



**AUDIT OF THE  
TRI-COUNTIES REGIONAL CENTER  
FOR FISCAL YEARS 2009-10 AND 2010-11**

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**Department of Developmental Services**

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# EXECUTIVE SUMMARY

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The Department of Developmental Services (DDS) fiscal compliance audit of Tri-Counties Regional Center (TCRC) was conducted to ensure compliance with the requirements set forth in the California Code of Regulations, Title 17 (CCR, 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 (DDS). The audit indicated that, overall, TCRC maintains accounting records and supporting documentation for transactions in an organized manner. This report identifies some areas where TCRC's administrative, operational controls could be strengthened. A follow-up review was performed to ensure TCRC has taken corrective action to resolve the findings identified in the prior DDS Audit Report.

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

## **I. Findings that need to be addressed.**

### **Finding 1: Rate Increase After Rate Freeze (Repeat)**

A review of the prior DDS audit report revealed one finding regarding non-compliance with the rate freeze requirement for one transportation vendor has not been resolved. TCRC appealed this finding to DDS, and through the Letter of Findings issued on August 27, 2012, the finding was upheld, requiring TCRC to reimburse DDS the amount of \$145,782.28, as this is not in compliance with the W&I Code, section 4648.4(b).

### **Finding 2: Payroll**

#### **A. Timesheets Not Reviewed**

A review of 192 sampled employee timesheets revealed 12 instances where employee timesheets were not properly approved by the employee's supervisor. This is not in compliance with Section I (B) of TCRC's Payroll Procedures.

#### **B. Separation of Duties**

The review of TCRC's internal controls revealed a lack of separation of duties over the payroll and personnel functions. Discussions with the Payroll Accountant and the Director of Human Resources confirmed that both employees have the authority to make changes to employee payroll records.

## **II. Findings that have been addressed and corrected by TCRC.**

### **Finding 3: Overstated Claims**

#### **A. Rate Reduction**

The review of 70 sampled Purchase of Service (POS) vendor invoices revealed TCRC did not correctly apply the 3 and 4.25 percent rate reduction for five vendors resulting in overpayments totaling \$15,141.94. This is not in compliance with Assembly Bill 104, chapter 37, section 24, section 10(a).

TCRC has taken corrective action to resolve this issue and has provided supporting documentation for the overstated claims.

#### **B. Duplicate Payments/Overlapping Authorizations**

A review of TCRC's Operational Indicator reports and 14 Transportation invoices revealed TCRC overstated expenses to the State. The overpayments were due to duplicate payments, overlapping authorizations and an incorrect rate calculation. This resulted in overpayments totaling \$15,122.44 for eight vendors. This is not in compliance with CCR, title 17, section 54326(a)(10).

TCRC has taken corrective action to resolve this issue by recovering the overstated claims from the vendors.

#### **C. Residential Services-Partial Month Stays**

A review of 20 sampled Residential vendor invoices revealed TCRC inaccurately applied the 30.44 proration for one vendor, Community Options Inc., vendor number H57697, service code 904, resulting in underpayments totaling \$2,281.57. This is not in compliance with CCR, title 17, section 56917(i).

TCRC has taken corrective action to resolve this issue by reimbursing the vendor the underpaid amounts.

### **Finding 4: Incorrect Rate Paid to Vendor**

A review of 14 sampled Early Start (Part C) vendor invoices revealed one vendor, Speech, Language and Educational Associates, vendor number HL0288, service code 805, was reimbursed at an incorrect rate from July 2009 to December 2011. This resulted in underpayments totaling \$9,628.75. This is not in compliance with CCR, title 17, sections 54326(a)(12).

TCRC has taken corrective action to resolve this issue by reimbursing the vendor the underpaid amounts and correcting the rate paid to the vendor in the Uniform Fiscal System.

## 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 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 is monitored 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 centers' fiscal, administrative and program operations.

