AUDIT OF THE
SOUTH CENTRAL LOS ANGELES REGIONAL CENTER
FOR FISCAL YEAR 2006-07

Department of Developmental Services

This report was prepared by the
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EXECUTIVE SUMMARY

The fiscal compliance audit of South Central Los Angeles Regional Center (SCLARC) revealed that SCLARC 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, SCLARC maintains accounting records and supporting documentation for transactions in an organized manner. This report identifies some areas where SCLARC's administrative and operational controls must be strengthened and follow-up on all issues will be performed.

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

I. These findings need to be addressed:

Finding 1: **Over/Under-Stated Claims**

A detailed review of the Operational Indicator reports, Residential, and Day Programs revealed 31 instances in which SCLARC over or under claimed expenses to the State. The payments were either due to duplicate authorizations, overlapping authorizations, or proration errors for the service months. The total overpayment was $64,409.25 and total underpayment was $1,081.56. This is not in compliance with Title 17, Section 54326(a)(10). SCLARC has corrected 20 of the 31 instances either through credit memos or vendor payments. Seven overpayments totaling $18,263.42 and four underpayments totaling $877.70 are still outstanding.

Finding 2: **Family Cost Participation Program (FCPP) - Late Assessments**

The sample review of the 16 FCPP files revealed that SCLARC was not assessing 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 the parents were submitting the income documentation several months after signing the IPP and no assessment was performed by SCLARC until the receipt of the parent's income documentation. This is not in compliance with W&I Code, Section 4783(g)(3), and Title 17, Section 50261(a).

Finding 3: **Client Trust Balances Over $2,000 (Repeat)**

A sample review of 38 Client Trust accounts revealed nine Client Trust balances exceeded the $2,000 resource limit. This is not in compliance with the Social

Security Handbook, Section 2153.2. This issue was also identified in the two previous DDS audits.

Finding 4: Equipment

A. Equipment Inventory

The review of SCLARC 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 State's Equipment Management System Guidelines issued by DDS.

B. Missing State Equipment

A sample of 40 items from the equipment inventory list provided by SCLARC revealed that two items could not be located. This is not in compliance with Article IV, Section 4(a) of the contract with DDS.

Finding 5: Operational Expenses Reimbursement Procedures not Followed (Repeat)

The review of the operational expenses revealed that $6,460.30 in credit card charges had insufficient documentation to verify the claimed expenses. Employees continue to use credit card statements and credit card forms as support instead of the actual receipts. This was due to SCLARC revising its procedures to allow credit card forms in place of original receipts. This issue was also identified in the prior DDS audit.

Finding 6: Lack of Signature on Lease Amendment

The review of SCLARC's office building lease agreement revealed a lease amendment to the agreement that was not signed and dated by the Landlord.

Finding 7: SCLARC Foundation – Friends of SCLARC

A. Lack of Separate Accounting Records

The review of the SCLARC's operational expenses identified that SCLARC is not properly maintaining separate accounting records for SCLARC and the Friends of SCLARC (Foundation). There were several accounting transactions that were not properly recorded in the appropriate entity's records. Two transactions were found in which Foundation travel expenses were charged to SCLARC's corporate credit card for a total of $228.87. Also, eight transactions were found in which cash receipts for SCLARC were deposited into the Foundation's bank account for a total of $11,662.50. The Foundation has since reimbursed SCLARC the $228.87

of credit card expenses and $2,362.50 of cash receipts. There was $9,300 remaining unresolved. In the response to the draft report, SCLARC submitted documentation that resolved this issue.

B. In-Kind Services

The review of the Foundation account revealed that four SCLARC employees had provided accounting and administrative services for the Foundation. SCLARC had no agreement or records to show what "In-Kind" services were received as payment for the accounting and administrative services provided to the Foundation. This is not in compliance with the State Contract Article III, Section 13(b).

C. Conflict of Interest

The review of the Board members for the Foundation and SCLARC's staff listing revealed conflicts of interest that exist but were not properly disclosed. It was found that there was a common board member on the Boards of SCLARC and the Foundation. Further review revealed SCLARC's Executive Director is also a board member and officer of the Foundation and two SCLARC employees spent 35% of their time working for the Foundation. In addition, it was found that SCLARC's Board has the final decision and approval on who serves on the Board of the Foundation which gives SCLARC total control of the Foundation's operational functions. This is not in compliance with Title 17, Sections 54522(a), (b), and (c) and 54523 (a) and (b).

Finding 8: Lack of Signatory Authority

This finding has been moved to Category II.

Finding 9: Payroll

A. Separation of Duties - Payroll Processing

The review of the internal controls for payroll processing revealed a lack of separation of duties for SCLARC's Payroll Accountant. The Payroll Accountant enters data into the payroll system along with verifying the transmission of the data to the payroll processing company. In addition, the Payroll Accountant has the ability to make changes to the employees' master files.

B. Payroll Procedures not Followed

The review of the internal controls revealed that SCLARC's procedures on the reviewing of the payroll reports is not being followed. It was noted that the payroll reports were not being reviewed and signed off by the Controller. This is not in compliance with SCLARC's Payroll Procedures, Procedure 3, Steps 3b and 4.

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

Finding 8: **<u>Lack of Signatory Authority</u>**

The review of bank signature cards revealed that SCLARC has one bank account, the Sweep Account, a short-term interest bearing account which lacked the required DDS's signatory authority. This account was recently opened, but SCLARC did not take steps to amend the signature cards. This is not in compliance with the State Contract, Article III, and Section (3)(f).

SCLARC has taken corrective action to resolve this issue by providing signatory authority to DDS.

Finding 10: **<u>Stale Dated Checks</u>**

The review of the payroll bank reconciliation reports revealed nine stale dated checks older than six months. As of March 2008, SCLARC had stale dated checks totaling $3,193.20.

SCLARC has taken corrective action to resolve this issue by cancelling the stale dated checks and reissuing new checks.

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' 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 South Central Los Angeles for Developmentally Disabled Persons, Inc., entered into contract HD049018, effective July 1, 2004, through June 30, 2009. This contract specifies that South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc., will operate an agency known as the South Central Los Angeles Regional Center (SCLARC) to provide services to persons with DD and their families in the Compton, San Antonio, South, Southeast and Southwest areas. The contract is funded by State and federal funds that are dependent upon SCLARC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at SCLARC from March 10, 2008, through April 11, 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 SCLARC'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
- SCLARC's contract with the DDS

AUDIT PERIOD

The audit period was from July 1, 2006, 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 the SCLARC'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 SCLARC's financial statements. We limited our scope to planning and performing audit procedures necessary to obtain reasonable assurance that SCLARC was in compliance with the objectives identified above. Accordingly, we examined transactions, on a test basis, to determine whether SCLARC was in compliance with Title 17, the HCBS Waiver for the Developmentally Disabled, and the contract with DDS.

Our review of the SCLARC'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 year (FY) 2006-07, issued on February 1, 2008.

In addition, we reviewed the associated management letter that was issued by the independent accounting firm for FY 2006-07. 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 SCLARC. 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 SCLARC. An interview with SCLARC staff revealed that SCLARC 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 SCLARC's bank accounts to determine if the DDS had signatory authority as required by the contract with the 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 SCLARC's operations and conducted tests to determine compliance to the contract with DDS. The tests included various expenditures claimed for administration to ensure that the accounting staff was properly inputting data, transactions were being recorded on a timely basis, and expenditures charged to various operating areas were valid and reasonable. These tests included the following:

- A sample of the personnel files, time sheets, payroll ledgers and other support documents was selected to determine if there were any overpayments or errors in the payroll or the payroll deductions.

