



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

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**Department of Developmental Services**

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

Jean Johnson, Acting Deputy Director, Administration Division  
Arthur J. Lee, CPA, Manager, Audit Branch  
Edward Yan, Chief of Regional Center Audits, Audit Branch  
Luciah Ellen Nzima, Supervisor, Audit Branch

Audit Staff: Paramjit Judge, Oscar Perez, and Soi Ly

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

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## EXECUTIVE SUMMARY

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

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

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

**Finding 1: Over-Stated Claims**

A detailed review of RCOC's Operational Indicator Reports revealed seven payments to vendors in which RCOC over claimed expenses to the State. The payments were due to duplicate payments. The total overpayment was \$2,780.95. This is not in compliance with Title 17, Section 54326 (a)(10).

**Finding 2: Client Trust Disbursements not Supported**

A review of the client trust money management disbursements revealed that RCOC lacked supporting receipts for checks issued to vendors for the spending down of consumer funds. The review of the disbursements identified all 15 sampled spend down checks did not have receipts to support purchases made by the vendors for the consumers.

**Finding 3: Missing Attendance Documentation**

The review of 21 Day Program vendor files revealed that RCOC reimbursed one vendor for services provided to consumers without attendance documentation. This is not in compliance with Title 17, Section 50604 (d)(3)(B) which requires vendors to maintain support for billings/invoicing.

**Finding 4: Negotiated Contracts not Signed**

The review of the Day Program and Transportation vendor files revealed three negotiated vendor contracts with RCOC that were not signed by RCOC and the vendors.

**Finding 5: Prevailing Rates for Residential Providers**

The review of 37 Residential vendors revealed six vendors being paid at a prevailing rate established by the Department of Social Services. These rates were higher than the Alternative Residential Model rate. No current approval letters from DDS approving of the rates were provided by RCOC. This is not in compliance with Title 17, Sections 56917(a) and 56919(a) and (b).

**Finding 6: Lack of Written Policies and Procedures**

The review of the bank, payroll, and Uniform Fiscal Systems (UFS) reconciliations revealed that RCOC does not have any formal written policies and procedures in place for these areas.

**Finding 7: Lack of Signatory Authority**

The review of bank signature cards revealed that RCOC has two bank accounts, the Self Funded Dental and the ADP Flex accounts which lacked the required DDS's signatory authority. This is not in compliance with the State Contract, Article III, Section 3(f).

**Finding 8: Missing "Hold Harmless" Clause (Repeat)**

A review of RCOC's lease agreements revealed five leases that did not include the "Hold Harmless" clause as required by Article VII, Section 1 of DDS's contract with RCOC. This issue was also identified in the prior audit report.

**Finding 9: Family Cost Participation Program (FCPP) – Late Assessments**

The sample review of the 17 FCPP files revealed that RCOC failed to assess the parent's share of cost at the maximum amount when the parents were not submitting their gross annual income within 10 working days from the date of the parents' signatures on the Individual Program Plan (IPP). This is not in compliance with W&I Code, Section 4783(g)(3), and Title 17, Section 50261(a).

**Finding 10: Lack of Minutes for Closed Board Meetings**

The RCOC could not provide minutes for closed Board meetings because all minutes for closed Board meetings were not recorded or documented. This is not in compliance with the Welfare and Institutions Code, Article 3, Section 4663.

**Finding 11: Equipment**

**A. Equipment Inventory not Signed and Dated**

The review of RCOC's equipment inventory revealed that the inventory worksheets were not signed and dated by the individual who performed the inventory. This is not in compliance with the State's Equipment Management System Guidelines issued by DDS.

**B. Missing Survey Report and Acquisition Forms**

The sample review of RCOC's equipment inventory revealed that RCOC has not been completing the required forms, Property Survey Report (Std. 152), for the surveying of equipment and Equipment Acquired Under Contract (DS 2130), for newly acquired equipment. This is not in compliance with the State's Equipment Management System Guidelines, Section III(B) and (E).

**Finding 12: Excess Caseloads for More Than 60 days**

The review of the Service Coordinator Caseload data for the months of January, February, March, and April 2007 revealed that 10 service coordinators carried caseloads in excess of 84 consumers for more than 60 days. This is not in compliance with the W&I Code, Section 4640.6(c)(4).

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

**Finding 13: Under-Stated Claims**

A detailed review of the Day Program, Residential, and Transportation, vendors revealed underpayments totaling \$14,723.59 to four vendors. These payments were due to rate changes. This is not in compliance with Title 17, Section 56917(a).

RCOC has taken corrective action by making billing adjustments for the underpayments.

## **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 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 Orange County, Inc., entered into contract HD049008, effective July 1, 2004, through June 30, 2009. This contract specifies that the Regional Center of Orange County, Inc., will operate an agency known as the Regional Center of Orange County (RCOC) to provide services to persons with DD and their families in Orange County. The contract is funded by state and federal funds that are dependent upon RCOC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at RCOC from September 10, 2007, through October 19, 2007, and was conducted by DDS's Audit Branch.