DDS and Tri-Counties Association for the Developmentally Disabled, Inc., entered into contract HD099020, effective July 1, 2009, through June 30, 2014. This contract specifies that Tri-Counties Association for the Developmentally Disabled Inc. will operate an agency known as the Tri-Counties Regional Center (TCRC) to provide services to persons with DD and their families in the Ventura, Santa Barbara, and San Luis Obispo Counties. The contract is funded by State and Federal funds that are dependent upon TCRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at TCRC from April 16, 2012, through May 18, 2012, and was conducted by the DDS Audit Branch.

## **AUTHORITY**

The audit was conducted under the authority of the W&I Code, section 4780.5, and Article IV, section 3 of the State Contract.

## **CRITERIA**

The following criteria were used for this audit:

- California W&I Code
- “Approved Application for the Home and Community-Based Services Waiver for the Developmentally Disabled”
- CCR, title 17
- Federal Office of Management Budget (OMB) Circular A-133
- State contract between DDS and TCRC, effective July 1, 2009

## **AUDIT PERIOD**

The audit period was July 1, 2009, through June 30, 2011, 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 with the W&I Code (or the Lanterman Act),
- To determine compliance with CCR, title 17,
- To determine compliance with the provisions of HCBS Waiver Program for the Developmentally Disabled, and
- To determine that costs claimed were in compliance with the provisions of the State Contract.

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 TCRC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that TCRC was in compliance with the objectives identified above. Accordingly, DDS examined transactions, on a test basis, to determine whether TCRC was in compliance with the Lanterman Act, CCR, title 17, HCBS Waiver for the Developmentally Disabled, and State Contract.

DDS' review of TCRC's internal control structure was conducted to gain an understanding of the transaction flow and the policies and procedures as necessary to develop appropriate auditing procedures.

DDS reviewed the annual audit report that was conducted by an independent accounting firm for fiscal year (FY) 2009-10, issued on January 24, 2011. In addition, DDS reviewed the associated management letter that was issued by the independent accounting firm for FY 2009-10. This review was performed to determine the impact, if any, upon the DDS audit and, as necessary, to develop appropriate audit procedures.

The audit procedures performed included the following:

**I. Purchase of Service**

DDS selected a sample of POS claims 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 Program. For POS claims, the following procedures were performed:

- DDS tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.
- DDS 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 TCRC. The rates charged for the services provided to individual consumers were reviewed to ensure that the rates paid were set in accordance with the provisions of CCR, title 17.
- DDS analyzed all of TCRC's bank accounts to determine whether DDS had signatory authority as required by the contract with DDS.
- DDS selected a sample of bank reconciliations for Operations to determine if the reconciliations were properly completed on a monthly basis.

**II. Regional Center Operations**

DDS audited TCRC's operations and conducted tests to determine compliance with the State Contract. The tests included various expenditures claimed for administration to ensure that TCRC's accounting staff is properly inputting data, transactions were 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 personnel files, timesheets, 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 were tested to determine compliance with CCR, title 17 and the State contract.
- A sample of equipment was selected and physically inspected to determine compliance with requirements of the State contract.

- DDS reviewed TCRC's policies and procedures for compliance with the DDS Conflict of Interest regulations and DDS 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 the DDS rate of reimbursement from the Federal Government. The following procedures were performed upon the study:

- Reviewed applicable TCM records and TCRC's Rate Study. DDS examined the months of May 2010 and June 2011, and traced the reported information to source documents.
- Reviewed TCRC's Case Management Time Study. DDS selected a sample of payroll timesheets for this review and compared it to the DS 1916 forms to ensure that the DS 1916 forms were properly completed and supported.

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

Under W&I Code, section 4640.6(e), regional centers are required to provide service coordinator caseload data to DDS. The following average service coordinator-to-consumer ratios apply per W&I Code, section 4640.6(c)(3):

- A. For all consumers that are three years of age and younger and for consumers enrolled in the 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 continuously in the community for at least 12 months, the required average ratio shall be 1:62. The required average ratio shall be 1:45 for consumers who have moved within the first year.
- 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. The 1:66 ratio was lifted in February 2009, upon imposition of the 3 percent rate reduction to regional centers as required per W&I Code 4640.6(i) and (j). The ratio continued to be lifted in July 2010 and July 2012 with imposition of the subsequent 4.25 percent and 1.25 percent payment reductions.

