



**AUDIT OF THE
REGIONAL CENTER OF THE EAST BAY
FOR FISCAL YEARS 2005-06 and 2006-07**

Department of Developmental Services

This report was prepared by the
California Department of Developmental Services
1600 Ninth Street
Sacramento, CA 95814

Karyn Meyreles, Acting Deputy Director, Administration Division
Arthur J. Lee, CPA, Manager, Audit Branch
Edward Yan, Chief of Regional Center Audits, Audit Branch
Alex Chan, Supervisor, Audit Branch

Audit Staff: Rachel De Jesus, Gladys Onejeme, and Nestor Tuazon

For more information, please call: (916) 654-3695

TABLE OF CONTENTS

| | |
|--|------------|
| EXECUTIVE SUMMARY | 1 |
| BACKGROUND | 3 |
| Authority | 4 |
| Criteria | 4 |
| Audit Period | 4 |
| OBJECTIVES, SCOPE, AND METHODOLOGY | 5 |
| I. Purchase of Service | 6 |
| II. Regional Center Operations | 7 |
| III. Targeted Case Management and Regional Center Rate Study | 7 |
| IV. Service Coordinator Caseload Study | 7 |
| V. Early Intervention Program | 8 |
| VI. Family Cost Participation Program | 8 |
| VII. Other Sources of Funding | 9 |
| VII. Follow-up Review on Prior DDS's Audit Findings | 9 |
| CONCLUSIONS | 10 |
| VIEWS OF RESPONSIBLE OFFICIALS | 11 |
| RESTRICTED USE | 12 |
| FINDINGS AND RECOMMENDATIONS | 13 |
| EVALUATION OF RESPONSE | 16 |
| REGIONAL CENTER'S RESPONSE | Appendix A |

EXECUTIVE SUMMARY

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

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

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

Finding 1: Missing Transportation Contracts (Repeat)

The review of Transportation vendor files revealed that two vendors did not have written contracts on file with RCEB. This is not in compliance with Title 17, Section 58524(a). This issue was also identified in the prior DDS audit.

Finding 2: Stale Dated Checks

The review of RCEB's bank reconciliations revealed 223 stale dated Purchase of Service checks older than six months. As of July 2007, RCEB had stale dated checks totaling \$133,762. However, RCEB has addressed and corrected one of the stale dated checks totaling \$55,365 by cancelling and issuing a new check.

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

Finding 3: Lack of Reporting on New Equipment

RCEB has not been completing the required Equipment Acquired Under Contract form (DS2130), for newly purchased equipment. This is not in compliance with the State's Equipment Management Systems Guidelines, Section III(B).

RCEB has taken corrective action to resolve this issue by completing and providing the DS2130 forms for equipment acquisitions to DDS's Customer Support Section.

Finding 4: Over/Under-Stated Claims

A review of the Residential and Operational Indicator reports revealed 58 instances in which RCEB over or under claimed expenses to the State. These payments were either due to proration errors, duplicate payments, overlapping authorizations, or miscalculated billings for the service months. As a result, the total overpayment to vendors by RCEB was \$82,033.02 and the total underpayment was \$5,842.39. This is not in compliance with Title 17, Sections 54326(a)(10) and 56917(i).

RCEB has taken corrective action by making billing adjustments with the respective vendors for the over and under payments.

BACKGROUND

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

DDS is also responsible for providing assurance to the Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS) that services billed under California's Home and Community-Based Services (HCBS) Waiver program are provided and that criteria set forth for receiving funds have been met. As part of DDS'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. The HCBS Waiver compliance monitoring review will have its own criteria and processes. These audits and program reviews are an essential part of an overall DDS monitoring system that provides information on regional center fiscal, administrative and program operations.

