



**AUDIT OF THE  
VALLEY MOUNTAIN REGIONAL CENTER  
FOR FISCAL YEARS 2005-06, 2006-07, and 2007-08**

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**Department of Developmental Services**

This report was prepared by the  
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## EXECUTIVE SUMMARY

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The fiscal compliance audit of Valley Mountain Regional Center (VMRC) revealed that VMRC 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 (DDS). The audit indicated that, overall, VMRC maintains accounting records and supporting documentation for transactions in an organized manner. This report identifies some areas where VMRC's administrative, operational controls could be strengthened, but none of the findings were of a nature that would indicate systemic issues or constitute major concerns regarding VMRC's operations.

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

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

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

A detailed review of the VMRC's Residential and Operational Indicator reports revealed 31 instances in which VMRC over or under claimed expenses to the State. These payments were due to proration errors for the service months. As a result, the total overpayment was \$6,718.34 and the total underpayment was \$2,761.46. This is not in compliance with Title 17, Section 54326 (a)(10).

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

**Finding 2: Rate Increases for Transportation Vendors**

The review of 14 Transportation vendor files revealed that three transportation contracts included a rate adjustment clause that allows for yearly rate increases. The contracts allow the rates to change by a percentage equal to the annual change in the "Consumer Price Index for Urban Wages Earners and Clerical Workers. This is not in compliance with W&I Code, Section 4648.4.

VMRC has taken corrective action to resolve this issue by amending the vendor contracts to exclude the clause that allows for yearly rate increases.

**Finding 3: Deceased Consumer Files - Multiple Dates of Death (Repeat)**

The review of the Uniform Fiscal System (UFS) Death Report identified four consumers with multiple dates of death recorded. For good internal controls and accounting practices, VMRC should ensure the actual date of death is properly recorded in UFS.

VMRC has taken corrective action by researching the correct date of death of the consumer and updating the UFS to show the correct date of death.

**Finding 4: Security Deposit and Rent not Posted to Correct General Ledger Accounts**

The review of VMRC's lease agreements revealed that VMRC had deposited \$200,000 in an escrow account with the Alliance Title Company during negotiations with the landlord on its new headquarters building. It was found that VMRC recorded the \$200,000 under the Miscellaneous Expense account in the general ledger. Once the lease agreement with the landlord was signed, it was found that the funds in the escrow account were used for the security deposit, two months of rent, and facility maintenance expenses. However, VMRC did not make the appropriate postings in the general ledger accounts to properly reflect the transactions that occurred.

VMRC has taken corrective action to resolve this issue by posting the prepaid security deposit, rent for the months of March and April of 2006, and facility maintenance expenses to the correct general ledger accounts to accurately reflect the transactions that occurred.

## BACKGROUND

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

DDS is also responsible for providing assurance to the Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS) that services billed under California's Home and Community-Based Services (HCBS) Waiver Program are provided and that criteria set forth for receiving funds have been met. As part of DDS's program for providing this assurance, the Audit Branch conducts fiscal compliance audits of each regional center no less than every two years, and completes follow-up reviews in alternate years. Also, DDS requires regional centers to contract with independent Certified Public Accountants (CPA) to conduct an annual financial statement audit. The DDS audit is designed to wrap around the independent CPA's audit to ensure comprehensive financial accountability.

In addition to the fiscal compliance audit, each regional center will also be reviewed by the DDS Federal Programs Operations Section to assess overall programmatic compliance with HCBS Waiver requirements. The HCBS Waiver compliance monitoring review will have its own criteria and processes. These audits and program reviews are an essential part of an overall DDS monitoring system that provides information on regional center fiscal, administrative and program operations.

DDS and Valley Mountain Regional Center, Inc., entered into contract, HD049020, effective July 1, 2004, through June 30, 2009. This contract specifies that Valley Mountain Regional Center, Inc. will operate an agency known as the Valley Mountain Regional Center (VMRC) to provide services to persons with DD and their families in the Amador, Calaveras, San Joaquin, Stanislaus, and Tuolumne Counties. The contract is funded by State and federal funds that are dependent upon the VMRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at VMRC from July 14, 2008, through August 7, 2008, and was conducted by DDS's Audit Branch.

