit findings are greatly complicated for closed fiscal years.

It is also unfortunate that because the audit periods started in July 2003, any mistakes that were identified early in this period have continued for five and a half years. A large part of the benefit from the audit process is dependent upon timely reporting and response, which is lost by allowing years to pass.

#### **Finding 1: Self Determination - Unused Funds Carried Over to the Next Fiscal Year**

RCRC agrees with Finding 1. The finding included in the written report states that the problem is that advances were carried over to fund services provided in the subsequent fiscal years. During the exit conference it was confirmed that all consumers spending were within their respective budget year limitations and that all disbursements were correctly charged to the appropriate period. There is no question that the amount and postings were accurate. The sole issue in the finding is using funds from RCRC's allocation of spending authority from one fiscal year to pay for services provided in the subsequent fiscal year.

RCRC strongly disagrees with the *recommendation* attached to the finding.

The agreements between RCRC and the vendors under contract who provide financial management services specify that the advances will be repaid or reconciled when the consumer leaves the program not at each budget year end or at each fiscal year end. Over the seven years RCRC has been operating the pilot, five contracts have been terminated. When each of these consumers left the program, the Fiscal Intermediaries reconciled their accounts and sent RCRC refunds when appropriate.

Each consumer participating in the pilot is on a budget year. Five of the 45 participants have a budget year that coincides with the system's fiscal year. Thirty-eight of the participants have budget years that do not coincide with RCRC's fiscal year. This reality is in large part what creates the cross-fiscal year issue cited.

While RCRC understands the issue clearly, a solution is not clear and continues to be at issue for the new waiver-funded Self Directed Services program to be initiated later this fiscal year.

**Corporate Offices 525 - 2<sup>nd</sup> Street, Suite 300, Eureka, CA 95501 707-445-0893**

**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 Northcrest Dr., Crescent City, CA 95531 707-464-7488 \* □ 180 Third Street., Lakeport, CA 95453 707-262-0470

Regardless of how this issue is addressed and clarified and/or changed for the future, we do not believe the recommendation is justified or supported for the following reasons:

### Legislative

The legislation that created the Self Determination Pilot Project began with the statement: "All other legislation notwithstanding..."

This was an unusual and powerful statement by the California legislature, purposefully included in the language that became part of the Welfare and Institutions Code (specifically, the Lanterman Act) to essentially accomplish two outcomes. The first outcome was to free the participants in the pilot projects to create an innovative and new service paradigm which, while generally observing the principles in the Lanterman Act, could also digress from them in order to enfold the philosophy and operational requirements of the national movement toward Self Determination.

The second outcome derived from the first, in that those words ("All other legislation notwithstanding...") created the possibility for pilot project participants to deviate from the requirements in law (the applicable Welfare and Institutions Code) and regulation (primarily Title 17, CCR) in order to achieve the first outcome. In so doing, previous requirements such as regional centers' inability to fund non-vendored services, exceptions made to DDS-approved Purchase of Service Guidelines, and many other like mandates were set aside. This was further established by the requirement that the initial three regional centers named in the original legislation (of which Redwood Coast Regional Center was one) submit written project proposals to DDS for subsequent evaluation by a contracted consultant and approved by DDS. Our written project proposal, a joint effort between Redwood Coast Regional Center and Area I Board on Developmental Disabilities, was subsequently approved without revision. It is our firm belief and understanding that, as regional center contract language and provisions are stipulated in the Lanterman Act, the enacted legislation allowed for variations in payment methodology utilized to create the "individual budget" process – a cornerstone principle in Self Determination. Accordingly, while we can agree that there may need to be further consideration of this payment process for the future, we cannot agree that we should be penalized for what we understood and agreed upon as a pilot project for which the establishing legislation clearly supported innovations and exceptions.

Following are further specific informational points related to Finding 1.

### RCRC Vendor Contract

RCRC's contract with the vendors who assist the participating consumers with their finances under the pilot are provided an advance. The relevant language in the RCRC contract:

"Any advance paid to the CONTRACTOR under this agreement will be returned to RCRC at the end of the period the consumer is involved in the Self Determination Project. Reimbursement of RCRC will be made by withholding from CONTRACTOR's final billings, amounts sufficient to repay the advance in full. If final billings are insufficient to repay the advance in full, CONTRACTOR will refund any remaining advance to the RCRC within thirty (30) days of the CONTRACTOR's final billing."