## **AUTHORITY**

The audit was conducted under the authority of the Welfare and Institutions (W&I) Code, Section 4780.5, and Article IV, Provision Number 3 of RCOC'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
- RCOC's contract with the DDS

## **AUDIT PERIOD**

The audit period was from July 1, 2004, through June 30, 2007, with follow-up as needed into prior and subsequent periods.



## OBJECTIVES, SCOPE, AND METHODOLOGY

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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 the HCBS Waiver for the Developmentally Disabled, and
- To determine that costs claimed were in compliance to the provisions of RCOC'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 RCOC's financial statements. We limited our scope to planning and performing audit procedures necessary to obtain reasonable assurance that RCOC was in compliance with the objectives identified above. Accordingly, we examined transactions, on a test basis, to determine whether RCOC was in compliance with Title 17, HCBS Waiver for the Developmentally Disabled, and the contract with DDS.

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

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

- 2004-05, issued September 22, 2005
- 2005-06, issued September 22, 2006

No management letters were issued by the independent accounting firm. 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 RCOC. 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 above the \$2,000 resource limit as required by the Social Security Administration (SSA). In addition, we determined if any retroactive Social Security benefit payments received were not above the \$2,000 resource limit 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 proper documentation for expenditures were maintained.
- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, is not used by RCOC. An interview with RCOC staff revealed that RCOC 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 RCOC'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 RCOC 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, the transactions were being recorded on a timely basis, and the 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 RCOC's policies and procedures for compliance to the Title 17 Conflict of Interest requirements and selected a sample of personnel files to determine if the policies and procedures were followed.

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

The Targeted Case Management (TCM) rate study is the study that determines DDS rate of reimbursement from the Federal Government. This area was not reviewed during this audit period. The last rate study to determine the TCM rate was performed in May 2004 which was reviewed in the last DDS biannual audit. As a result, there was no rate to review for this audit period.

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

Under the W&I Code Section 4640.6, regional centers are required to provide service coordinator caseload data to DDS annually. For the period commencing January 1, 2004, to June 30, 2007, inclusive, 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 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 performed the following procedure upon RCOC's caseload survey.

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 the Regional Center'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 the regional center 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 RCOC, 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:

- Family Resource Center Program.
- Start Up Programs.
- Wellness Program.
- Medicare Moderation Act (Part D Funding).

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

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

## 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, RCOC was in substantial compliance to applicable sections of Title 17, the HCBS waiver, and the terms of the RCOC's contract with DDS for the audit period July 1, 2004, through June 30, 2007.

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

From the review of prior audit issues, it has been determined that RCOC has taken appropriate corrective actions to resolve all prior audit issues, except for finding eight which is listed as a repeat finding and included in the Findings and Recommendations Section.

## **VIEWS OF RESPONSIBLE OFFICIALS**

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We issued a draft report on September 8, 2008. The findings in the report were discussed at an exit conference with RCOC on September 12, 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 Regional Center of Orange County. 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 findings of this report have been separated into the two categories below.

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

**Finding 1: Over-Stated Claims**

A detailed review of RCOC's Operational Indicator reports revealed seven instances in which RCOC over claimed expenses to the State. The seven instances of overpayments totaling \$2,780.95 were due to duplicate payments. (See Attachment A.)

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

“All vendors shall ...

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

In addition, for good business and internal control practices, RCOC 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.

**Recommendation:**

The RCOC should recover the improper overpayments from the respective vendors and reimburse DDS for the amount of \$2,780.95 overpaid to the vendors. In addition, RCOC should develop and implement procedures to ensure staff are monitoring the Operational Indicator reports to more efficiently detect duplicate payments and correct any overpayments that may have occurred in the course of doing business with the vendors.

**Finding 2: Client Trust Disbursements not Supported**

A review of 15 client trust money management disbursements revealed that all 15 money management checks, disbursed to the vendors for consumer purchases of personal items were not supported with receipts. The checks were disbursed when the consumer's resources were close to or over the \$2,000 resource limit. (See Attachment B.)

Without supporting receipts, there is no evidence to ensure that the disbursements from the client trust funds are appropriate. In addition, the Social Security benefits received from the Social Security Administration (SSA) are included in the client trust funds. Social Security Handbook Chapter: 16, Sections 1623.1 and 1623.3 states:

“An annual report form (Representative Payee Report) is sent to representative payees for them to explain how Social Security benefits and/or SSI payments were used during the 12 month report period. Payees should keep records throughout the year so that an accurate accounting of benefits can be provided.”

**Recommendation:**

As the representative payee for clients, RCOC should develop and implement policies and procedures requiring supporting receipts for disbursements made from the client trust accounts. The receipts should be documented in the consumer’s file with the money management check requests for the expenditures. This will ensure money management checks disbursed to vendors are for appropriate purposes and that there is proper accounting for Social Security benefits.

**Finding 3: Missing Attendance Documentation**

A review of 21 Day Program vendor files was performed to ensure invoices submitted for reimbursements were supported with attendance documentation. The review showed RCOC reimbursed one vendor, Project Independence, (vendor number S23012), service code 520 for services provided to consumers without attendance documentation attached to the turnaround invoices.

