



**AUDIT OF THE  
SAN ANDREAS REGIONAL CENTER  
FOR FISCAL YEARS 2007-08 and 2008-09**

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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

Karyn A. Meyreles, Deputy Director, Administration Division  
Edward Yan, Manager, Audit Branch  
Luciah Ellen Nzima, Acting Chief of Regional Center Audits, Audit Branch  
Staci Yasui, Supervisor, Audit Branch

Audit Staff: Richard Hanna, Jeffery Heng, Hanzhao Meng, and Jeffry Takili

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

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## EXECUTIVE SUMMARY

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

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

- I. The finding needs to be addressed, but does not significantly impair the financial integrity of SARC or seriously compromise its ability to account for or manage State funds.

**Finding 1: Unsupported Caseload Ratios (Repeat)**

The review of the Service Coordinator Caseload Ratios revealed supporting documentation was not maintained to verify the reported ratios for February 2007 and 2008. This issue was also identified in the prior DDS audit.

- II. The following finding was identified during the audit, but has since been addressed and corrected by SARC.

**Finding 2: Over-Stated Claims**

The review of the Operational Indicator reports revealed 14 instances in which SARC over claimed expenses to the State. These payments were either due to duplicate payments, overlapping authorizations, or incorrect rates for the service months. The total overpayment was \$6,421.15. This is not in compliance with Title 17, Section 54326 (a)(10).

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

## 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' 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 the DDS Federal Programs Operations Section 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 San Andreas Regional Center, Inc., entered into contract, HD049015, effective July 1, 2004, through June 30, 2009. This contract specifies that San Andreas Regional Center, Inc. will operate an agency known as the San Andreas Regional Center (SARC) to provide services to persons with DD and their families in the Monterey, San Benito, Santa Clara, and Santa Cruz Counties. The contract is funded by State and federal funds that are dependent upon SARC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at SARC from October 5, 2009, through November 5, 2009, and was conducted by DDS' 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 Three of SARC'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
- SARC's contract with DDS

## **AUDIT PERIOD**

The audit period was from July 1, 2007, through June 30, 2009, 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 the SARC'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 SARC's financial statements. We limited our scope to planning and performing audit procedures necessary to obtain reasonable assurance that SARC was in compliance with the objectives identified above. Accordingly, we examined transactions, on a test basis, to determine whether SARC was in compliance with Title 17, the HCBS Waiver for the Developmentally Disabled, and the contract with DDS.

Our review of SARC'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 the 2007-08 fiscal year, issued on March 24, 2009. 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 SARC. 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 retroactive Social Security benefit payments received were not held 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 were maintained.
- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, is not used by SARC. An interview with SARC staff revealed that SARC 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 the 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 SARC'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 were properly completed on a monthly basis.



## **II. Regional Center Operations**

We audited SARC 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 being recorded on a timely basis, and to ensure that expenditures charged to various operating areas were valid and reasonable. These tests included the following:

- A sample of the personnel files, time sheets, payroll ledgers and other supporting 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 SARC'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 determines DDS rate of reimbursement from the Federal Government. The following procedures were performed upon the study:

- Reviewed applicable TCM records and verified that the information submitted by SARC to calculate the TCM rate can be traced to the general ledgers and payroll registers.
- Reviewed SARC's Case Management Time Study. We selected a sample of payroll time sheets for this review and compared these to the DS 1916 forms to ensure the DS 1916 forms were properly completed and supported.

## **IV. Service Coordinator Caseload Study**

Under the W&I Code, Section 4640.6, regional centers are required to provide service coordinator caseload data annually to DDS. 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, commencing January 1, 2004, the following service coordinator-to-consumer ratios apply:

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

We also reviewed the Service Coordinator Caseload Survey methodology used in calculating the caseload ratio to determine reasonableness and that supporting documentation is maintained to support the survey and the ratios, as required by the 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 SARC'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 SARC 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 SARC, we performed sample tests to ensure that the accounting staff was inputting data properly, and that transactions were properly recorded and claimed. In addition, tests were performed to determine if the expenditures were reasonable and supported by documentation. The other sources of funding identified for this audit are:

- Wellness Grants
- Start Up Programs
- Foster Grandparent/Senior Companion
- 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 SARC and reviewed supporting documentation to determine the degree and completeness of SARC's corrective action 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, SARC was in substantial compliance to applicable sections of Title 17, the HCBS waiver, and the terms of SARC's contract with DDS for the audit period July 1, 2007, through June 30, 2009.

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 SARC 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**

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We issued a draft report on April 30, 2010. The findings in the report were discussed at an exit conference with SARC on May 6, 2010. 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 San Andreas 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.