- A sample of operating expenses, including, but not limited to, purchases of office supplies, consultant contracts, insurance expenses, and lease agreements was tested to determine compliance to Title 17 and the contract with DDS.

- A sample of equipment was selected and physically inspected to determine compliance with requirements of the contract with the DDS.

- We reviewed SCLARC'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. The last rate study to determine the TCM rate was performed in May 2004 which was reviewed in the fiscal year 2004-05 DDS annual audit. As a result, there was no rate to review for this audit period.

IV. Service Coordinator Caseload Study

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 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 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 SCLARC'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 SCLARC, 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:

- Family Resource Center Program
- Start Up Programs
- Wellness Program
- Medicare Modernization 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 SCLARC and reviewed supporting documentation to determine the degree and completeness of SCLARC'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 and the issues raised regarding Friends of SCLARC, SCLARC was in substantial compliance with applicable sections of Title 17, the HCBS waiver, and the terms of the SCLARC's contract with DDS for the audit period July 1, 2006, 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 SCLARC has taken appropriate corrective actions to resolve all prior audit issues with the exception of findings 3 and 5, which are included in the Findings and Recommendations Section.

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft report on SCLARC. The findings in the report were discussed at an exit conference with SCLARC on August 20, 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 South Central Los Angeles Regional Center. It is not intended and should not be used by anyone other than these specified parties. This restriction does not limit distribution of this report, which is a matter of public record.

ARTHUR J. LEE, CPA, Manager
Audit Branch

FINDINGS AND RECOMMENDATIONS

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

I. These findings need to be addressed:

Finding 1: **<u>Over/Under-Stated Claims</u>**

A review of the SCLARC's Operational Indicator reports and Residential vendors revealed 31 instances in which SCLARC over or under claimed expenses to the State. There were 20 instances of overpayments totaling $50,109.43 due to duplicate payments; two instances of overpayments totaling $3,940.80 due to overlapping authorizations; and three instances of overpayments totaling $10,359.02 due to proration errors. The remaining six instances were underpayments totaling $1,081.56 due to proration errors. The total overpayment was $64,409.25 and total underpayment was $1,081.56. (See Attachment A)

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, SCLARC should continue to 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.

SCLARC provided additional documentation in its response to the draft report showing that corrective actions have been taken in resolving 20 of the 31 instances. Overpayments totaling $46,145.83 and underpayments totaling $203.86 have been resolved through either credit memos or vendor repayments. The remaining seven overpayments totaling $18,263.42 and four underpayments totaling $877.70 are still outstanding.

Recommendation:

SCLARC should continue to recover the remaining overpayments from the respective vendors and reimburse DDS for the amount of $18,263.42 overpaid to the vendors and make payments of $877.70 for the remaining underpayments owed to the vendors. In addition, SCLARC should continue to review the Operational Indicator reports, payment invoices, and rate letters thoroughly to more efficiently detect duplicate payments and correct any over/under payments that may have occurred in the course of doing business with its vendors.

Finding 2: <u>**Family Cost Participation Program (FCPP) - Late Assessments**</u>

The sample review of the 16 FCPP files revealed that SCLARC was not assessing the parent's share of cost at the maximum amount within 10 working days from the date of the parents' signatures on the Individual Program Plan (IPP). It was found that the parents were submitting the income documentation several months after signing the IPP. SCLARC sent letters to the parents notifying them of their share of costs within 10 working days of receipt of the parents' income information. However, no assessment was performed until the receipt of the parents' income documentation, which was several months after signing the IPP. (See Attachment B)

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:

SCLARC should develop and implement policies and procedures to ensure staff responsible for assessing and notifying parents of their assessed cost participation are aware that the parents' income documentation must be submitted within10 working days of signing the IPP. SCLARC 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. These two actions would ensure SCLARC is in compliance with Title 17, and W&I Code.

Finding 3: **<u>Client Trust Balances Over $2,000</u> (Repeat)**

The review of 38 Client Trust accounts revealed nine trust balances exceeded the $2,000 resource limit, a violation of Social Security guidelines. By exceeding the asset limit, consumers are at risk of losing Supplemental Security Income (SSI) benefits that are used to offset the costs of residential services. Any residential costs not offset by SSI benefits are charged in full to the State. Consequently, not managing the consumers' trust balances within the asset limit exposes the State to an increased share of residential service costs. This issue was identified in the two previous DDS audits and SCLARC's Independent Auditor's audit. (See Attachment C)

Social Security Handbook, Chapter 21, section 2153.2 states:

"As of January 2003, the applicable limits are:

A. $2,000 for an individual without a spouse…"

Recommendation:

Though SCLARC states that it is addressing this issue, the current progress has not fully resolved this finding that has been identified in the two previous DDS audits. Therefore, SCLARC should continue to improve management of consumers' trust account balances to ensure the balances remain within the limits established by the Social Security guidelines.

Finding 4: **<u>Equipment</u>**

A. <u>Equipment Inventory</u>

The SCLARC conducted a physical inventory. However, the individual 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 4(a) of the contract between DDS and SCLARC 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 the count 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 inventory and the name of the inventory taker."

Recommendation:

SCLARC 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. <u>Missing State Equipment</u>

A sample of 40 items from the equipment inventory list provided by SCLARC revealed two items could not be located. (See Attachment D)

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

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

Recommendation:

SCLARC should develop and implement procedures to ensure the maintenance and safeguarding of equipment. This would ensure compliance with the State contract requirements regarding State property.

Finding 5: <u>Operational Expenses Reimbursement Procedures not Followed</u> (Repeat)

The review of the operational expenses found that $6,460.13 in credit card charges had insufficient documentation to verify the claimed expenses. Employees continue to use credit card statements and credit card forms as support for the actual receipts. This was due to SCLARC revising its credit card procedures to allow credit card forms in place of original receipts. This issue was also identified in the prior DDS audit. (See Attachment E)

SCLARC's "Procedures for Charging Expenses by Credit Card Holders", Section D(b) states:

2. "Every purchase made with the company credit card must have an original receipt to support the expenditure and a completed credit card form. In the event that receipt is unobtainable or lost, the completed credit card form can be accepted as a reasonable substitute.

3. An explanation for the purchase must be written on the credit card form."

For good internal controls, SCLARC should require receipts for the credit card purchases to ensure all purchases are appropriate SCLARC expenses.

Recommendation:

SCLARC should revise its current credit card procedures by eliminating the use of credit card forms as a substitute for original receipts. This would reduce any potential misuse of credit cards. In addition, requiring receipts would ensure that all operational expenses related to credit card purchases are reasonable business expenses.

Finding 6: <u>Lack of Signature on Lease Amendment</u>

The review of SCLARC's office building lease agreement revealed a lease amendment that was not signed and dated by the Landlord. SCLARC did not follow-up with the Landlord to ensure a signed amendment to the lease agreement was in the file.

For good business practices, SCLARC should have a signed and dated lease amendment with its Landlord to ensure that both parties are fully protected from any disagreements on the terms of the lease amendment.