Title 17, Section 50604 (d) states:

“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:

(2) Documentation for each consumer reflecting the dates for program entrance and exit, if applicable, as authorized by a regional center.

(3) A record of services provided to each consumer. The record shall include:

(C) For community-based day programs, the dates of service, place where service was provided, the start and end times of service provided to the consumer and the daily or hourly units of service provided.”

**Recommendation:**

RCOC should develop and implement policies and procedures to ensure attendance documentation is attached to each turnaround invoice before reimbursing vendors for services provided to the consumer. This will ensure RCOC's compliance with Title 17, Section 50604(d).

**Finding 4: Negotiated Contracts not Signed**

The review of the Day Program and Transportation vendor files revealed three negotiated vendor contracts that were not signed by RCOC and the participating vendors. (See Attachment C.)

For good internal control and business practices, all written contracts should have signatures and dates from all contracting parties prior to the effective date of the contract. This is to ensure that there will be no misunderstanding regarding the terms of service, the contract period, and the compensation for the services to be provided.

**Recommendation:**

RCOC should establish policies and procedures to ensure that all written contracts are signed and dated prior to the effective date of the contract.

**Finding 5: Prevailing Rates for Residential Providers**

The review of 37 Residential vendor files revealed six vendors that were paid at a prevailing rate established by the Department of Social Services which is higher than the Alternative Residential Model rate. RCOC did not request approval from DDS to use the prevailing rate. (See Attachment D.)

Title 17, Section 56917(a) states:

“Regional centers shall pay residential service providers monthly at the rate established by the Department pursuant to Section 56902(b) and (c).”

Also, Title 17, Section 56919(a) and (b) states:

“(a) The regional center shall request approval by the Department for the payment of usual and customary fees or prevailing rates.

(b) At the Department's discretion, usual and customary fees or prevailing rates may be approved for facilities which meet the criteria in Section 56004(a) and have a rate established by another governmental agency.”

**Recommendation:**

RCOC should develop and implement procedures to ensure it is in compliance with Title 17, Sections 56919(a) and (b) by obtaining the required approval letter from DDS prior to making any payment for prevailing rates to any residential provider.

**Finding 6: Lack of Written Policies and Procedures**

The review of the bank, payroll, and Uniform Fiscal Systems (UFS) reconciliations revealed that RCOC does not have any formal written policies and procedures in place for these areas.

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:**

RCOC should develop and implement written policies and procedures in the bank, payroll, and UFS reconciliation areas. This will ensure staff is aware of the tasks to be performed will ensure the reconciliations are completed timely to detect potential errors.

**Finding 7: Lack of Signatory Authority**

The review of the bank signature cards revealed that RCOC has two bank accounts, the Self Funded Dental and the ADP Flex accounts, which lacked DDS signatory authority.

State Contract, Article III, Section 3 (f) states in part:

“All bank accounts and any investment vehicles containing funds from this contract and used for regional center operations, employee salaries and benefits or for consumers’ services and supports, shall be in the name of the State and Contractor.”

Also, State Contract, Article III, Section 3 (g) states in part:

“For the bank accounts above referenced, there shall be prepared three (3) alternative signature cards with riders attached to each indicating their use.”

**Recommendation:**

RCOC should implement procedures to ensure that signatory authorization is given to DDS for all bank accounts that are identified as having State funds as required by the State contract.

**Finding 8: Missing “Hold Harmless” Clause (Repeat)**

A review of RCOC’s five lease agreements for real property revealed that the leases did not include the “Hold Harmless” clause as required by the contract with DDS. Four of the five leases were identified in the prior DDS audit report. This clause is needed to ensure the State is held harmless for any claims or losses that may be associated with these leases. Though unsuccessful attempts have been made by RCOC to obtain amendments for the four lease agreements noted in the prior DDS audit report, RCOC should still continue to take corrective actions to amend all of its lease agreements to include a “Hold Harmless” clause.

(See Attachment E.)

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.”

**Recommendation:**

RCOC should amend all of its leases to include a “Hold Harmless” clause to ensure compliance with the State contract and protect the State from claims or losses resulting from these leases. In addition, RCOC should implement policies and procedures to ensure that any future lease agreements will comply with this requirement.

**Finding 9: Family Cost Participation Program (FCPP) - Late Assessments**

The sample review of the 17 FCPP files revealed that RCOC failed to assess the parent’s share of cost at the maximum amount when the parents were not submitting their gross annual income within 10 working days from the date of the parents' signatures on the Individual Program Plan (IPP). It was found that RCOC allowed the parents to submit income documentation up to 45 days from the date of the consumer’s birthday. However, if no income documentation was received after 45 days from the date of the consumers' birthday, RCOC would assess the share of cost at maximum. RCOC would then send letters to the parents notifying them of their share of costs. (See Attachment F.)