## FINDINGS AND RECOMMENDATIONS

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

- I. The following finding needs to be addressed, but does not significantly impair the financial integrity of SARC or seriously compromise its ability to account for or manage State funds.

**Finding 1: Unsupported Caseload Ratios (Repeat)**

The review of the Service Coordinator Caseload Ratios revealed supporting documentation was not maintained to support the reported ratios for February 2007, and 2008. SARC stated this was due to the misplacement of the documentation during an office relocation of the person responsible for the caseload survey.

Article IV, Section 3(a) of the contract between DDS and SARC states in part:

“The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures, and consumers served under this contract (hereinafter collectively called the “records”) to the extent and in such detail as will properly reflect net costs (direct and indirect) of labor, materials, equipment, supplies and services, reimbursement is claimed under the provisions of this contract in accordance with mutually agreed to procedures and generally accepted accounting principles.”

**Recommendation:**

SARC should continue to work on implementing policies and procedures to insure all supporting documents are maintained to support the reported caseload ratios.

- II. The following finding was identified during the audit, but has since been addressed and corrected by SARC.

**Finding 2: Over-Stated Claims**

The review of the Operational Indicator reports revealed 14 instances in which SARC over claimed expenses to the State. The overpayments totaling \$6,421.15 were due to duplicate payments, overlapping authorizations, or incorrect rates 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.”

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

SARC has taken corrective action by making billing adjustments for the over payments.

**Recommendation:**

SARC should continue to review the payment invoices and Operational Indicator reports thoroughly to ensure any payment errors that may have occurred in the course of doing business with its vendors are identified and corrected.



## EVALUATION OF RESPONSE

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As part of the audit report process, SARC is provided with a draft report and is requested to provide a response to each finding. SARC's response dated May 7, 2010, is provided as Appendix A. This report includes the complete text of the findings in the Findings and Recommendations section and a summary of the findings in the Executive Summary section. DDS' Audit Branch has evaluated SARC's response. SARC's response addressed the audit findings and provided reasonable assurance that corrective action has been taken to resolve the issues. DDS' Audit Branch will confirm SARC's corrective actions in the response during the follow-up review or the next scheduled audit.

**APPENDIX A**

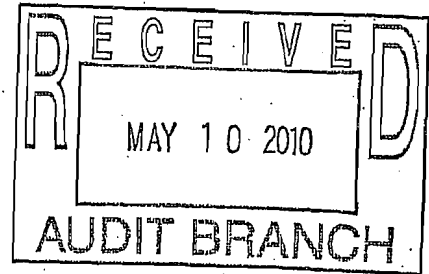
**SAN ANDREAS REGIONAL CENTER**

**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.**

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**SANTA CLARA COUNTY**

300 Orchard City Drive  
Suite 170  
Campbell, CA 95008  
P.O. Box 50002  
San Jose, CA  
95150-0002  
Tel: 1(408) 374-9960  
Fax: 1(408) 376-0586

May 7, 2010

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

Dear Sir:

**SOUTH SANTA CLARA AND  
SAN BENITO COUNTY**

7855 Wren Avenue  
Suite A  
Gilroy, CA 95020  
Tel: 1(408) 846-8805  
Fax: 1(408) 846-5140

This is our response to the Draft Audit Report for Fiscal Years 2007-08 and 2008-09.

**Finding 1: Unsupported Caseload Ratios (Repeat)**

DDS review on the Service Coordinator Caseload Ratios revealed supporting documentation was not maintained to verify reported ratios for February 2007 and 2008. This issue was identified in the prior DDS audit.

**MONTEREY COUNTY**

344 Salinas Street  
Suite 207  
Salinas, CA 93901  
Tel: 1(831) 759-7500  
Fax: 1(831) 424-3007

**Action taken:**

All source supporting documents and files for caseload ratios are being maintained as PDF files on the SARC H: Drive in Folder labeled "Caseload Ratios".

**SANTA CRUZ COUNTY**


1110 Main Street  
Suite 8  
Watsonville, CA 95076  
Tel: 1(831) 728-1781  
Toll Free  
within Santa Cruz County  
1(831) 688-7633  
Fax: 1(831) 728-5514

**SARC Response:**

SARC agrees with the finding and have taken action to correct the issue.

If you have any questions, please call Elizabeth Bacungan at (408) 341-3820.

Very truly yours,

  
Lilibeth Calara  
Financial Manager

[www.sarc.org](http://www.sarc.org)

Member of the Association  
of Regional Center Agencies