DDS and the Regional Center of the East Bay, Inc. entered into contract, HD049003, effective July 01, 2004, through June 30, 2009. This contract specifies that the Regional Center of the East Bay, Inc. will operate an agency known as the Regional Center of the East Bay (RCEB) to provide services to persons with DD and their families in the Alameda and Contra Costa Counties. The contract is funded by State and federal funds that are dependent upon RCEB performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at RCEB from March 3, 2008, through April 10, 2008, 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 RCEB'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
- RCEB's contract with the DDS

AUDIT PERIOD

The audit period was from July 1, 2005, through June 30, 2007, with follow-up as needed into prior and subsequent periods.

OBJECTIVES, SCOPE, AND METHODOLOGY

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

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

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

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

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

- 2005-06, issued on November 15, 2006
- 2006-07, issued on January 28, 2008

This review was performed to determine the impact, if any, upon our audit and as necessary, develop appropriate audit procedures.

The audit procedures performed included the following:

I. Purchase of Service

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

- We tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.
- We selected a sample of invoices for service providers with daily and hourly rates, standard monthly rates, and mileage rates to determine if supporting attendance documentation was maintained by RCEB. The rates charged for the services provided to individuals were reviewed to ensure that the rates paid were set in accordance with the provisions of Title 17.
- We selected a sample of individual trust accounts to determine if there were any unusual activities and if any individual account balances were not over the \$2,000 resource limit as required by the Social Security Administration (SSA). In addition, we determined if any retro Social Security benefit payments received were not longer than nine months. We also reviewed these accounts to ensure that the interest earnings were distributed quarterly, personal and incidental funds were paid before the tenth of each month, and that proper documentation for expenditures are maintained.
- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, is not used by RCEB. An interview with RCEB staff revealed that RCEB has procedures in place to determine the correct recipient of unidentified consumer trust funds. If the correct recipient cannot be determined, the funds are returned to SSA (or other source) in a timely manner.
- We selected a sample of Uniform Fiscal Systems (UFS) reconciliations to determine if any accounts were out-of-balance or if there were any outstanding reconciling items.
- We analyzed all of RCEB's bank accounts to determine if DDS had signatory authority as required by the contract with DDS.
- We selected a sample of bank reconciliations for Operations and Consumer Trust bank accounts to determine if the reconciliations are properly completed on a monthly basis.

II. Regional Center Operations

We audited RCEB'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 has been properly inputting data, transactions have been recorded on a timely basis, and to ensure that expenditures that have been charged to various operating areas were valid and reasonable. These tests included the following:

- A sample was selected of the personnel files, time sheets, payroll ledgers and other support documents to determine if there were any overpayments or errors in the payroll or the payroll deductions.
- A sample was tested of operating expenses, including, but not limited to, purchases of office supplies, consultant contracts, insurance expenses, and lease agreements 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 the RCEB'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 last rate study to determine the TCM rate was performed in May 2001 which was reviewed in the last DDS biannual audit. As a result, there was no rate to review for this audit period.

IV. Service Coordinator Caseload Survey

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

- A. For all consumers that are three years of age and younger and for consumers that are enrolled on the HCBS Waiver, the required average ratio shall be 1:62.

- B. For all consumers who have moved from a developmental center to the community since April 14, 1993, and have lived in the community continuously for at least 12 months, the required average ratio shall be 1:62.
- C. For all consumers who have not moved from the developmental centers to the community since April 14, 1993, and who are not covered under A above, the required average ratio shall be 1:66.

We also reviewed the Service Coordinator Caseload Survey methodology used in calculating the caseload 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.

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 the Early Start Plan and Federal Part C funding to determine if the funds were properly accounted for in RCEB's accounting records.

VI. Family Cost Participation Program

The Family Cost Participation Program (FCPP) was created for the purpose of assessing cost participation to parents based on income level and dependents. The Family Cost Participation assessments are only applied to respite, day care, and camping services that are included in the child's individual program plan. To determine whether RCEB is in compliance with Title 17 and the W&I Code, we performed the following procedures during our audit review.