However, under W&I Code, section 4640.6(i)(2), for the period commencing February 1, 2009, to June 30, 2010, inclusive, regional centers were no longer required to provide service coordinator caseload data to DDS annually. Regional centers were instead to maintain sufficient service coordinator caseload data to document compliance with the service coordinator-to-consumer ratio requirements in effect.

Therefore, DDS also reviewed the Service Coordinator Caseload Survey methodology used in calculating the caseload ratios to determine reasonableness and that supporting documentation is maintained to support the survey and the ratios as required by W&I Code, section 4640.6(e). This requirement is temporarily suspended for the February 2009 and 2010 caseload surveys which are reported in the month of March.

**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, DDS reviewed the Early Intervention Program, including the Early Start Plan and the Federal Part C funding to determine if the funds were properly accounted for in the regional center's accounting records.

**VI. Family Cost Participation Program**

The Family Cost Participation Program (FCPP) was created for the purpose of assessing consumer costs 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 (IPP). To determine whether TCRC is in compliance with CCR, title 17 and the W&I Code, DDS performed the following procedures during the audit review.

- Reviewed the list of consumers who received respite, day care, and camping services, for ages 0 through 17 who live with their parents and are not Medi-Cal eligible, to determine their contribution for the Family Cost Participation.
- 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 that the parents were notified of their assessed cost participation within 10 working days.
- Reviewed vendor payments to verify that TCRC is paying for only its assessed share of cost.

**VII. Procurement**

The Request for Proposal (RFP) process was implemented to ensure regional centers outline the vendor selection process when using the RFP process to address consumer service need. As of January 1, 2011, DDS requires regional centers to document their contracting practices as well as how particular vendors are selected to provide consumer services. By implementing a procurement process, regional centers will ensure that the

most cost effective service providers amongst comparable service providers are selected as required by the Lanterman Act and the State Contract as amended.

To determine whether TCRC implemented the required RFP process by January 1, 2011, DDS performed the following procedures during the audit review:

- Reviewed the TCRC contracting process to ensure the existence of a Board approved procurement policy, and to verify that the RFP process ensures competitive bidding as required by Article II of the State Contract as amended.
- Reviewed the RFP contracting policy to determine whether the protocols in place included applicable dollar thresholds and complied with Article II of the State Contract as amended.
- Reviewed the RFP notification process to verify that it is open to the public, and clearly communicated to all vendors. All submitted proposals are evaluated by a team of individuals, to determine whether proposals are properly documented, recorded and authorized by appropriate officials at TCRC. The process was reviewed to ensure that the vendor selection process is transparent, impartial, and avoids the appearance of favoritism. Additionally, DDS verified that supporting documentation is retained for the selection process and, in instances where a vendor with a higher bid is selected, there is written documentation retained as justification for such a selection.

DDS performed the following procedures to determine compliance with Article II of the State Contract for new contracts in place as of January 1, 2011:

- Selected a sample of Operational, Start-Up and negotiated POS contracts subject to competitive bidding to ensure TCRC notified the vendor community and the public of contracting opportunities available.
- Reviewed the contracts to ensure that TCRC had adequate and detailed documentation for the selection and evaluation process of vendor proposals, written justification for final vendor selection decisions, and contracts were properly signed and executed by both parties to the contract.

In addition, DDS performed the following procedures to determine compliance with the W&I Code, section 4625.5 for new contracts in place as of March 2011:

- Reviewed to ensure TCRC has a written policy requiring the Board to review and approve any of its contracts of two hundred fifty thousand dollars (\$250,000) or more, before entering into a contract with the vendor.
- Reviewed TCRC's board approved POS, Start-Up and Operational vendor contracts over \$250,000 to ensure the inclusion of a provision for fair and

equitable recoupment of funds for vendors that cease to provide services to consumers. Verified that the funds provided were specifically used to establish new or additional services to consumers and that the usage of funds are of direct benefit to consumers, and that contracts are supported with sufficiently detailed and measurable performance expectations and results.