Over the seven years RCRC has been operating the pilot, five contracts have been terminated. One consumer died during FY 01 – 2 and the other four elected to leave the pilot for a variety of reasons. When each of these consumers left the program, the Fiscal Intermediaries reconciled their accounts and sent RCRC refunds when appropriate.

### **Consumer Budget Year vs. Regional Center Fiscal Year**

Each consumer participating in the pilot is on a budget year. Five of the 45 participants have a budget year that coincides with the system's fiscal year. Thirty-eight of the participants have budget years that do not coincide with RCRC's fiscal year. This reality is what creates the cross-fiscal year issue cited.

### **Self Directed Services Regulations**

The issue of advances has been a frequent topic of discussions for the proposed Self Directed services program slated for implementation in the current year. In the current regulations there is no mention of a fiscal year reconciliation. Only each consumer's budget year is mentioned.

#### Section 54408. Regional Center Responsibilities.

(b) The regional center may advance funds to the financial management services provider in the first quarter of the participant's individual budget year as follows:

- (1) The amount of the funds advanced shall not exceed 25 percent of the individual budget amount;
- (2) The total of the advance and payments of invoices shall not exceed 100 percent of the individual budget amount; and
- (3) If all bills from the financial management services provider for services and supports have been processed and there are still unspent funds from the advance, the financial management services provider shall return the unused funds to the regional center no more than 90 days from the end of the individual budget year.

When this issue was discussed at meetings, a special exemption was discussed which would allow the focus to be budget year advance management. It is assumed this exemption would address this cross-fiscal year funding issue.

It is difficult to manage advances based on a budget year that does not coincide with the system's fiscal year.

### **Summary**

The audit recommendation is that RCRC return \$350,661. There is no question that the payments were within the individual budgets. There is no question that the disbursements were posted correctly. There is no question that the advances were consumed by each consumer appropriately. The sole issue is timing.

Based on the information regarding the inception of the Self Determination Pilot Project provided under the heading "Legislative" above, it is RCRC's contention that the Self Determination Pilot program was implemented with legislative language that supported individual budgets and potential exceptions needed to implement them. We respectfully request that DDS undertake an in-depth review of the inception of the Self Determination Pilot Project in the firm belief that repayment of the monies expended for individual budgets under the Pilot Project, according to the guidelines established for the project, are not subject to repayment due to there having been legislative authority for exceptions.

We also extend our sincere appreciation to you, in advance, for your consideration of this appeal.

### **Finding 2, Lack of Written Policies and Procedures**

RCRC agrees with this finding. RCRC's independent auditors focused on this area as well and noted that new auditing and IRS rules add further significance to this issue.

**Finding 3, Residential Services – Partial Month Prorating for Social Security Benefits**

RCRC agrees with this finding.

We will correct the mistake and replace the 30 day factor with a 30.44 day factor.

**Finding 4, Petty Cash Reconciliation**

RCRC agrees with this finding. RCRC independent auditors made a similar recommendation two years ago and it has been implemented.

**Finding 5, Missing "Hold Harmless" Clause**

RCRC understands this finding.

We have been able to solve the Lakeport issue as we moved into another location with a different landlord. This clause proved to be challenging in finding a Lake County landlord willing to accept that contract language. Three prospective landlords refused, and we moved on.

We will continue efforts to amend our lease in Ft. Bragg thus far rebuffed by our landlord.

We expect the City of Eureka will accept the clause when submitted.

**Finding 6, Improper Accounting of Security Deposits.**

RCRC agrees to correct this issue. We discussed solutions with our independent auditor who is familiar with the issue.

**Finding 7, Equipment Procedures,**

**A. Missing State Equipment**

RCRC agrees to correct this issue.

**B. Lack of Reporting on New Equipment**

RCRC agrees to correct this issue.

**C. Purchasing Procedures not Followed**

RCRC agrees to correct this issue.

Sincerely,



Scott Anderson  
Associate Executive Director  
Director of Administrative Services