Recommendation:

SCLARC should ensure any future amendments to the lease are signed and dated by both SCLARC and the Landlord. SCLARC should follow-up with the Landlord to ensure that a signed and dated amendment to the current lease is obtained and on file at SCLARC.

Finding 7: <u>SCLARC Foundation - Friends of SCLARC</u>

A. <u>Lack of Separate Accounting Records</u>

The review of SCLARC's operational expenses identified that SCLARC is not properly maintaining separate accounting records for SCLARC and

Friends of SCLARC (Foundation). There were several accounting transactions that were not properly recorded in the appropriate entity's records.

Two transactions for Foundation travel expenses totaling $228.87 were charged on the SCLARC's corporate credit card and were subsequently recorded as expenses of SCLARC. This resulted in SCLARC improperly paying for travel expenses that were the responsibility of the Foundation. Upon identification of this improper transaction by the DDS auditors, SCLARC was reimbursed from the Foundation funds for the travel expenses.

In addition, nine cash receipts totaling $11,662.50 were improperly deposited into the Foundation's bank account. Upon identification of this improper deposit, SCLARC was reimbursed by the Foundation for three of the cash receipts totaling $2,362.50. The remaining six cash receipts totaling $9,300 remain in the Foundation's bank account. SCLARC has since provided additional documentation to support the $9,300 was funds paid from the Friends of SCLARC's account for the printing of the Autism Booklet and sold to other regional centers.
(See Attachment F)

For good internal controls and to maintain proper accounting records, the accounting books and records for SCLARC and the Foundation should be maintained separately. If the accounting books and records are not properly maintained as separate entities for SCLARC and the Foundation, the financial activities and the results of the financial operations for both entities cannot be properly accounted for.

Recommendation:

SCLARC should develop and implement policies and procedures to ensure that all financial activities and accounting transactions for SCLARC and the Foundation are maintained separately.

B. <u>In-Kind Services</u>

The review identified that several SCLARC employees are performing accounting and administrative work for the Foundation. The Accountant, Controller, Chief Financial Officer, and Executive Director of SCLARC are all performing administrative work for the Foundation.

SCLARC officials indicated that the work performed by the SCLARC employees for the Foundation is reimbursed via "In-Kind" services as allowed under the State Contract. The review identified the following:

- SCLARC could not provide any documentation to account for the cost of the services provided by SCLARC employees for the Foundation.

- SCLARC could not provide any documentation to support that any in-kind services are provided by the Foundation as repayment to SCLARC.

- There is no written agreement between SCLARC and the Foundation to support that any in-kind repayments are being made to SCLARC from the Foundation.

State Contract, Article III, Section 13(b) states:

"Through a written agreement between the Contractor and a foundation, or similar entity, Contractor may provide in-kind administrative services to a foundation, or similar entity, provided such agreement requires reimbursement from the foundation to the Contractor for any services performed by the Contractor or its employees on behalf of the foundation or similar entity. In-kind reimbursement shall be in the form of specifically identifiable, non-monetary benefits for persons with developmental disabilities."

Recommendation:

SCLARC should develop and implement a written agreement between SCLARC and the Foundation for the accounting and administrative services that SCLARC employees are performing for the Foundation. The agreement should include requirements to properly document and account for the cost of the services provided by SCLARC to the Foundation. In addition, the written agreement should specifically identify the in-kind services that the Foundation will provide to SCLARC as in-kind reimbursement, along with documentation requirements to demonstrate that the in-kind reimbursement from the Foundation is equivalent to the cost of the services provided by SCLARC.

C. Conflict of Interest

The review of the Board members for the Foundation and SCLARC's staff listing revealed conflicts of interest that exist but were not properly disclosed. It was found that there was a common board member on the Boards of SCLARC and the Foundation. Further review revealed SCLARC's Executive Director is a board member and officer of the Foundation. Also, two SCLARC employees, the Public Relations Manager and Community Relations Specialist were spent 35% of their time working for the Foundation. However, these individuals did not file subsequent conflict of interest statements nor did they request a waiver of the prohibitions of any present or potential conflict of interest from DDS. In addition, it was found that SCLARC's Board has the final decision and approval on who serves on the Board of the Foundation which gives SCLARC total control of the Foundation's operational functions.

Title 17, Sections 54522(a), (b) and (c) states in part:

(a) "…each regional center employee who has a decision or policy-making authority, as defined in Section 54505(e) herein, and each member of the governing board, including the board member designated by the regional center provider advisory committee pursuant to W&I Code, Section 4622 (a)(7) shall prepare and file an initial conflict of interest statement pursuant to these regulations. …Subsequent statements shall be filed thereafter whenever a change in status would create a present or potential conflict of interest situation as defined in these regulations.

(b) If a present or potential conflict of interest exists, the statements of the regional center employees and governing board members, including the board member designated by the regional center provider advisory committee pursuant to W&I Code, Section 4622(a)(7), shall if desired by the governing board member or regional center employee, also contain a request for waiver of the prohibitions of any present or potential conflict of interest, and a suggested plan of action for resolution of the present or potential conflict of interest, including limitations on the governing board member or regional center employee which will enable him or her to avoid actions involving the conflict of interest during the period the waiver request is being reviewed pursuant to Section 54523 of these regulations.

(c) The regional center or the regional center governing board shall review, respectively, the waiver request of all regional center employees and governing board members, and determine, in its discretion, whether to submit the request pursuant to the regulation, or require the individual to eliminate the conflict of interest or resign his or her position as stated therein."

Also, Title 17, Sections 54523 (a) and (b) states:

(a) "If the conflict of interest statement filed by the regional center governing board member or the regional center employee indicates that a present or potential conflict of interest exist and a waiver is being requested, then within 30 calendar days of receipt of such a statement, the governing board or regional center shall, unless it has elected to do otherwise pursuant to Section 54522(c), submit the request for waiver packet in accordance with the procedures set forth in this section.

(b) All requests for waiver packets must be submitted to the Department. In addition, copies of the request for waiver packets involving the governing board members must also be sent to the area board in the area and to the State Council."

Recommendation:

SCLARC should develop and implement policies and procedures to ensure that all present or potential conflict of interests is properly reported and to request a waiver from DDS when this exists.

Finding 8: **Lack of Signatory Authority**

This finding has been moved to Category II.

Finding 9: **Payroll**

A. Separation of Duties over Payroll Processing

A review of the internal controls for payroll processing revealed a lack of separation of duties for SCLARC's Payroll Accountant (PA). The PA enters data into the payroll system along with verifying the transmission of the data to the payroll processing company. Additional duties of the PA are the verifying, reconciling of vacation and sick leave data, and the receiving, distributing, and safekeeping of any undelivered checks to employees. Also, the PA and Human Resources (HR) both have full access to the payroll system and the ability to make changes to the employee's master files. One instance was found where salary increases for three employees were submitted directly to the PA for processing without HR's approval and no documentation of the salary increases were noted in the employees' personnel file.

Good business practice requires that SCLARC maintain adequate internal controls over the payroll and personnel functions of the organization. Payroll and personnel functions should be performed by different individuals to ensure adequate separation of duties between the two areas. For good internal controls, the ability to access and make changes to employee profiles and any employee salary adjustments should be limited to HR. In addition, the distribution of payroll checks should be performed by an individual separate from the individual responsible for entering payroll transactions.