- Reviewed the parents' income documentation to verify their level of participation based on the Family Cost Participation schedule.
- Reviewed copies of the notification letters to verify the parents were notified of their assessed cost participation within 10 working days.
- Reviewed vendor payments to verify the Regional Center is paying for only its assessed share of cost.

VII. Other Sources of Funding

Regional centers may receive many other sources of funding. For the other sources of funding identified for RCEB, we performed sample tests to ensure that the 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 were supported by documentation. The other sources of funding identified for this audit are:

- Wellness Program
- Start Up Programs
- Medicare Moderation Act (Part D Funding)

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

CONCLUSIONS

Based upon the audit procedures performed, we have determined that except for the items identified in the Findings and Recommendations Section, RCEB is in substantial compliance to applicable sections of Title 17, the HCBS waiver, and the terms of RCEB's contract with DDS for the audit period of July 1, 2005, through June 30, 2007.

Except for those items described in the Findings and Recommendations Section, the costs claimed during the audit period were for program purposes and adequately supported.

From the review of the prior issues, it has been determined that RCEB has taken appropriate corrective actions to resolve all prior audit issues, except for Finding one, which is included in the Findings and Recommendations Section.

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft report on November 13, 2008. The findings in the report were discussed at an exit conference with RCEB on November 19, 2008. At the exit conference, we stated that the final report will incorporate the views of responsible officials.

RESTRICTED USE

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

ARTHUR J. LEE, CPA, Manager
Audit Branch

FINDINGS AND RECOMMENDATIONS

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

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

Finding 1: Missing Transportation Contracts (Repeat)

The review of RCEB's Transportation vendor files revealed two vendors that did not have a written contract on file. The two vendors provided services to specific clients and RCEB paid the vendors through the Authorization and Purchase of Service process. This issue was also identified in the prior DDS audit. (See Attachment A.)

Title 17, Section 58524(a), states in part:

“A contract for transportation service between regional center and a vendor shall be in writing...”

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

Recommendation:

RCEB should develop and implement procedures to ensure all of its Transportation vendors have written contracts on file to comply with Title 17 and to document the agreement for services and compensation.

Finding 2: Stale Dated Checks

The review of RCEB's bank reconciliations revealed 223 outstanding stale dated Purchase of Service checks older than six months. As of July 2007, RCEB had outstanding stale dated checks totaling \$133,762. After the audit fieldwork, RCEB has addressed and corrected one of the stale dated checks in the amount of \$55,365. RCEB cancelled the staled dated check and issued a new check.

Uniform Commercial Code Article 4, Section 404 states:

“A bank is under no obligation to a customer having a checking account to pay a check other than a certified check, which is presented more than six months after

its date, but it may charge its customer's account for a payment made thereafter in good faith."

In addition, for good accounting and internal control practices, all stale dated checks should be reviewed and identified. This will ensure that the stale dated checks are researched and appropriate actions are taken to resolve the issue.

Recommendation:

RCEB should develop and implement written policy and procedures for identifying and clearing checks that are outstanding for more than six months.

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

Finding 3: Lack of Reporting of New Equipment

RCEB has not been completing the required form DS 2130, Equipment Acquired Under Contract, for newly acquired equipment. This form is required by the State's Equipment Management Systems Guidelines Section III (B), which states in part:

"RCs will 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."

RCEB has taken corrective action and has filed DS2130s for all equipment acquisitions for fiscal years 2004-05, 2005-06 and 2006-07 to the customer support section of DDS on April 22, 2008.

Recommendation:

RCEB should develop policies and procedures to ensure compliance to the State's Equipment Management System Guidelines as required by its contract with DDS. The policies and procedures should include requirements to complete and file all required forms with DDS.