Title 17, Section 50261(a) states:

“Each parent shall provide the regional center with his or her proof of gross annual income pursuant to Section 4783(g)(2) and (i) of the Welfare and Institutions Code, within ten (10) working days from the date of the parents' signatures on the Individual Program Plan. The regional center may grant a ten (10) working day extension to provide documentation, if parents have acted in good faith. In no event shall more than one ten (10) working day extension be

granted. Failure to provide the information will result in the regional center setting the cost participation at the maximum amount, pursuant to Section 4783(g)(4) of the Welfare and Institutions Code.”

W&I Code, Section 4783(g)(4) states in part:

“Parents who have not provided copies of income documentation pursuant to paragraph (2) shall be assessed the maximum cost participation based on the highest income level adjusted for family size until such time as the appropriate income documentation is provided.”

**Recommendation:**

RCOC should develop and implement policies and procedures to ensure its staff responsible for assessing and notifying parents of their assessed cost participation are aware that the parents’ income documentation must be submitted within 10 working days of signing the IPP. RCOC should also be aware that no submission of the income documentation within the 10 day time period would result in the parent’s cost participation being set at the maximum amount. This would ensure RCOC is in compliance with Title 17, and W&I Code.

**Finding 10: Lack of Minutes for Closed Board Meetings**

The review of RCOC’s Board minutes revealed that minutes were recorded for all open Board meetings, but no minutes were recorded or documented for closed Board meetings. RCOC stated that the closed Board meetings involved discussions such as employee benefits, lawsuits, and/or labor issues.

Welfare and Institutions (W&I) Code, Article 3, Section 4663 (a) and (b) states:

“(a) The governing board of a regional center may hold a closed meeting to discuss or consider one or more of the following:

- (1) Real estate negotiations.
- (2) The appointment, employment, evaluation of performance, or dismissal of a regional center employee.
- (3) Employee salaries and benefits.
- (4) Labor contract negotiations.
- (5) Pending litigation.

(b) ...Minutes of closed sessions shall be kept by a designated officer or employee of the regional center, but these minutes shall not be considered public records. Prior to and directly after holding any closed session, the regional center board shall state the specific reason or reasons for the closed

session. In the closed session, the board may consider only those matters covered in its statement.”

**Recommendation:**

RCOC should develop and implement policies and procedures to ensure compliance with W&I Code Section 4663. The policies and procedures should require that minutes be recorded and maintained for all closed Board meetings.

**Finding 11: Equipment**

**A. Equipment Inventory not Signed and Dated**

The RCOC conducted a physical inventory. However, the individuals that performed the inventory count did not sign and date the worksheets used to take the physical inventory. The State Equipment Management System Guidelines require that inventory worksheets be signed, dated, and retained for audit.

Article IV, Section 4a of the contract between DDS and RCOC 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.”

Section III (F) of the State’s Equipment Management System Guidelines, dated February 1, 2003, states in part:

“The inventory will be conducted per State Administrative Manual (SAM) Section 8652.”

State Administrative Manual (SAM) Section 8652 states in part:

“Departments will make a physical count of all property and reconcile with accounting records at least once every three years.

Departments are responsible for developing and carrying out an inventory plan which will include:

2(b) Worksheets used to take inventory will be retained for audit and will show the date of the inventory and the name of the inventory taker.”

**Recommendation:**

The RCOC should develop policies and procedures to ensure compliance with the State's Equipment Management System Guidelines as required by its contract with DDS. The policies and procedures should include requirements to maintain documentation of the physical inventory with the date and name of the inventory taker.

**B. Missing Survey Report and Acquisition Forms**

The review of a sample of 51 items which comprised of equipment valued \$5,000 or over and sensitive equipment from the list provided by RCOC revealed six disposed items with no supporting documentation. Four laptop computers, an LCD projector, and an AS400 mainframe were disposed. However, RCOC could not provide the Property Survey Report (STD. 152) to support the disposition of the equipment. In addition, RCOC has not been completing the required form (DS 2130), Equipment Acquired Under Contract, for newly acquired equipment. (See Attachment G.)

Article IV, Section 4a of the contract between DDS and RCOC states:

“... 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.”

Section III (E), of the State's Equipment Management System Guidelines dated February 1, 2003, states:

“RCs will conform with the following guidelines for any state-owned equipment that is junked, recycled, lost, stolen, donated, destroyed, traded-in, transferred or otherwise removed from the control of the RC.

RCs shall work directly with their regional Department of General Services' (DGS) office to properly dispose of state-owned equipment. RCs will complete a Property Survey Report (STD 152) for all state-owned equipment subject to disposal.”

Also, Section III (B), of the State's Equipment Management System Guidelines dated February 1, 2003, states in part:

“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:**

RCOC should develop and implement procedures to properly complete and file all required forms for equipment management with DDS. This would ensure compliance with State contract requirements regarding State property.

**Finding 12: Excess Caseloads for More Than 60 days**

The review of the Service Coordinator Caseload data provided by RCOC for the months of January, February, March, and April 2007 revealed that 10 Service Coordinators carried a caseload in excess of 84 consumers for more than 60 days. This was due to RCOC assigning the 10 Service Coordinators all consumers that are bilingual. (See Attachment H.)