Recommendation:

SCLARC should develop and implement polices and procedures to ensure that a proper separation of duties exists between the payroll and personnel functions. This would ensure that good internal controls exist for the prevention of errors in the payroll and personnel processes. In addition, SCLARC should ensure proper separation of duties exists for the various payroll functions of the PA.

B. <u>Payroll Procedures not Followed</u>

The review of the internal controls revealed that SCLARC's procedures on the reviewing of the payroll reports are not followed. It was noted that the payroll reports were not being reviewed and signed off by the Controller.

SCLARC's Payroll Procedures, Procedure 3, Steps 3b and 4 states:

"3. The Payroll Accountant distributes copies of the Payroll Reports as follows:

b) Controller
- Master Control Report
- Payroll Register Report
- Personnel Change Report
- Benefit Accrual Report
- Workers' Compensation Report

4. The Controller reviews each report and signs and dates them to indicate that he or she has performed the review."

Recommendation:

SCLARC should adhere to its existing procedures when processing payroll. After all the payroll reports have been received, the Controller should review, sign and date the payroll reports.

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

Finding 8: **Lack of Signatory Authority**

The review of the bank signature cards revealed that SCLARC has a bank account, the Sweep Account, a short-term interest bearing account which lacked DDS signatory authority. This account was opened in February 2008 with U.S. Bank, but SCLARC had not yet revised the signature cards to include DDS as signatory to the account.

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."

SCLARC has corrected this issue by submitting signature cards to DDS for signature in April 2008.

Recommendation:

SCLARC should continue 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 10: **Stale Dated Checks**

The review of SCLARC's payroll bank reconciliation reports revealed nine outstanding stale dated checks older than six months. As of March 2008, SCLARC had outstanding stale dated checks totaling $3,193.20

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 the appropriate action taken to resolve the issue.

SCLARC has taken corrective action to resolve this issue by cancelling the stale dated checks and reissuing new checks.

Recommendation:

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

EVALUATION OF RESPONSE

As part of the audit report process, SCLARC is provided with a draft report and is requested to provide a response to each finding. SCLARC's response dated October 14, 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 SCLARC's response. Except as noted below, SCLARC'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 SCLARC's corrective actions identified in the response during the follow-up review of the next scheduled audit.

Finding 1: **<u>Over/Under-Stated Claims</u>**

SCLARC has submitted some supporting documentation with its response to show that progress is being made to correct the overpayments identified in the audit. DDS Audits has reviewed the documentation submitted to determine if each of the identified amounts in Attachment A of the DDS draft report has been corrected and/or resolved. (See Attachment A)

In the response, SCLARC states that it agrees partially with the recommendation on the recovery of the over and underpayments. The response is separated by category and the following is our evaluation.

a. <u>Overpayments due to duplicate payments.</u>

SCLARC agrees with the 20 instances of overpayments totaling $50,109.43 due to duplicate payments and has indicated that they have recovered $44,983.43 through either credit memos or vendor repayments. In the response, SCLARC indicates that item number five was not an overpayment, but was two separate monthly payments applied incorrectly to one month. The documentation provided to supports that SCLARC has corrected line number five.

Our review of the documentation provided by SCLARC indicates that a total of $42,147.83 has been recovered with $7,961.60 still remaining. Therefore, based on our review and evaluation of the additional information provided by SCLARC, DDS's Audits recognizes that a total of $42,147.83 has been resolved with $7,961.60 in overpayments is still outstanding.

b. <u>Overpayments due to overlapping authorizations.</u>

For two instances of overpayments totaling $3,940.80, SCLARC disagrees and states in its response that the vendor name was incorrect in the finding and that the additional payments were authorized for the consumers to attend a convention.

SCLARC has provided additional documentation showing the changes by issuing different authorizations to reflect the payment history. Based on the review of the documentation, this item has been resolved by SCLARC.

c. <u>Overpayments due to proration errors.</u>

For three instances of overpayments totaling $10,359.02, SCLARC disagrees and states in its response that $10,301.82 of the amount was for two vendors that held beds open at the request of SCLARC. This was due to the consumers being reported as missing and SCLARC had requested the beds be held open until the consumers could be located. However, SCLARC has not provided any documentation to show that the consumers went missing or when the consumers returned to the facility. In addition, SCLARC did not provide any documentation that a request was made to the vendors to keep the beds open. Also, under Title 17, Section 54326(a), paying for holding a vacant bed is not allowed. Therefore, SCLARC should reimburse to DDS, the $10,301.82 paid to the two vendors for holding vacant beds.

For the remaining overpayment of $57.20, SCLARC provided documentation that the consumer had moved to another facility during the month and the partial month proration was applied correctly. Therefore, this item has been resolved and SCLARC would not be required to take any corrective action.

d. <u>Underpayments due to proration errors.</u>

For six instances of underpayments totaling $1,081.56, SCLARC disagrees with the underpayments. First, SCLARC states that $442.59 was not an underpayment as identified in the audit because there was a third party payee. However, SCLARC did not provide documentation to support this claim that a third party payee paid the $442.49 to the vendor. Therefore, this item in the finding will remain unchanged.

Second, for the $283.93 underpayment amount, SCLARC indicates that this was not an underpayment, but an overpayment in the amount of $125.94. SCLARC states that the proration amount was incorrectly applied to the number of days the consumer was at the facility and has since corrected this by issuing a credit memo. However, SCLARC did not provide any documentation to support that this was an overpayment. Therefore, this item in the finding will remain unchanged.

Third, for the $134.38 underpayment, SCLARC states that this item was incorrectly prorated. SCLARC indicates the proration should have been calculated using 28 days and that this is actually an underpayment of $0.28. However, the attendance documentation provided by SCLARC indicates the consumer was in the facility for 29 days. Therefore, this item in the finding will remain unchanged.

Fourth, for two underpayments of $67.20 and $16.80 made to the same vendor, SCLARC agrees that there is an underpayment of $67.20, but disagrees that there is an underpayment of $16.80. SCLARC identifies that both of these amounts are made under the same authorization number. However, SCLARC does not provide any documentation to support its position that the $16.80 is not an underpayment. Therefore, the $16.80 identified as an underpayment in this report is unchanged.

Lastly, for the $136.66 underpayment, SCLARC states that this was not an underpayment and that the proration was calculated correctly based on the consumer's length of stay. SCLARC provided attendance documentation supporting the number of days the consumer was at the facility. Based on the review of the additional information, DDS's Audits considers this issue resolved and the finding in the report has been adjusted.

A follow-up review will be performed in the next scheduled audit to determine if the over/underpayments have been resolved.

Finding 7: **SCLARC Foundation – Friends of SCLARC**

A. Lack of Separate Accounting Records

SCLARC states in its response that it disagrees with the reimbursement of the $9,300. SCLARC states that the $9,300 was monies collected from six regional centers to offset costs associated with the printing of the Autism Booklet for the six regional centers. SCLARC provided documentation with its response to support its claim that Friends of SCLARC paid for the printing of the Autism Booklet related to the six regional centers. The documentation provided were copies of a billing invoice, check request, and check dated in February 2008 for the printing of the Autism Booklet. Based on the review of the documentation which identifies the amount and the work being performed as related to the printing of the Autism Booklet, DDS accepts SCLARC's explanation that the $9,300 was paid from funds of Friends of SCLARC for the expenses related to the printing of the Autism Booklet for the six regional centers. Therefore, the recommendation for this finding will be revised to no longer require that SCLARC seek reimbursement from Friends of SCLARC for the $9,300 in cash receipts identified in the finding. However, though SCLARC has provided documentation to support the $9,300, SCLARC should develop and implement policies and procedures to ensure that all financial activities and accounting transactions for SCLARC and the Foundation are maintained separately.