## **AUTHORITY**

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

## **AUDIT PERIOD**

The audit period was from July 1, 2005, through June 30, 2008, with follow-up as needed into prior and subsequent periods.

## OBJECTIVES, SCOPE, AND METHODOLOGY

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

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

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

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

- 2005-06, issued on October 10, 2006
- 2006-07, issued on February 11, 2008

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



The audit procedures performed included the following:

## **I. Purchase of Service**

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

- We tested the sample items to determine if the payments made to service providers were properly claimed and 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 VMRC. 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 analyzed all of VMRC's bank accounts to determine if DDS had signatory authority as required by the contract with DDS.
- We selected a sample of bank reconciliations for Operations bank accounts to determine if the reconciliations were properly completed on a monthly basis.

## **II. Regional Center Operations**

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

- A sample of the personnel files, time sheets, payroll ledgers and other supporting documents was selected to determine if there were any overpayments or errors in the payroll or the payroll deductions.
- A sample of operating expenses, including, but not limited to, purchases of office supplies, consultant contracts, insurance expenses, and lease agreements, was tested to determine compliance to Title 17 and the contract with DDS.
- A sample of equipment was selected and physically inspected to determine compliance with requirements of the contract with DDS.

- We reviewed VMRC's policies and procedures for compliance to the Title 17 Conflict of Interest requirements and selected a sample of personnel files to determine if the policies and procedures were followed.

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

The Targeted Case Management (TCM) rate study determines the DDS rate of reimbursement from the Federal Government. The last study to determine the TCM rate was performed in May 2004 which was reviewed in the last DDS biannual audit. As a result, there was no rate to review for this audit period.

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

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

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

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

- Family Resource Center Program
- Foster Grandparents (FGP) and Senior Companion (SC)
- Self Determination Program
- Start Up Programs
- Medicare Moderation Act (Part D Funding)

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

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

## CONCLUSIONS

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Based upon the audit procedures performed, we have determined that except for the items identified in the Findings and Recommendations Section, VMRC was in substantial compliance with applicable sections of Title 17, HCBS waiver, and the terms of VMRC's contract with DDS for the audit period July 1, 2005, through June 30, 2008.

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 VMRC has taken appropriate corrective actions to resolve all prior audit issues, except for finding three which is included in the Findings and Recommendations Section.

## **VIEWS OF RESPONSIBLE OFFICIALS**

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We issued a draft report on June 25, 2009. The findings in the report were discussed at an exit conference with VMRC on July 14, 2009. At the exit conference, we stated that the final report will incorporate the views of responsible officials.

## **RESTRICTED USE**

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

## FINDINGS AND RECOMMENDATIONS

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

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

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

A review of VMRC's Residential and Operational Indicator reports revealed 31 instances in which VMRC over or under claimed expenses to the State. There were 23 instances of overpayments totaling \$6,718.34 and 8 instances of underpayments totaling \$2,761.46 due to proration errors for the service months. (See Attachment A.)

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.”

Title 17, Sections 56917(i) states in part:

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

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

**Recommendation:**

VMRC should recover the improper overpayments from the respective vendors and reimburse DDS for the amount \$6,718.34 overpaid to the vendors and make payments of \$2,761.46 for the underpayments owed to the various vendors. In addition, VMRC should develop and implement procedures to ensure the staff is monitoring the operational indicator reports and attendance documentation to detect any over/under payments that may have occurred in the course of doing business with the vendors.



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

**Finding 2: Rate Increases for Transportation Vendors**

Our review of 14 transportation program vendor files revealed that VMRC renewed vendor contracts for three vendors and included a rate adjustment clause that would allow yearly vendor rate increases without any approval from DDS. The contract allows the rates to change by a percentage equal to the annual change in the “Consumer Price Index for Urban Wages Earners and Clerical Workers.”

W&I Code, Section 4648.4 states in part:

“Notwithstanding any other provisions of law or regulation, except for subdivision (a) during the 2006-07 fiscal year, 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 July 1, 2006, unless the increase is required by a contract between the regional center and the vendor that is in effect on June 30, 2006, or the regional center demonstrates that the approval is necessary to protect the consumer’s health and safety and the department has granted prior written authorization.”