W&I Code, Section 4640.6(c)(4) states in part:

“Contracts between the department and regional centers shall require regional centers to have service coordinator-to-consumer ratios, as follows:

(4) ...For purposes of paragraph (3), in no case shall a service coordinator have an assigned caseload in excess of 84 for more than 60 days.”

**Recommendation:**

RCOC should develop policies and procedures to ensure compliance with the W&I Code, Section 4640.6. The policies and procedures should include requirements that Service Coordinator caseloads do not exceed the assigned caseload of 84 consumers for more than 60 days.

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

**Finding 13: Under-Stated Claims**

A detailed review of RCOC’s Day Program, Residential, and Transportation vendors revealed four vendors that were underpaid for services provided. RCOC underpaid one Day Program, two Residential, and one Transportation vendor due to rate changes. This caused a total underpayment of \$14,723.59.

Title 17, Section 57300(d)(2) states in part:

“...the vendor shall be reimbursed for services at the rate established by the Department.”

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

“Regional centers shall pay residential service providers monthly at the rate established by the Department pursuant to Section 56902(b) and (c).”

RCOC has taken corrective action by making billing adjustments for the underpayments.

**Recommendation:**

RCOC should continue to review the payment invoices and rate letters to ensure any underpayments that may have occurred in the course of doing business with the vendors are addressed and corrected.

## EVALUATION OF RESPONSE

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

**Finding 4: Negotiated Contracts not Signed**

RCOC states in its response that it has developed and implemented a negotiated rate agreement that will ensure all contracts are signed and dated prior to the effective date of the contract. A copy of a signed negotiated contract identified in the audit was provided with RCOC's response. However, RCOC did not provide documentation for the remaining two contracts identified in the audit as to the status. Therefore, follow-up on this issue will be conducted during the next DDS audit to ensure corrective action has been taken by RCOC to resolve this issue.

**Finding 8: Missing "Hold Harmless" Clause (Repeat)**

RCOC states in its response that written requests have been made to its landlords to amend their current contracts to include the "Hold Harmless" clause. To date, RCOC has negotiated the "Hold Harmless" clause into one of its leases. However, RCOC has not been able to renegotiate with the other landlords on amending the leases to include the "Hold Harmless" clause. Therefore, RCOC should continue to pursue an amendment to their leases as required under Article VII (1) of the State contract. Follow-up on this issue will be conducted during the next DDS audit.

**Regional Center of Orange County  
Over Stated Claims  
Fiscal Years 2004-05, 2005-05, and 2006-07**

Unique Client Identification Number		Vendor Number	Vendor Name	Service Code	Authorization Number	Payment Period	Overpayment
<b>Overpayment due to Duplicate Payments</b>							
1		H13798	Integrity House	520	7291841	10/06	\$152.44
2		H23068	Rehabilitation Institute	520	5266850	11/04	\$24.30
3		HM0206	Creative Support System	520	5255195	11/04	\$30.70
4		H13851		520	5174884	11/04	\$91.29
5		H13751	Mainstream Independent	520	5261454	11/04	\$75.02
6		HM0122	Independent Behavior	520	5264835	8/04	\$2,038.80
7		HM0206	Creative Support System	520	5242411	7/04	\$368.40
<b>Total for Duplicate Payments</b>							<b>\$2,780.95</b>
<b>Total Over Stated Claims</b>							<b>\$2,780.95</b>

**Regional Center of Orange County  
Client Trust Disbursements not Supported  
Fiscal Years 2004-05, 2005-06, and 2006-07**

Unique Client Identification Number		Vendor Number	Vendor Name	Check Date	Invoice Number	Money Management Disbursement Amount
1		HM 0011		7/22/05	95	\$503.00
2		M00305		6/27/07	4	\$639.00
3		H13842	Orange County ARC	3/15/06	137	\$200.00
4		H13714		3/15/06	17	\$300.00
5		H13784	RSCR, Orange County	10/13/06	12	\$205.00
6		H23080		12/14/05	38	\$500.00
7		M00001	Fore Thought Life	12/14/05	39	\$861.57
8		H13743		7/27/06	111	\$200.00
9		H13743		8/28/06	113	\$1,100.00
10		H13842	Orange County ARC	7/22/05	53	\$215.00
11		H13842	Orange County ARC	4/26/06	63	\$392.09
12		H13779	Garden Villa	8/28/06	18	\$200.00
13		H13830		11/23/05	28	\$300.00
14		H13622		11/15/06	46	\$275.00
15		M00139		6/27/06	9	\$300.00

**Regional Center of Orange County  
Negotiated Contracts not Signed  
Fiscal Years 2004-05, 2005-06, and 2006-07**

	<b>Vendor Number</b>	<b>Vendor Name</b>	<b>Service Code</b>	<b>Fiscal Year 2004-05</b>	<b>Fiscal Year 2005-06</b>	<b>Fiscal Year 2006-07</b>
1	HM0241	Orange County ARC	505	No	No	No
2	HM0115	Sutton Foundation	880	No	No	No
3	HM0256	ARC Mid-Cities	880	No	No	No

No - Contract not signed and dated by RCOC and the Vendor.