B. <u>In-Kind Services</u>

SCLARC states in its response that it has consulted with its attorneys and "believes that a written agreement for accounting services performed by SCLARC's fiscal staff is not necessary."

In addition, the SCLARC response refers to a portion of the State contract provisions under Article III, Section 13, citing that "in-kind reimbursement shall be in the form of specifically identifiable, non-monetary benefits for persons with developmental disabilities." SCLARC then cites benefits that consumers receive as a result of the SCLARC fiscal staff performing services for Friends of SCLARC.

However, SCLARC does not provide any documentation to support its position that that a written agreement for accounting services performed by the SCLARC fiscal staff for Friends of SCLARC is not necessary. SCLARC does not address the provisions of the State Contract that is cited in finding related to Foundation Support, which specifically states that a written agreement between SCLARC and the Friends of SCLARC foundation is required.

State Contract, Article III, Section 13(b) states:

"After July 1, 2002, the following provision shall apply:

b. <u>Through a written agreement between the Contractor and a foundation</u>, or similar entity, Contractor may provide in-kind administrative services to a foundation, or similar entity, provided such agreement requires reimbursement from the foundation to the Contractor for any services performed by the Contractor or its employees on behalf of the foundation or similar entity. In-kind reimbursement shall be in the form of specifically identifiable, non-monetary benefits for persons with developmental disabilities." (emphasis added)

Therefore, this finding remains unchanged. Under the terms of the State Contract, a written agreement is required between SCLARC and the Friends of SCLARC Foundation for the accounting and administrative services that SCLARC employees are performing for the Foundation.

C. <u>Conflict of Interest</u>

SCLARC states in its response that it has addressed the conflict of interest issues identified in the audit report. SCLARC states that the common board member on the Boards of SCLARC and the Foundation has voluntarily stepped down from the Foundation's Board on May 16, 2008 and that SCLARC's Executive Director was never formally placed on the Foundation's Board as an officer. Though SCLARC has provided documentation that the common board member has stepped down from the Foundation's board, no documentation was provided by SCLARC in its response to support that the Executive Director was never formally an officer on the Foundation's Board.

For the two SCLARC employees that spent 35% of their time working for the Foundation, SCLARC states that it doesn't have a conflict of interest issue based upon the State contract, Article III, Section 13, Foundation Support. SCLARC states that it has now created a Joint Employment Agreement for the two SCLARC employees to comply with the State contract. However, the State Contract provisions cited by SCLARC only addresses the need for a written agreement to provide services and does not address conflicts of interest.

In the response, SCLARC fails to address the requirements cited in the audit finding. As stated in the finding, under Title 17, Sections 54522(a), (b), and (c), any regional center employee who has a decision or policy-making authority shall prepare and file a conflict of interest statement. SCLARC has not provided any documentation to support this provision of Title 17 does not apply to the two employees in question. Therefore, SCLARC should require the two employees to prepare and submit conflict of interest statements detailing their potential conflicts of interest resulting from being employed by both SCLARC and the Foundation.

SCLARC indicates in its response that the Foundation is currently working with its attorney to change its by-laws so that SCLARC does not appear to have total control of the Foundation's operational functions and that document will be submitted to DDS once it is completed. As of the date of this report, DDS has not received any documentation that changes have been made to the Foundation's by-laws.

In addition, SCLARC indicates agreement that its policies and procedures should be revised to ensure all conflicts of interest are properly reported. Follow-up will be performed in this area during the next DDS audit.

Finding 8: **<u>Lack of Signatory Authority</u>**

SCLARC states in its response that it does have policies and procedures in place to ensure that signatory authorization is given to DDS for all bank accounts that have State funds. In addition, SCLARC indicates that this bank account was opened in February 2008 and that the audit period for the DDS audit was for fiscal year 2006-07. SCLARC has since submitted signature cards to DDS for signature after the end of the audit fieldwork and has requested this finding be removed from the audit report. Based on the additional documentation provided by SCLARC, this finding has been moved in the final audit report to Category II as an issue that had been identified during the audit, but has since been addressed and corrected by SCLARC.

Finding 9: **Payroll**

A. Separation of Duties over Payroll Processing

SCLARC disagrees with the lack of separation of duties for the Payroll Accountant (PA). SCLARC states that the PA has been performing the same duties for the last eight years and that past audits of the payroll procedures have never mentioned a lack of separation of duties with the PA. In addition, SCLARC states its internal controls related to the duties of the PA are strong and ensures that everything the PA enters into the payroll system is reviewed. However, DDS's current review of the internal controls for payroll processing identified areas where a lack of separation of duties exists with the PA. The PA enters data into the payroll system along with verifying the transmission of the data to the payroll processing company. Additional duties include the verifying, reconciling of vacation and sick leave data, and the receiving, distributing, and safekeeping of any undelivered checks to employees. To ensure proper internal controls are in place, these various duties should be performed by two separate individuals. SCLARC should ensure that the individual responsible for entering and reconciling the payroll data is not the same individual that distributes payroll checks or is responsible for the safekeeping of payroll checks that are not delivered to employees. Therefore, the response from SCLARC does not adequately address the need for separation of duties for the PA. Follow-up will be performed in this area in the next DDS audit.

B. Payroll Procedures not Followed

SCLARC disagrees with the finding and states that the Administrator and Controller both review and sign the payroll journal entry reports for each pay period and that the internal controls SCLARC has in place are solid. SCLARC also states that it has placed a higher premium and value on the Administrator and Controller signing the payroll journal entry each pay period then having the Administrator and Controller sign items that are immediately shredded.

The response from SCLARC does not address the condition cited in the finding that SCLARC does not follow its own written procedures, which require that their controller sign and date all payroll reports. Therefore, this finding remains unchanged and follow up will be performed in the next DDS audit.