VMRC took corrective action to resolve this issue by amending the vendor contracts to exclude the clause that allows yearly rate increases for the vendors.

**Recommendation:**

VMRC should ensure that any new contracts do not include rate increases per W&I Code, Section 4648.4. For vendors that have been given rate increases VMRC should remove this clause and stop paying vendors at the new rate, unless the new rates have been approved by DDS.

**Finding 3: Deceased Consumer Files - Multiple Dates of Death (Repeat)**

The review of the UFS Death Report identified four consumers with multiple dates of death recorded. In all of the instances, there were two different dates of death. Further review found that no payments were made beyond the actual date of death for the four consumers.

State Contract, Article IV, Section 1(c)(1) states in part:

“Contractor shall make available accurate and complete UFS and/or CADDIS information to the state. Accordingly Contractor shall:

- 1) Update changes to all mandatory items of the Client Master File at least annually except for the following elements, which must be updated within thirty (30) days of Contractor being aware of an of the following events:
  - a) The death of a consumer;
  - b) The change of address of a consumer; or
  - c) The change of residence type of a consumer.”

In addition, for good internal controls and accounting practices, VMRC should ensure the actual date of death is accurately recorded in UFS to avoid any potential payments after the date of death.

VMRC took corrective action to resolve this issue by researching and correcting the date of death of the consumers’ records in UFS.

**Recommendation:**

VMRC should continue to ensure its staff is provided with written procedures and training on the recording of deceased consumers in UFS. In addition, VMRC should review all current deceased consumer files to ensure that only one date of death is recorded in UFS.

**Finding 4: Security Deposit and Rent not Posted to Correct General Ledger Accounts**

The review of VMRC’s lease agreements revealed that on March 25, 2004, VMRC deposited \$200,000 in an escrow account with the Alliance Title Company. This amount was deposited during negotiations for a lease agreement with Grupe Commercial Company (Landlord) for the new headquarters building. It was found that VMRC recorded this amount to the Miscellaneous Expense account in the general ledger. After the lease agreement with the landlord was signed, it was noted that VMRC used the \$200,000 in the escrow account for the security deposit, rent for the months of March and April of 2006, and for facility maintenance expenses for the new building. However, it was noted that VMRC did not make the appropriate postings to the general ledger accounts to properly reflect the transactions that occurred.

Good business and accounting practices require that transactions should reflect the nature and operations that have occurred. To ensure that all accounting transactions reflect the nature of the operations of VMRC’s activities, all transactions and events should be recorded in the proper accounts.

VMRC has taken corrective action to resolve this issue by posting the prepaid security deposit, rent for the months of March and April of 2006, and facility maintenance expenses to the correct general ledger accounts to accurately reflect the transactions that occurred.

**Recommendation:**

To ensure proper accounting of the security deposit and rental payments, VMRC should ensure any future rental expenses are recorded and posted to the appropriate general ledger accounts to accurately reflect the transactions.

## EVALUATION OF RESPONSE

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As part of the audit report process, VMRC is provided with a draft report and is requested to provide a response to each finding. VMRC's response dated August 21, 2009 is provided as Appendix A. This report includes the complete text of the findings in the Findings and Recommendations section and a summary of the findings in the Executive Summary section. DDS's Audit Branch has evaluated VMRC's response. VMRC'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 VMRC's corrective actions identified in the response during the follow-up review or the next scheduled audit.