**Regional Center of Orange County  
Prevailing Rate Letters  
Fiscal Years 2004-05, 2005-05, and 2006-07**

	<b>Vendor Number</b>	<b>Vendor Name</b>	<b>Service Code</b>
1	H15521	Devereux Foundation	920
2	H46081	Devereux Foundation	920
3	H89238	Devereux Foundation	920
4	HM0172	South Coast Children's	920
5	HM0173	South Coast Children's	920
6	HM0320	South Coast Children's	920

**Regional Center of Orange County  
Summary of Leases Without the Hold Harmless Clause  
Fiscal Years 2004-05, 2005-06, and 2006-07**

	<b>Landlord</b>	<b>Location</b>	<b>Lease Term</b>
1	801 Civic Center Corporation		9/1/03 to 11/30/10
2	Colton Real Estate Group		10/17/07 to 10/16/12
3	Westminster Executive Plaza, LLC		2/15/03 to 2/14/08
4	TMC San Juan, LLC		11/01/01 to 10/31/06
5	The Irvine Company, LLC		5/11/07 to 5/31/12



**Regional Center of Orange County  
Late Notification Letters  
Fiscal Years 2004-05, 2005-06, and 2006-07**

Unique Client Identification Number			
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			

**Regional Center of Orange County  
Missing Property Survey Report  
Fiscal Years 2004-05, 2005-06, and 2006-07**

	<b>Item Description</b>	<b>Serial Number</b>	<b>State Tag Number</b>
1	NOTEBOOK COMPUTER	99LCK32	337185
2	NOTEBOOK COMPUTER	99LCL30	337194
3	NOTEBOOK COMPUTER	B9M0050856C	339633
4	M/M LCD PROJECTOR	707313585	322007
5	AS400/720 MAINFRAME	10-4818M	325803
6	NOTEBOOK COMPUTER	70798981U	330155

**Regional Center of Orange County  
Monthly Service Coordinator-to-Consumer Caseload Ratio  
Fiscal Years 2004-05, 2005-06, and 2006-07**

Service Coordinator Name		January 2007	February 2007	March 2007	April 2007
1		91	92	92	91
2		87	86	86	85
3		98	88	88	88
4		88	86	86	86
5		95	91	91	89
6		97	94	94	93
7		92	91	90	89
8		92	85	85	87
9		88	89	90	90
10		90	96	96	96

**APPENDIX A**

**REGIONAL CENTER OF ORANGE COUNTY**

**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.**



October 23, 2008

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

Dear Mr. Lee:

The Regional Center of Orange County's (RCOC's) response to the draft report of the audit conducted by the Department of Developmental Services for the fiscal years ended June 30, 2004 2005 and 2006 is as follows.

There were no findings or exceptions noted in the following areas:

- Individual trust accounts over the \$2,000 resource limit
- Uniform Fiscal Systems reconciliations
- bank reconciliations
- interest and bank credits
- personnel files, time sheets, payroll ledgers
- Targeted Case Management and Regional Center Rate Study
- Service Coordinator Caseload Survey calculations
- Early Intervention Program (Part C funding)
- Family Resource Center
- Medicare Moderation Act (Part D funding)

DDS Finding and Recommendation 1: Over-Stated Claims

A detailed review of RCOC's Operational Indicator Reports revealed seven payments to vendors in which RCOC over-claimed expenses to the State. The payments were due to duplicate payments. The total overpayment was \$2,780.95. This is not in compliance with Title 17, Section 54326 (a)(10).

The RCOC should recover the improper overpayments from the respective vendors and reimburse DDS for the amount of \$2,780.95 overpaid to the vendors. In addition, RCOC should develop and implement procedures to ensure staff are monitoring the Operational Indicator reports to more efficiently detect duplicate payments and correct any overpayments that may have occurred in the course of doing business with the vendors.

RCOC Staff Response to Finding 1

The payment to provider H13798 (first payment on Attachment A) was paid correctly. Hours had been added on a modification to the authorization. RCOC recovered payments 2, 3, 4 and 7 on October 15, 2008. Providers H13751 and HM0122 (payments 5 and 6) are no longer vendored; RCOC could not recover the overpayments.

RCOC routinely audits, identifies and recovers incorrect payments. RCOC will run the Indicator reports.

DDS Finding and Recommendation 2: Client Trust Disbursements not Supported

A review of the client trust money management disbursements revealed that RCOC lacked supporting receipts for checks issued to vendors for the spending down of consumer funds. The review of the disbursements identified all 15 sampled spend-down checks did not have receipts to support purchases made by the vendors for the consumers.

As the representative payee for clients, RCOC should develop and implement policies and procedures requiring supporting receipts for disbursements made from the client trust accounts. The receipts should be documented in the consumer's file with the money management check requests for the expenditures. This will ensure money management checks disbursed to vendors are for appropriate purposes and that there is proper accounting for Social Security benefits.