Attachment A

South Central Los Angeles Regional Center
Over/Under-Stated Claims
Fiscal Year 2006-07

	Unique Client Identification Number	Vendor Number	Vendor Name	Service Code	Authorization Number	Payment Period	Over/ (Under) Payments (A)	Resolved by SCLARC (B)	Net Unresolved (A-B)
Overpayments Due to Duplicate Payments									
1	[redacted]	HX0246	Quality Assurance Care II	915	7173648	10/06	$213.46	$213.46	$0.00
2		HX0067	Creative Living, Inc. #VII	915	7171584	12/06	$373.55	$373.55	$0.00
3		HX0114	[redacted]	520	7173737	01/07	$126.70	$126.70	$0.00
4		HX0309	The Serenity Group	915	8180322	07/07	$2,372.00	$2,372.00	$0.00
5		HX0325	[redacted]	915	8181206	10/06	$5,126.00	$5,126.00	$0.00
6		HX0002		520	7171830	12/06	$62.02	$62.02	$0.00
7		H18814		915	7135962	09/06	$2,287.00	$2,287.00	$0.00
8		HX0352		915	8185150	10/07	$8,772.00	$8,772.00	$0.00
9		HX0352		915	8185150	11/07	$4,386.00	$4,386.00	$0.00
10		HX0352		915	8185150	12/07	$4,386.00	$4,386.00	$0.00
11		HX0055		915	7154913	01/07	$4,386.00	$4,386.00	$0.00
12		HX0263		915	7175793	02/07	$1,620.20	$1,620.20	$0.00
13		HX0263		915	7175793	03/07	$5,159.00	$5,159.00	$0.00
14		HJ0710		113	8184011	12/07	$336.00	$0.00	$336.00
15		H73552	Home of TLC	915	8079305	09/07	$2,825.00	$2,825.00	$0.00
16		HX0217	[redacted]	113	7155975	01/07	$52.90	$52.90	$0.00
17		H73561		915	7168368	08/06	$1,099.60	$0.00	$1,099.60
18		H73561		915	7168368	09/06	$2,236.00	$0.00	$2,236.00
19		H73561		915	7168368	10/06	$2,236.00	$0.00	$2,236.00
20		H73561		915	7168368	11/06	$2,054.00	$0.00	$2,054.00
Total Overpayments Due to Duplicate Payments							**$50,109.43**	**$42,147.83**	**$7,961.60**

South Central Los Angeles Regional Center
Over/Under-Stated Claims
Fiscal Year 2006-07

	Unique Client Identification Number	Vendor Number	Vendor Name	Service Code	Authorization Number	Payment Period	Over/ (Under) Payments (A)	Resolved by SCLARC (B)	Net Unresolved (A-B)
			Overpayments Due to Overlapping Authorizations						
1	[redacted]	HX0165	South Bay Voc, Ctr - Trans	520	07133206	6/07	$1,970.40	$1,970.40	$0.00
2		HX0165	We Are Family Inc.	520	07176370	6/07	$1,970.40	$1,970.40	$0.00
			Total Overpayments Due to Overlapping Authorizations				**$3,940.80**	**$3,940.80**	**$0.00**
			Overpayments Due to Proration Errors						
1	[redacted]	HX0239	Choices "R" Us	113	07158824	12/06	$8,102.00	$0.00	$8,102.00
2		HX0317	[redacted]	905	07173017	11/06	$57.20	$57.20	$0.00
3		HX0239		113	07178432	06/07	$2,199.82	$0.00	$2,199.82
			Total Overpayments Due to Proration Errors				**$10,359.02**	**$57.20**	**$10,301.82**
			Grand Totals for Overpayments				**$64,409.25**	**$46,145.83**	**$18,263.42**
			Underpayments Due Proration Errors						
1	[redacted]	HX0239	[redacted]	905	07173017	12/06	($442.59)	$0.00	($442.59)
2		HX0317	Serenity Living II	905	07176146	04/07	($283.93)	$0.00	($283.93)
3		H09959	Progressive Residential	915	07161768	09/06	($134.38)	$0.00	($134.38)
4		H18672	Morningside Group Home Inc.	915	07174099	02/07	($67.20)	($67.20)	$0.00
5		H18672	Morningside Group Home Inc.	915	07174099	02/07	($16.80)	$0.00	($16.80)
6		H66990	[redacted]	905	07158295	01/07	($136.66)	($136.66)	$0.00
			Total Underpayments Due to Proration Errors				**($1,081.56)**	**($203.86)**	**($877.70)**

South Central Los Angeles Regional Center
Late Assesments
Fiscal Year 2006-07

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

South Central Los Angeles Regional Center
Client Trust Balances Over $2,000
Fiscal Year 2006-07

	Unique Client Identification Number	Balance as of April 2008
1	[redacted]	$2,890.76
2		$2,901.30
3		$2,183.77
4		$2,473.97
5		$2,601.36
6		$12,731.71
7		$4,611.39
8		$3,407.65
9		$2,349.88

South Central Los Angeles Regional Center
Missing Equipment
Fiscal Year 2006-07

	Item Description	Serial Number	State Tag Number
1	Inspirion 8200	J8BF11	335834
2	Toshiba Notebook	63015114SU	335906

South Central Los Angeles Regional Center
Missing Credit Card Receipts
Fiscal Year 2006-07

	Credit Card Name	Transaction	Transaction Date	Amount
1	USBank-Visa	IL Treno Rest	8/1/2006	$30.13
2	USBank-Visa	Garden Grill	8/3/2006	$69.97
3	USBank-Visa	Palm Restaurant	8/7/2006	$56.61
4	AMEX	Travel & Leisure Golf	8/8/2006	$27.00
5	AMEX	Institute for Conflict	8/10/2006	$955.50
6	USBank-Visa	Mastro's Steakhouse	8/15/2006	$166.63
7	USBank-Visa	Valet Air Park	8/18/2006	$26.29
8	USBank-Visa	Sheraton	8/19/2006	$186.42
9	USBank-Visa	Radison Hotel	8/22/2006	$27.71
10	USBank-Visa	Public Storage	8/24/2006	$42.87
11	USBank-Visa	Morton's	8/24/2006	$118.56
12	USBank-Visa	Golfsmith	8/24/2006	$108.20
13	USBank-Visa	Ritz Carlton	8/25/2006	$43.26
14	USBank-Visa	Institute for Conflict	9/6/2006	$300.00
15	USBank-Visa	Jetblue	9/9/2006	$240.00
16	AMEX	LA Downtown/Palm	9/11/2006	$92.11
17	USBank-Visa	Intitute for Conflict	9/16/2006	$892.73
18	USBank-Visa	Verizon Wireless	9/30/2006	$32.46
19	AMEX	AOL	10/1/2006	$25.90
20	USBank-Visa	California Roll & Sushi	10/2/2006	$48.06
21	USBank-Visa	Wyndam San Diego	10/20/2006	$245.78
22	USBank-Visa	Engine Co	10/27/2006	$49.48
23	USBank-Visa	Travel Traders	10/28/2006	$23.76
24	USBank-Visa	Palm Restaurant	10/31/2006	$64.75
25	USBank-Visa	Radison Hotel	11/1/2006	$76.74
26	USBank-Visa	Houston's	11/4/2006	$88.86
27	USBank-Visa	Harold & Belles Jeffers	1/1/2007	$45.72
28	USBank-Visa	Palm Restaurant	1/10/2007	$88.48
29	USBank-Visa	Valet Air Park	1/19/2007	$26.29
30	USBank-Visa	Paradise Rest & Bar	1/22/2007	$33.90
31	USBank-Visa	Windows Los Angeles	2/26/2007	$190.21
32	USBank-Visa	Sofia Hotel Sand Diego	2/26/2007	$75.00
33	USBank-Visa	Chan Dara Restaurant	2/26/2007	$89.85
34	USBank-Visa	Palm Restaurant	2/26/2007	$205.64
35	USBank-Visa	Mortons's Of LA	3/6/2007	$149.25
36	USBank-Visa	Harold & Belles	3/29/2007	$54.47
37	AMEX	Darling Flowers	3/30/2007	$82.22

South Central Los Angeles Regional Center
Missing Credit Card Receipts
Fiscal Year 2006-07