The process above was conducted in order to assess TCRC's current RFP process and Board approval of contracts over \$250,000 as well as to determine whether the process in place satisfies the W&I Code and TCRC's State Contract requirements as amended.

#### **VIII. Statewide/Regional Center Median Rates**

The Statewide or Regional Center Median Rates were implemented on July 1, 2008, and amended on December 15, 2011, to ensure regional centers are not negotiating rates higher than the set median rates for services. Despite the median rate requirement, rate increases could be obtained from DDS under health and safety exemptions where regional centers demonstrate the exemption is necessary for the health and safety of the consumers.

To determine whether TCRC was in compliance with the Lanterman Act, DDS performed the following procedures during the audit review:

- Reviewed sample vendor files to determine whether TCRC is using appropriately vendorized service providers and correct service codes, and is paying authorized contract rates and complying with the median rate requirements for the W&I Code, section 4691.9.
- Reviewed vendor contracts to verify that TCRC is reimbursing vendors using authorized contract median rates and verified that rates paid represented the lower of the statewide or regional center median rate set after June 30, 2008. Additionally, DDS verified that providers vendorized before June 30, 2008, did not receive any unauthorized rate increases, except in situations where health and safety exemptions were granted by DDS.

#### **IX. Other Sources of Funding from DDS**

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

- Start-Up Funds, Community and Placement Program.
- Prevention Program.

- Early Start-American Recovery and Reinvestment Act (ARRA) Funds.
- Family Resource Center Program.
- Foster Grandparent (FGP) and Senior Companion (SC).

**X. Follow-Up Review on Prior DDS Audit Findings**

As an essential part of the overall DDS monitoring system, a follow-up review of the prior DDS audit findings was conducted. DDS identified a prior audit finding that was reported to TCRC, and reviewed supporting documentation to determine the degree and completeness of TCRC's implementation of corrective actions. DDS' review identified one finding that has not been resolved.

## CONCLUSIONS

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Based upon the audit procedures performed, DDS has determined that except for the items identified in the Findings and Recommendations Section, TCRC was in compliance with applicable sections of CCR, title 17, the HCBS waiver, and the State contract with DDS for the audit period, July 1, 2009, through June 30, 2011.

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 TCRC has not taken appropriate corrective action to resolve one prior issue identified in the audit report.



## **VIEWS OF RESPONSIBLE OFFICIALS**

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We issued a draft report on November 19, 2012. The findings in the report were discussed at an exit conference with TCRC on November 30, 2012. 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 DDS, Department of Health Care Services, the Centers for Medicare and Medicaid Services, and the TCRC. 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. Findings that need to be addressed.

#### **Finding 1: Rate Increase After Rate Freeze (Repeat)**

A review of the prior DDS audit report revealed one finding regarding non-compliance with the rate freeze requirement for one vendor, Santa Barbara Transportation Company, vendor H15198 that has not been resolved. TCRC appealed this finding to DDS, and through the Letter of Findings issued on August 27, 2012, the finding was upheld, requiring TCRC to reimburse \$145,782.28 to DDS. TCRC has renegotiated the rate for consistency with the rate freeze and has provided DDS with written confirmation of the rate change. (See Attachment A.)

W&I Code, section 4648.4(b) states, in pertinent part:

“(b) Notwithstanding any other provision of law or regulation, except for subdivision (a), no regional center may pay any provider of the following services or supports a rate that is greater than the rate that is in effect on or after June 30, 2008, unless the increase is required by a contract between the regional center and the vendor that is in effect on June 30, 2008, or the regional center demonstrates that the approval is necessary to protect the consumer’s health or safety and the department has granted prior written authorization.”

#### **Recommendation:**

TCRC must remit to DDS the overpayment amount of \$145,782.28 paid to the transportation vendor.

#### **Finding 2: Payroll**

##### **A. Timesheets Not Reviewed**

A review of 192 sampled TCRC employee timesheets revealed 12 instances where the timesheets were not properly approved by the employee’s supervisor. This is not in compliance with TCRC’s Payroll Procedures.