RCOC Staff Response to Finding 2

RCOC obtained receipts for all payments except 3 and 10. For payments 3 and 10, the provider gave the consumers cash and had the consumers initial the Personal and Incidental ledger. The provider did not have the consumers sign a receipt for cash. The provider is now submitting receipts for purchases. However, RCOC will monitor cash disbursements carefully to determine if the provider is maintaining the proper documentation. RCOC will also relinquish the payeeship if the provider is unable to comply with Social Security Administration requirements for cash disbursements. RCOC has also implemented a tickler procedure to contact providers at 30, 60 and 90-day intervals if receipts are not submitted.

DDS Finding and Recommendation 3: Missing Attendance Documentation

The review of 21 Day Program vendor files revealed that RCOC reimbursed one vendor for services provided to consumers without attendance documentation. This is not in compliance with Title 17, Section 50604 (d)(3)(B) which requires vendors to maintain support for billings/invoicing.

RCOC should develop and implement policies and procedures to ensure attendance documentation is attached to each turnaround invoice before reimbursing vendors for services provided to the consumer. This will ensure RCOC's compliance with Title 17, Section 50604(d).

RCOC Staff Response to Finding 3

The day program service is independent living under a group contract. The provider was notified and has been in compliance since January, 2008.

DDS Finding and Recommendation 4: Negotiated Contracts not Signed

The review of the Day Program and Transportation vendor files revealed three negotiated vendor contracts with RCOC that were not signed by RCOC and the vendors.

RCOC should establish policies and procedures to ensure that all written contracts are signed and dated prior to the effective date of the contract.

RCOC Staff Response to Finding 4

The negotiated contract for provider HM0241 was signed on September 21, 2007. Please see Attachment D.

RCOC has developed and implemented a negotiated rate agreement that will be executed before the vendorization is approved.

DDS Finding and Recommendation 5: Prevailing Rates for Residential Providers

The review of 37 Residential vendors revealed six vendors being paid at a prevailing rate established by the Department of Social Services. These rates were higher than the Alternative Residential Model rate. No current approval letters from DDS approving of the rates were provided by RCOC. This is not in compliance with Title 17, Sections 56917(a) and 56919(a) and (b).

**IN SERVICE TO PEOPLE WITH DEVELOPMENTAL DISABILITIES**

RCOC should develop and implement procedures to ensure it is in compliance with Title 17, Sections 56919(a) and (b) by obtaining the required approval letter from DDS prior to making any payment for prevailing rates to any residential provider.

**RCOC Staff Response to Finding 5**

RCOC has requested approval from DDS to pay the rate established by the Department of Social Services to the six vendors identified in the audit.

From this date forward, RCOC will obtain approval letters from DDS prior to paying vendors at rates established by the Department of Social Services.

**DDS Finding and Recommendation 6: Lack of Written Policies and Procedures**

The review of the bank, payroll and Uniform Fiscal Systems (UFS) reconciliations revealed that RCOC does not have any formal written policies and procedures in place for these areas.

RCOC should develop and implement written policies and procedures in the bank, payroll and UFS reconciliation areas. This will ensure [that] staff is aware of the tasks to be performed and will ensure [that] the reconciliations are completed timely to detect potential errors.

**RCOC Staff Response to Finding 6**

RCOC has completed reconciliation procedures.

**DDS Finding and Recommendation 7: Lack of Signatory Authority**

The review of bank signature cards revealed that RCOC has two bank accounts, the Self-Funded Dental and the ADP Flex accounts which lacked the required DDS's signatory authority. This is not in compliance with the State Contract, Article III, Section 3(f).

RCOC should implement procedures to ensure that signatory authorization is given to DDS for all bank accounts that are identified as having State funds as required by the State contract.

**RCOC Staff Response to Finding 7**

The Self-Funded Dental and ADP Flex bank accounts are for employee elected benefits. State funds are not deposited in these accounts. The Self-Funded Dental bank account was opened in 1983. In all the previous DDS audits, signatory authority on this account was not a finding. DDS staff stated that they must have access to all regional center accounts in order to continue operations if the contract was canceled.



IN SERVICE TO PEOPLE WITH DEVELOPMENTAL DISABILITIES

RCOC included DDS on the signature cards for the Self-Funded Dental and ADP Flex accounts in March 2008.

DDS Finding and Recommendation 8: Missing "Hold Harmless" Clause (Repeat)

A review of RCOC's lease agreements revealed five leases that did not include the "Hold Harmless" clause as required by Article VII, Section 1 of DDS's contract with RCOC. This issue was also identified in the prior audit report.

RCOC should amend all of its leases to include a "Hold Harmless" clause to ensure compliance with the State contract and protect the State from claims or losses resulting from these leases. In addition, RCOC should implement policies and procedures to ensure that any future lease agreements will comply with this requirement.

RCOC Staff Response to Finding 8

In 2006 when DDS made this finding in the last audit, RCOC wrote to all four landlords requesting the hold harmless amendment; they all declined. In 2008, RCOC was able to negotiate the "Hold Harmless" clause in one of its leases.