	Credit Card Name	Transaction	Transaction Date	Amount
38	AMEX	AOL	3/31/2007	$25.90
39	USBank-Visa	Office Depot	4/10/2007	$66.23
40	USBank-Visa	Paypal	4/11/2007	$1.87
41	USBank-Visa	Chan Dara Rest	4/25/2007	$63.05
42	USBank-Visa	El Torito	5/7/2007	$41.45
43	USBank-Visa	Radisson Rest	5/21/2007	$78.58
44	USBank-Visa	Who Moved My Cheese	6/19/2007	$1,043.99
45	USBank-Visa	Palm Restaurant	No Date Listed	$58.42
			Total Amount	**$6,460.30**

South Central Los Angeles Regional Center
Cash Receipts Deposited in Foundation Bank Account and not Reimbused to SCLARC
Fiscal Year 2006-07

	Regional Center	Check Date	Check Number	Amount
1	San Gabriel/Pomona Regional Center	6/28/07	1000559	$900.00
2	Tri-Counties Regional Center	6/28/07	81972	$3,000.00
3	Harbor Regional Center	7/13/07	2012290	$1,500.00
4	Eastern Los Angeles Regional Center	7/31/07	710837	$300.00
5	Central Valley Regional Center	8/9/07	32110	$1,800.00
6	Frank D. Lanterman Regional Center	11/5/07	29462	$1,800.00
			Total Cash Receipts	**$9,300.00**

APPENDIX A

SOUTH LOS ANGELES 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.

SCLARC

South Central Los Angeles Regional Center
for persons with developmental disabilites, inc.

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October 14, 2008

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

Dear Art:

Following are SCLARC's responses to the Draft Audit Report for fiscal year 2006-2007.

Finding 1: Over/Under-Stated Claims

A. SCLARC agrees with the recommendation and has recovered overpayments totaling $44,983.43 through credit memos and vendor repayments. Item number 5 on page A-1 for $5,126 was not an overpayment but was two separate monthly payments that were incorrectly applied to one month. We have conducted maintenance to authorization number 08181206 and applied the $5,126 to the appropriate month.

   a. We disagree with the finding that there were, "two instances of overpayments totaling $3,940.80".

      i [redacted]- HX0165-South Bay Vocational, Center – Transportation, – Authorization 07133206 for 6/07 overpayment of $1,970.40. The vendor name indicated in the finding is incorrect, the UCI # and the authorization belong to "We are Family Inc" which is the correct vendor who provided the services. There is no over payment on this authorization. The consumer attended a "People First Convention" in Sacramento from 06/08/07 through 6/10/07. The consumer was authorized for 60 hours of ILS for the convention. Therefore, instead of issuing a new authorization for the 60 hours, we added the 60 hours to an existing authorization and increased the hours on the existing authorization to 82 hrs. However, since it appeared as an audit issue, we have issued a different authorization, authorization 07178445 for the 60 hrs and conducted maintenance to reflect the correct payment history for both authorizations. Therefore, there is no overpayment. We respectfully ask that this item be taken out of the report and that the dollar amount in Finding 1a.i. be adjusted accordingly.

ii. [redacted] – HX0165 We are Family Inc. authorization 07176370 for 06/07 overpayment of 1,970.40 This is not an overpayment. This is the same scenario as enumerated above. The consumer went to attend a "People First Convention" in Sacramento from 06/08/07 through 6/10/07. The consumer was authorized for 60 hours of ILS for the convention. Therefore, instead of issuing a new authorization for the 60 hours, we added the 60 hours to an existing authorization and increased the hours on the existing authorization to 240 hrs. However, since it appeared as an audit issue, we issued a different authorization, authorization, 07178438 for the 60 hrs and processed maintenance to reflect the correct payment history for both authorizations. Therefore, there is no overpayment. We respectfully ask that this item be taken out of the report and that the dollar amount in Finding 1a.ii. be adjusted accordingly.

b. We disagree with the finding that there were, "three instances of overpayments totaling $10,359.02".

i [redacted] – HX0239 Choices "R"US, Authorization 07158824 for 12/06 overpayment amount of $8,102.00. The vendor was asked by SCLARC to hold the bed. The consumer was reported missing on 12-1-06 and SCLARC asked the vendor to hold the bed. Therefore, this is not a prorating error because the vendor was entitled to the payment because the vendor held the bed open at the request of SCLARC. We respectfully ask that this item be taken out of the report and that the dollar amount in Finding 1b.i. be adjusted accordingly.

ii. [redacted] – HX0317 [redacted] Home, authorization 07173017 for 11/06 overpayment amount of $57.20. There is no overpayment on this authorization. Consumer moved to the facility on 11/09/06 – that is 22 days – using $1,745/30.44 =

$57.33 x 22days= $1,261.26. SCLARC paid $1,261.04. We under paid the vendor by $0.22 cents. We request that this finding, 1b.ii. be adjusted accordingly.

iii. [redacted], HX0239 [redacted] Residential, authorization 07178432 for 06/07 overpayment amount of $2,199.82. Consumer was AWOL and vendor was asked to hold the bed while SCLARC attempted to locate the consumer. Therefore, the vendor was entitled to the payment because the vendor held the bed open at the request of SCLARC. We respectfully ask that this item be taken out of the report and that Finding 1b.iii. be adjusted accordingly.

c. We disagree with the finding that there were six instances of underpayments totaling $1,081.56.

i. [redacted] HX0239 [redacted] Home, authorization 07173017 for 12/06 underpayment of $442.59. This is not an underpayment because there was a third party payee and SCLARC paid correctly the State portion of $417.30. We respectfully ask that this item be taken out of the report and that Finding 1c.i. be adjusted accordingly.

ii. [redacted] HX0317 Serenity Living II, authorization 07176146 for 04/07 under payment of $283.93. This is not an underpayment because consumer stayed at the facility for 11 days but we paid the vendor for 12.84 days. The prorated rate should've been, $2,080/30.44 = $68.34 x 11days =$751.74 but we paid $877.68. We will issue a credit memo for $125.94

iii. [redacted], H09959 Progressive Residential, authorization 07161768 for 09/06 for underpayment of 134.38. Consumer left the facility on 9/28/06; therefore the payment should be for only 28 days. The payment was calculated as follows: $4,082.00/30.44 = $134.10 X 28 days = $3,754.80. SCLARC state claimed $2,928.52 and paid SSI of $826. We underpaid the vendor by $0.28 cents. We will pay the vendor.

iv [redacted] H18672 Morningside Group Home Inc. authorization 07174099 for 02/07 underpayment amount of $67.20. We will pay the facility.

v. Item number five is the same as item number four, UCI number [redacted], vendor number, H18672, and authorization number, 07174099. We respectfully ask that this item 1c.v. be taken out of the report.

vi [redacted], H66990 [redacted] Family Home, authorization 07158295 for 01/07 underpayment of $136.66. This is not an underpayment. The consumer left the facility on 1/5/07, and SCLARC paid the facility for 5 days = $2,080/30.44 = $68.33 x 5 days= $341.65. We respectfully ask that this item be taken out of the report.

Finding 2: Family Cost Participation Program (FCPP) – Late Assessments

SCLARC agrees with the recommendation and has developed and implemented a new procedure to prevent a reoccurrence of these late FCPP Assessments.

Finding 3: Client Trust Balances Over $2,000

SCLARC agrees with the recommendation and will continue our prior efforts to monitor consumer trust account balances to prevent those balances from exceeding the $2,000 limitation.