Section I (B) of TCRC’s Payroll Procedures states in part:

“After entering their time, an hourly employee will print out their “Time Sheet,” sign it, and submit it to their supervisor to review and approve. The

employee will also submit their “Multi-Purpose Leave form” to their supervisor to confirm vacation, sick, personal days, who will review this form, make sure that any sick or vacation time taken was allowed, compare this Form to the employee’s Time Sheet to make sure that they agree, and sign it.”

**Recommendation:**

TCRC should ensure its policy requiring supervisors to approve employees’ timesheets is enforced. This will ensure the time reported on the employees’ timesheets is accurate.

**B. Separation of Duties**

A review of TCRC’s internal controls revealed a lack of separation of duties over the payroll and personnel functions. Discussions with the Payroll Accountant and the Director of Human Resources confirmed that both employees have the authority to make changes to employee payroll records.

Best business practice requires that TCRC 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 payroll accountant should not be able to access and make changes to employee profiles and salary adjustments.

**Recommendation:**

TCRC should amend its policies and procedures to ensure that 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.

**II. Findings that have been addressed and corrected by TCRC.**

**Finding 3: Overstated Claims**

**A. Rate Reduction**

A review of 70 sampled POS vendor invoices revealed that TCRC continued to reimburse vendors at the old rates when the mandated 3 and 4.25 percent rate reductions had been implemented. It was found that TCRC did not reduce the rate for one vendor, [REDACTED], vendor number P52370, by the 3 percent rate reduction resulting in overpayments totaling \$2,375.38. In addition, TCRC did not correctly apply the 4.25 percent rate reduction for four vendors resulting in overpayments totaling \$12,766.56. TCRC stated that this occurred because the program that was provided by DDS to apply

the rate reduction did not work as intended. This resulted in overpayments totaling \$15,141.94.

Assembly Bill 104, chapter 37, section 24, section 10(a) states:

“(a) Notwithstanding any other provision of law, in order to implement change in the level of funding for regional centers purchase of services, regional centers shall reduce payments for service and supports provided pursuant to Title 14 (commencing with Section 95000) of the Government Code and Division 4.1 (commencing with Section 4400) and Division 4.5 (commencing with Section 4500) of the Welfare and Institutions Code. From February 1, 2009, to June 30, 2010, inclusive, regional centers shall reduce all payments for these services and supports paid from purchase of service funds for services delivered on or after February 1, 2009, by 3 percent, and from July 1, 2010, to June 30, 2012, inclusive, by 4.25 percent unless the regional center demonstrates that a non-reduced payment is necessary to protect the health and safety of the individual for whom the services and supports are proposed to be purchased, and the State Department of Developmental Services has granted prior written approval.”

TCRC has taken corrective action to resolve this issue and has provided supporting documentation for the overpayments.

**Recommendation:**

TCRC must review its vendor payments to ensure it has appropriately applied the mandated rate reductions to ensure compliance with Assembly Bill 104, chapter 37, section 24, section 10(a).

**B. Duplicate Payments/Overlapping Authorizations**

A review of TCRC’s Operational Indicator reports and 14 Transportation invoices revealed instances in which TCRC overstated expenses to the State. These overpayments were due to duplicate payments, overlapping authorizations and an incorrect rate calculation. There were 14 instances where eight vendors were overpaid \$12,245.69 due to duplicate payment and overlapping authorization, and one instance where vendor, Nationwide Transit Corp., vendor number HT0478, service code 875, was overpaid \$2,876.75 due to a calculation error. This resulted in overpayments totaling \$15,122.44.

CCR, title 17, section 54326 (a) (10) states:

“All vendors shall...

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

TCRC has taken corrective action by providing DDS with supporting documentation to show that the overpayments have been corrected.

**Recommendation:**

TCRC should review vendor invoices and the Operational Indicator reports to ensure vendors are reimbursed for services which are actually provided to the consumers and have been authorized by TCRC.

**C. Residential Services-Partial Month Stays**

The review of 20 sampled Residential invoices revealed that TCRC inaccurately applied the partial month proration factor of 30.44, to establish a per day rate to calculate partial month stays. This resulted in seven instances where TCRC did not correctly apply the 30.44 proration for one vendor, Community Options Inc., vendor number H57697, resulting in underpayments totaling \$2,281.51.