**Valley Mountain Regional Center  
Over/Under-Stated Claims  
Fiscal Years 2005-06, 2006-07, and 2007-08**

	Unique Client Identification Number	Vendor Number	Vendor Name	Service Code	Authorization Number	Payment Period	Over/Under Payments
<b>Overpayments Due to Proration Errors</b>							
1		HV0200		905	06232855	200511	\$12.70
2		H06911		910	06160838	200603	\$42.50
3		H15782		915	06139345	200605	\$72.00
4		HV0079		915	06265941	200603	\$131.00
5		HB0310		910	06271198	200601	\$194.55
6		HV0217		905	06253531	200511	\$214.37
7		HV0171		910	06226611	200509	\$271.89
8		HV0171		910	06218766	200509	\$271.97
9		HV0171		910	06218819	200509	\$271.97
10		H29351		905	06091378	200511	\$387.23
11		HV0304	Mountain Lodge	905	08317120	200712	\$420.64
12		H15535		915	06042885	200510	\$617.71
13		H15782		915	06139345	200606	\$898.00
14		H15781		905	06183795	200601	\$30.00
15		H15781		905	06183795	200602	\$30.00
16		H15781		905	06183795	200603	\$30.00
17		H15781		905	06183795	200604	\$30.00
18		H15781		905	06183795	200605	\$30.00
19		H15781		905	06183795	200606	\$30.00
20		H29372		915	06275002	200604	\$1,322.00
21		HV0011	Turning Point Stockton	920	06259352	200507	\$732.95
22		H29498		915	06242564	200701	\$86.86
23		H29377		915	06209871	200603	\$590.00

**Valley Mountain Regional Center  
Over/Under-Stated Claims  
Fiscal Years 2005-06, 2006-07, and 2007-08**

	Unique Client Identification Number	Vendor Number	Vendor Name	Service Code	Authorization Number	Payment Period	Over/Under Payments
<b>Total Overpayments Due to Proration Errors</b>							<b>\$6,718.34</b>
<b>Underpayments Due to Proration Errors</b>							
1		HB0310		910	06271198	200511	(\$1,012.79)
2		HV0245		910	07288041	200611	(\$711.00)
3		HV0040		915	06268220	200512	(\$571.42)
4		H29271		910	06219441	200511	(\$176.33)
5		HV0005		910	07282425	200609	(\$161.60)
6		HV0236		910	07298670	200703	(\$48.78)
7		HV0208		910	06262884	200508	(\$17.01)
8		H29498		915	06242564	200602	(\$62.53)
<b>Total Underpayments Due to Proration Errors</b>							<b>(\$2,761.46)</b>

**APPENDIX A**

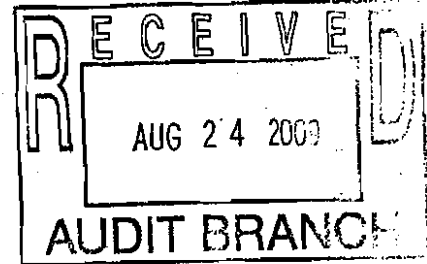
**VALLEY MOUNTAIN REGIONAL CENTER**

**RESPONSE**

**TO AUDIT FINDINGS**



Valley Mountain Regional Center  
Post Office Box 692290  
Stockton, California 95269-2290



August 21, 2009

Mr. Ed Yan, Acting Manager  
Department of Developmental Services  
1600 Ninth Street, Room 230, MS-10  
Sacramento, California 95814

Dear Mr. Yan:

This is to advise you that we reviewed a copy of the draft audit report dated June 25, 2009. In addition, the exit conference call scheduled for July 14, 2009 has occurred. Your letter advised us of our opportunity to respond to the report in writing, noting any concerns or clarifications we might have. This is our response.

**Finding 1: Over/Understated Claims**

VMRC has completed staff instruction to ensure proper proration going forward and also understands the need to expeditiously detect and correct any overpayments or underpayments that may occur in the course of doing business.

**Finding 2: Rate Increases for Transportation Vendors**

VMRC will ensure that any new contracts do not include rate increases per Welfare and Institutions Code Section 4648.4. VMRC has taken the appropriate corrective action to resolve the issue by amending the transportation vendor contracts to exclude the clause that allows yearly rate increases.

**Finding 3: Deceased Consumer Files -- Multiple Dates of Death (Repeat)**

VMRC has amended its existing procedure to include a step whereby the service coordinator is now responsible for verifying that the system information reflects the date of death indicated on the death certificate.

**Finding 4: Security Deposit and Rent not Posted to Correct General Ledger Accounts**

VMRC took corrective action to post the prepaid security deposit, rent for the months of March and April of 2006, and facility maintenance expenses to different general ledger accounts pursuant to the instructions of DDS audit personnel.



If you have any questions or are in need of additional information, please feel free to contact me directly at 209/955-3207.

Very truly yours,



Debra Roth, CPA  
Chief Financial Officer

Cc: Richard Jacobs, Executive Director  
Rita Walker, DDS  
Karen Meyreles, DDS