Finding 4: Over/Under-Stated Claims

A review of the Residential and Operational Indicator reports revealed 58 instances in which RCEB over or under claimed expenses to the State. There were 42 instances of overpayments totaling \$82,033.02 due to proration errors, duplicate payments, and overlapping authorizations. The remaining 16 instances

were underpayments totaling \$5,842.39 due to miscalculated billings for the service months.

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

“All vendors shall...

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

Also, Title 17, Section 56917(i) states:

“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.”

In addition, for good business and internal control practices, RCEB should generate and monitor the Operational Indicator reports periodically to detect and correct any overpayments that may have occurred in the course of doing business with its vendors.

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

Recommendation:

RCEB should continue to review the payment invoices, rate letters, and Operational Indicator reports to ensure any payment errors that may have occurred in the course of doing business with its vendors are identified and corrected on a timely basis.

EVALUATION OF RESPONSE

As part of the audit report process, RCEB is provided with a draft report and is requested to provide a response to each finding. RCEB's response dated December 23, 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 RCEB's response. RCEB'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 RCEB's corrective actions identified in the response during the follow-up review or the next scheduled audit.

**Regional Center of the East Bay
Transportation Vendors Without Contracts
Fiscal Years 2005-06 and 2006-07**

| | Vendor Number | Vendor Name | Service Code |
|---|--------------------------|-----------------------|---------------------|
| 1 | H14409 | CCDAC - Walnut Creek | 880 |
| 2 | P83800 | Impact Transportation | 880 |

APPENDIX A

REGIONAL CENTER OF EAST BAY

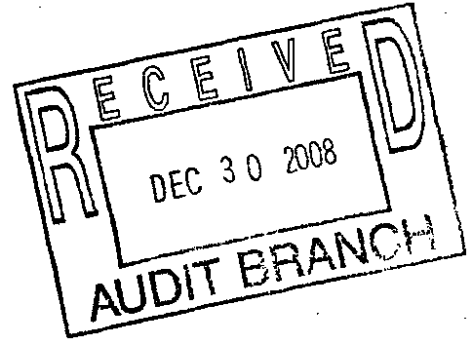
RESPONSE

TO AUDIT FINDINGS

Certain documents provided by the Regional Center as attachments to their response are not included in this report due to the detailed and sometimes confidential nature of the information.

RCEB

Regional Center of the East Bay



December 23, 2008

Mr. Edward Yan, Chief
Audit Branch
Department of Developmental Services
1600-9th Street
Sacramento, Calif. 95814

Re: Regional Center of East Bay Audit for F/Y 2005-06, 2006-07

Dear Mr. Yan:

Please find attached Regional Center of the East Bay's response to the draft audit report for F/Y 2005-06 and 2006-07 dated November 13, 2008. The exit conference for the audit of RCEB was held on November 19, 2008. We sincerely appreciate the Department's work on this audit, and would like to acknowledge your audit team for their collaborative approach. Please do not hesitate to contact Nancy Kubota (510-383-1209) if you have any questions.

Sincerely,

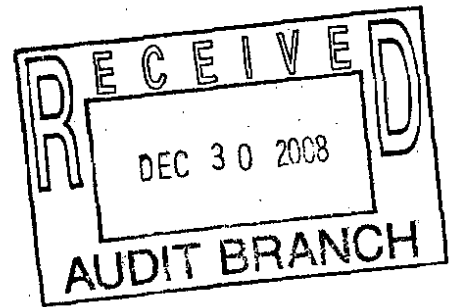
for James M. Burton
Executive Director

Enclosures

cc: Nancy Kubota, Director, Finance/Administration, RCEB
Mark Neiman, Controller, RCEB

Regional Center of the East Bay

Response to Draft Audit Findings
For Fiscal Years 2005-06 and 2006-07
Dated November 13, 2008



1. Transportation Contracts

Per the Department's recommendation, we are completing the process of obtaining written contracts for the 2 vendors that do not have written contracts on file with RCEB.

2. Stale Dated Checks

RCEB has implemented procedures to ensure timely review of stale dated checks.