CCR, title 17, section 56917(i) states:

“The established rate shall be prorated for a partial month of service in all other cases by dividing the established rate by 30.44, then multiplying the number of days the consumer resided in the facility.”

TCRC has taken corrective action to resolve this issue by reimbursing the vendor the underpaid amounts.

**Recommendation:**

TCRC should review its vendor invoices to ensure payments are in compliance with CCR, title 17, section 56917(i) and any payments made in error due to the proration calculation are identified and corrected.

**Finding 4: Incorrect Rate Paid to Vendor**

A review of 14 vendors which received Part C funding revealed one vendor, Speech, Language and Educational Associates, vendor number HL0288, was reimbursed at an old rate after the authorized rate was increased from \$76.01 to \$78.29 per hour as of July 2009. TCRC stated it was unaware that the rate

increase was not applied to this vendor. This resulted in the vendor being underpaid \$9,628.75 from July 2009 to December 2011.

CCR, title 17, section 54326(a)(12) states in pertinent part that:

“(a) All vendors shall:

- (12) Agree to accept the rate established, revised or adjusted by the Department as payment in full for all authorized services provided to consumers...”

TCRC has taken corrective action to resolve this issue by reimbursing the vendor the underpaid amounts.

**Recommendation:**

TCRC should review payments to ensure payments made to vendors are correct and for the services provided. Also, TCRC should review vendor files to ensure vendors are reimbursed according to the correct rate to ensure compliance with the requirements set forth in CCR, title 17, section 54326(a)(12).

## EVALUATION OF RESPONSE

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As part of the audit report process, TCRC has been provided with a draft report and was requested to provide a response to each finding. TCRC's response dated January 7, 2013, is provided as Appendix A. This report includes the complete text of the findings in the Findings and Recommendations section as well as a summary of the findings in the Executive Summary section.

DDS' Audit Branch has evaluated TCRC's response. Except as noted below, TCRC's response addressed the audit findings and provided reasonable assurance that corrective action would be taken to resolve these issues. During the follow-up review of the next scheduled audit, the DDS Audit Branch will confirm that TCRC has implemented corrective actions as identified in their response to the draft audit report.

### **Finding 2: Payroll**

#### **A. Timesheets Not Reviewed**

TCRC concurs with the finding and stated that it will run a report that indicates the status of all timesheets in the current payroll system at least two days before processing. TCRC stated that managers who fail to approve employee timecards in a timely manner will be contacted by the Payroll Associate via email, in addition to an auto reminder through the ADP system. If within 24 hours of final payroll processing, the timecards are still not approved, TCRC's Human Resources (HR) Director will communicate to the manager and the manager's next level supervisor to approve the timecards immediately. Any managers who develop a pattern of failure to address timecard reminders will be subjected to progressive discipline. TCRC indicated that new procedures are under implementation and should be completed by the end of February 2013. Within 60 days of receipt of this report, TCRC must provide DDS with a copy of the revised payroll procedures. DDS will conduct a follow-up during the next scheduled audit to ensure TCRC's revised procedures regarding the approval of employees' timesheets are being enforced.

#### **B. Separation of Duties**

TCRC concurs with the finding and stated that its payroll procedures are being revised to ensure that pay rates are entered into the payroll system by the HR Associate who performs the recruitment function. Pay rate changes that are made after recruitment will be entered in the system by the Payroll Associate, with authorization from either the Manager, Assistant Director, Chief Financial Officer (CFO) or HR Director. TCRC indicated that the HR Director will confirm the payroll records prior to any changes being made. The Payroll Associate will also review the completeness and processing of



the bi-weekly payroll records once TCRC managers have approved the rate changes. In addition, the Controller will review the payroll register for accuracy and notify the HR Director and CFO of any discrepancies. TCRC's new procedures are being implemented and should be completed by the end of February 2013. Within 60 days of receipt of this report, TCRC must provide DDS with a copy of the revised payroll procedures. DDS will conduct a follow-up during the next scheduled audit to ensure that TCRC is in compliance with its procedures, and proper separation of duties exists between the payroll and personnel functions.