Finding 4: Equipment

A. SCLARC agrees with the recommendation. SCLARC did in fact take a physical inventory of its equipment, but staff did not sign and date the worksheets used to take the physical inventory.

B. SCLARC agrees with the recommendation. SCLARC has since located one of the missing identified pieces of equipment. SCLARC has strengthened its policy and procedure on state equipment such that all state equipment will be logged and tracked properly.

Finding 5: Operational Expenses Reimbursement Procedures not Followed

SCLARC agrees with the recommendation and has now revised its credit card procedures to eliminate the use of substitute credit card forms for original receipts. In addition, the new policy requires that credit card users must submit original receipts or their credit card privileges will be suspended or terminated.

Finding 6: Lack of Signature on Lease Amendment

SCLARC agrees with the recommendation and has obtained the appropriate signature on the unsigned amendment.

Finding 7: SCLARC Foundation – Friends of SCLARC

A. SCLARC disagrees with the reimbursement of the $9,300. There were two separate printings of the Autism Booklet. The first printing of the Autism Booklet mentions only SCLARC. The second printing of the Autism Booklet cost $9,900 to print and was edited to include seven additional Regional Centers. Friends of SCLARC paid $9,900 for the 2nd printing of the Autism Booklet. The $9,300 submitted by the six Regional Centers went to cover the cost of the second printing. We respectfully ask that after considering the information given to the DDS Audit staff that this item be removed from the audit report.

B. (In-Kind Reimbursement/Services) After consulting with our attorneys, South Central Los Angels Regional Center believes an agreement for accounting services performed by SCLARC fiscal staff is unnecessary. According to the language in SCLARC's contract with the Department of Developmental Services under Section 13, Foundation Support:

After July 1, 2002, the following provisions shall apply:

> "c. *In-kind reimbursement shall be in the form of specifically identifiable, non-monetary benefits for persons with developmental disabilities.*"

As such, SCLARC fiscal employees, provide the following non-monetary benefits to Friends of SCLARC processing checks for consumers, processing fiscal reports, reconciling Friends of SCLARC's accounts and preparing financial statements. Their fiscal and accounting activities benefit SCLARC consumers by allowing Friends to issue the much needed funds that SCLARC service coordinators request when their consumers and families find themselves in emergencies and crisis. The employees work allows Friends of SCLARC to provide:

1. Emergency housing
2. Move In Assistance
3. Purchase of durable medical goods
4. Furniture for consumers who find themselves in transition
5. Healthy Holiday Food Supplies
6. Replacement of Consumers personal items due to loss, damage or destruction.

SCLARC will, however, develop procedures to ensure accurate record keeping of the services performed by said employees.

C. (Conflict of Interest) Pursuant to our conversation and correspondence with Rita Walker, DDS' Deputy Director, Community Services Division after SCLARC's annual audit exit interview, Mr. Arthur Dansby voluntarily stepped down from the

Friends of SCLARC Board on May 16, 2008. Therefore, it is SCLARC's position that the conflict of interest issue is resolved. Furthermore, Mr. Dexter A. Henderson attends the Friends of SCLARC meetings as a representative of SCLARC but was never formally placed on Friends' board as a member or officer. Thus, South Central L.A. Regional Center doesn't feel that a conflict of interests exists in this instance either.

In terms of the SCLARC employees who split their time and job duties between the two organizations (Marsha Mitchell and Maura Gibney), SCLARC is not in violation of the conflict of interest policy. According to the language in SCLARC's contract with the Department of Developmental Services under Section 13, Foundation Support:

After July 1, 2002, the following provisions shall apply:

c. *Through a written agreement between the Contractor and a foundation, or similar entity, Contractor may provide in-kind administrative services to a foundation, or similar entity, provided such agreement requires reimbursement from the foundation to the Contractor for any services performed by the Contractor or its employees on behalf of the foundation or similar entity.*

As such, South Central Los Angeles Regional Center, through its legal counsel, created a Joint Employment Agreement for both Marsha Mitchell, who serves as director of Friends of SCLARC Inc. and Maura Gibney who serves as its housing coordinator. Friends of SCLARC, Inc. will reimburse SCLARC on a quarterly basis for 35% and 30% of these individual's time respectively. 100% of the time that is currently being allocated to Friends of SCLARC, Inc. is being spent on creating a housing non profit organization, Friends Housing, as stipulated in our 2006 Community Placement Plan.

Lastly, Friends of SCLARC is currently working with attorney Alan Zuckerman to change its by-laws so SCLARC does not appear to have total control of Friends operational functions. Once this document is completed, it will be forwarded to the Department.

D. SCLARC agrees with the recommendation and will modify its policies and procedures to ensure all present or potential conflicts of interest are properly reported and when appropriate to request a waiver from DDS.

Finding 8: Lack of Signatory Authority — Move to Cat II ?

SCLARC does have policies and procedures in place to ensure that signatory authorization is given to DDS for all bank accounts that have State funds. We would like to indicate that for the period audited, FY 06-07, SCLARC did have properly executed signature cards for all bank accounts with state funds. However, for fiscal year 07-08, SCLARC opened a bank account on February 6, 2008, the DDS auditors arrived at SCLARC on March 10, 2008, and the signature cards were submitted to DDS for signature on April 24, 2008. SCLARC's policy is to ensure that signatory authorization is given to DDS for all bank accounts that are identified as having State Funds. Therefore, we ask that after considering the timing of the dates, Finding 8: Lack of Signatory Authority be removed. In the future every effort will be made to complete the authorization process expeditiously.

Finding 9: Payroll

A. SCLARC disagrees with the finding that there is a, "lack of separation of duties for SCLARC's Payroll Accountant." SCLARC's payroll accountant has been performing the same duties that she has been performing for the last eight years. The DDS auditors and our external auditors have reviewed our Payroll procedures for the last eight years and have never mentioned anything about a lack of separation of duties with our Payroll Accountant. Our internal controls related to the duties of our Payroll Accountant are strong and ensure that everything the Payroll Accountant enters into the ADP payroll system is reviewed. We respectfully ask that the reference pertaining to the lack of Separation of Duties for SCLARC's Payroll Accountant be removed.

   i. SCLARC's agrees with the recommendation concerning HR and Payroll and has modified its procedures to ensure that a proper separation of duties exists between payroll and personnel.

B. SCLARC disagrees with the finding, Payroll Procedures not Followed. The Administrator and Controller both review the payroll and both sign the payroll journal entry prepared each pay-period by the payroll accountant. The internal controls that SCLARC have in place to review the payroll are solid and our payroll internal controls ensure that no new hire can be entered into the ADP payroll system or no employee can receive a rate increase without the Administrator and Controller verifying the approval. SCLARC has placed a higher premium and value on the Administrator and the Controller signing the payroll journal entry each pay-period then having the Administrator and Controller sign items that are immediately shredded. We respectfully ask that after considering the information given to the DDS Audit staff by SCLARC about this issue, that the DDS Audit Staff remove this item from the audit report.

Finding 10: Stale Dated Checks

SCLARC agrees with the recommendation and will monitor and enforce its existing policy.

Cordially,

Dexter Henderson
Executive Director

Enclosures

Cc: Rita Walker, DDS
Deborah Aldama, DDS
Edward Yan, DDS