DDS Finding and Recommendation 9: Family Cost Participation Program (FCPP) - Late Assessments

The sample review of the 17 FCPP files revealed that RCOC failed to assess the parents' share of cost at the maximum amount when the parents were not submitting their gross annual income within 10 working days from the date of the parents' signatures on the Individual Program Plan (IPP). This is not in compliance with W&I Code, Section 4783(g)(3), and Title 17, Section 50261(a).

RCOC should develop and implement policies and procedures to ensure [that] its staff [who are] responsible for assessing and notifying parents of their assessed cost participation are aware that the parents' income documentation must be submitted within 10 working days of signing the IPP. RCOC should also be aware that no submission of the income documentation within the 10 day time period would result in the parents' cost participation being set at the maximum amount. This would ensure [that] RCOC is in compliance with Title 17 and W&I Code.

RCOC Staff Response to Finding 9

RCOC will assess the parents' share of cost at the maximum amount when parents have not submitted their income information within ten working days.

DDS Finding and Recommendation 10: Lack of Minutes for Closed Board Meetings

The RCOC could not provide minutes for closed Board meetings because all minutes for closed Board meetings were not recorded or documented. This is not in compliance with the Welfare and Institutions Code, Article 3, Section 4663.

RCOC should develop and implement policies and procedures to ensure compliance with W&I Code Section 4663. The policies and procedures should require that minutes be recorded and maintained for all closed Board meetings.

RCOC Staff Response to Finding 10

RCOC is now recording and maintaining minutes for closed Board meetings.

DDS Finding and Recommendation 11: Equipment

A. Equipment Inventory not Signed and Dated

The review of RCOC's equipment inventory revealed that the inventory worksheets were not signed and dated by the individual who performed the inventory. This is not in compliance with the State's Equipment Management System Guidelines issued by DDS.

B. Missing Survey Report and Acquisition Forms

The sample review of RCOC's equipment inventory revealed that RCOC has not been completing the required forms, Property Survey Report (Std. 152), for the surveying of equipment and Equipment Acquired Under Contract (DS 2130), for newly acquired equipment. This is not in compliance with the State's Equipment Management System Guidelines, Section III(B) and (E).

The RCOC should develop and implement policies and procedures to ensure compliance with the State's Equipment Management System Guidelines as required by its contract with DDS. The policies and procedures should include requirements to maintain documentation of the physical inventory with the date and name of the inventory taker.

RCOC should develop and implement procedures to properly complete and file all required forms for equipment management with DDS. This would ensure compliance with State contract requirements regarding State property.

RCOC Staff Response to Finding 11

RCOC did have the proper procedures in place. The issue of incomplete forms has been addressed.

DDS Finding and Recommendation 12: Excess Caseloads for More Than 60 Days

The review of the Service Coordinator caseload data for the months of January, February, March, and April 2007 revealed that 10 Service Coordinators carried caseloads in excess of 84 consumers for more than 60 days. This is not in compliance with the W&I Code, Section 4640.6(c)(4).

RCOC should develop policies and procedures to ensure compliance with the W&I Code, Section 4640.6. The policies and procedures should include requirements that Service Coordinator caseloads do not exceed the assigned caseload of 84 consumers for more than 60 days.

RCOC Staff Response to Finding 12

RCOC met the 1:62 caseload requirement. RCOC will comply with the over 84 requirement to the extent that the allocation allows. Caseloads over 84 were comprised of consumers who lived at home and for whom fewer visits are mandated than for consumers who live in a licensed facility or live independently.

DDS Finding and Recommendation 13: Under-Stated Claims

A detailed review of the Day Program, Residential, and Transportation vendors revealed underpayments totaling \$14,723.59 to four vendors. These payments were due to rate changes. This is not in compliance with Title 17, Section 56917(a).

RCOC has taken corrective action by making billing adjustments for the underpayments.

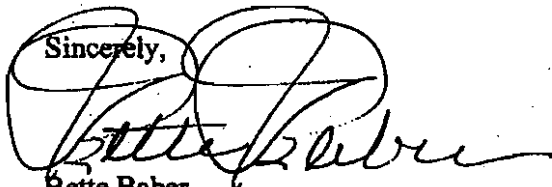
RCOC should continue to review the payment invoices and rate letters to ensure [that] any underpayments that may have occurred in the course of doing business with the vendors are addressed and corrected.

RCOC Staff Response to Finding 13

RCOC will conduct internal audits of vendor payments to verify that retroactive rate increases are processed and that retroactive payments are made.

If you have any questions regarding RCOC's response, please call me at (714) 796-5296.

Sincerely,



Bette Baber  
CFO

**IN SERVICE TO PEOPLE WITH DEVELOPMENTAL DISABILITIES**

**Enclosures: original, Attachments A, B, C and D  
pdf copy, only Attachment D**

**c: Bill Bowman  
Doug Miller  
Marta Acevedo  
Raudel Perez  
Sandra Soto**