**Tri-Counties Regional Center  
Rate Increase After Rate Freeze - (Repeat)  
Fiscal Years 2007-08 and 2008-09**

	Vendor Number	Vendor Name	Payment Period	Service Code	Sub Code	Authorization Number	Overpayments
1	H15198	Santa Barbara Transportation Company	01/09	875	CBUS	██████████	\$6,628.44
2	H15198	Santa Barbara Transportation Company	02/09	875	CBUS	██████████	\$5,817.25
3	H15198	Santa Barbara Transportation Company	03/09	875	CBUS	██████████	\$6,735.76
4	H15198	Santa Barbara Transportation Company	04/09	875	CBUS	██████████	\$6,735.76
5	H15198	Santa Barbara Transportation Company	05/09	875	CBUS	██████████	\$6,123.42
6	H15198	Santa Barbara Transportation Company	06/09	875	CBUS	██████████	\$6,735.76
7	H15198	Santa Barbara Transportation Company	07/09	875	CBUS	██████████	\$6,735.76
8	H15198	Santa Barbara Transportation Company	08/09	875	CBUS	██████████	\$6,429.59
9	H15198	Santa Barbara Transportation Company	09/09	875	CBUS	██████████	\$6,429.59
10	H15198	Santa Barbara Transportation Company	10/09	875	CBUS	██████████	\$6,735.76
11	H15198	Santa Barbara Transportation Company	11/09	875	CBUS	██████████	\$5,511.08
12	H15198	Santa Barbara Transportation Company	12/09	875	CBUS	██████████	\$6,123.42
13	H15198	Santa Barbara Transportation Company	01/10	875	CBUS	██████████	\$5,817.24
14	H15198	Santa Barbara Transportation Company	02/10	875	CBUS	██████████	\$5,817.24
15	H15198	Santa Barbara Transportation Company	03/10	875	CBUS	██████████	\$6,735.76
16	H15198	Santa Barbara Transportation Company	04/10	875	CBUS	██████████	\$6,429.59
17	H15198	Santa Barbara Transportation Company	05/10	875	CBUS	██████████	\$6,123.42
18	H15198	Santa Barbara Transportation Company	06/10	875	CBUS	██████████	\$6,735.76

**Tri-Counties Regional Center  
Rate Increase After Rate Freeze - (Repeat)  
Fiscal Years 2007-08 and 2008-09**

	<b>Vendor Number</b>	<b>Vendor Name</b>	<b>Payment Period</b>	<b>Service Code</b>	<b>Sub Code</b>	<b>Authorization Number</b>	<b>Overpayments</b>
19	H15198	Santa Barbara Transportation Company	07/10	875	CBUS	██████████	\$6,429.59
20	H15198	Santa Barbara Transportation Company	08/10	875	CBUS	██████████	\$6,735.76
21	H15198	Santa Barbara Transportation Company	09/10	875	CBUS	██████████	\$6,429.59
22	H15198	Santa Barbara Transportation Company	10/10	875	CBUS	██████████	\$6,044.51
23	H15198	Santa Barbara Transportation Company	11/10	875	CBUS	██████████	\$5,742.28
<b>Total Overpayment Due to Rate Increase After the Freeze</b>							<b>\$145,782.28</b>

**APPENDIX A**

**TRI-COUNTIES REGIONAL CENTER**

**RESPONSE  
TO AUDIT FINDINGS**

**(Certain documents provided by the Tri-Counties Regional Center as attachments to its response are not included in this report due to the detailed and sometimes confidential nature of the information.)**



# Tri-Counties Regional Center

SAN LUIS OBISPO • SANTA BARBARA • VENTURA

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January 7, 2013

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

## RE: DDS AUDIT OF TRI-COUNTIES REGIONAL CENTER FY 2009-10 THROUGH FY 2010-11

Dear Ed,

Tri-Counties Regional Center (TCRC) herewith submits its response to the Department's Fiscal Audit for the 2009-10 and 2010-11 fiscal years. The response has been prepared with input from staff having responsibility over the specific areas being audited. Our response is as follows:

### **FINDING 1: Rate Increase After Rate Freeze**

A review of the prior DDS audit report revealed one finding regarding non-compliance with the rate freeze requirement for one vendor, Santa Barbara Transportation Company, vendor H15198 that has not been resolved. TCRC appealed this finding to DDS, and through the Letter of Findings issued on August 27, 2012, the finding was upheld, requiring TCRC to reimburse \$145,782.28 to DDS. TCRC has renegotiated the rate for consistency with the rate freeze and has provided DDS with written confirmation of the rate change.

#### Recommendation:

*TCRC must remit to DDS the overpayment amount of \$145,782.28 paid to the transportation vendor.*

### **RESPONSE:**

TCRC has remitted the funds to DDS. The check was sent on September 28, 2012.

### **FINDING 2A: Payroll: Timesheets Not Reviewed**

A review of 192 sampled TCRC employee timesheets revealed 12 instances where the timesheets were not properly approved by the employee's supervisor. This is not in compliance with TCRC's Payroll Procedures.

Section I (B) of TCRC's Payroll Procedures states in part:

"After entering their time, an hourly employee will print out their "Time Sheet," sign it, and submit it to their supervisor to review and approve. The employee will also submit their "Multi-Purpose Leave Form" to their supervisor to confirm vacation, sick, personal days, who will review this form, make sure that any sick or vacation time taken was allowed, compare this Form to the employee's Time Sheet to make sure that they agree, and sign it."

#### Recommendation:

*TCRC should ensure its policy requiring supervisors to approve employees' timesheets is enforced. This will ensure the time reported on the employees' timesheets is accurate.*

**RESPONSE:**

TCRC will run a report that indicates the status of all timesheets in the current payroll system at least two days before processing. Any manager who has not approved a timecard will be contacted by e-mail by the Payroll Associate. We will set up an auto reminder to managers through the ADP system. If within 24 hours of final payroll processing the timecard is still not approved, the HR Director will communicate to the manager and the manager's next level supervisor to approve the timecard immediately. Any unapproved timesheets must be processed according to wage and hour law requirements, however, a manager who develops a pattern of unapproved timecard reminders will be subject to appropriate progressive discipline.

**FINDING 2B: Payroll: Separation of Duties**

A review of TCRC's internal controls revealed a lack of separation of duties over the payroll and personnel functions. Discussions with the Payroll Accountant and the Director of Human Resources confirmed that both employees have the authority to make changes to employee payroll records.

Best business practice requires that TCRC 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 Human Resources.

*Recommendation:*

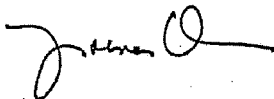
*TCRC should amend its policies and procedures to ensure that proper separation of duties exists between the payroll and personnel functions. This would ensure that good internal controls exist for the prevention of errors in the payroll and personnel processes.*

**RESPONSE:**

Payroll pay rates will be input into the payroll system at the time of hire by the HR Associate who performs recruitment functions. Pay rate changes that occur after hire will be made by the Payroll Associate, however all payroll changes will first require written approval. The Payroll Associate will not have authority to change any payroll records without prior authorization from the Manager, Assistant Director, CFO and HR Director. The HR Director will confirm the changes to payroll records prior to any changes being made in the payroll records. The Payroll Associate will also review completeness of the bi-weekly payroll records once TCRC managers have approved and then process the payroll records. In addition, the Controller reviews the payroll register for accuracy and notifies the HR Director and CFO of any discrepancies.

We appreciate your staff's efforts and suggestions in improving internal controls and accounting processes at TCRC. If you or your staff needs additional information, please contact me at (805) 884-7292.

Sincerely,



Lorna Owens  
Chief Financial Officer

- c: Omar Noorzad, Ph.D., Executive Director  
Phil Stucky, Controller  
Leslie Burton, POS Manager  
Mike Nagel, Director of Human Resources  
Ellen Nzima, DDS  
Oscar Perez, DDS