AUDIT OF THE
KERN REGIONAL CENTER
FOR FISCAL YEARS 2012-13 AND 2013-14

Department of Developmental Services
April 23, 2020

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EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) conducted a fiscal compliance audit of Kern Regional Center (KRC) to ensure KRC is compliant with the requirements set forth in the California Code of Regulations (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 DDS. Overall, the audit identifies areas where KRC's administrative and operational controls must be strengthened. Some areas identified are of a nature that would indicate systemic issues and are of serious concern to DDS. A follow-up review was performed to ensure KRC has taken corrective action to resolve the findings identified in the prior DDS audit report.

Findings That Need to be Addressed.

Finding 1: <u>Missing Documentation</u>

A. <u>Purchase of Service</u> (Repeat)

The sampled review of 133 Purchase of Services (POS) vendor files revealed KRC was unable to provide invoices and attendance records for vendor, As One, Inc., Vendor Number PK5240, Service Code 880. This resulted in unsupported payments totaling $325,710.63. This issue was identified in the prior audit and KRC has $97,437.35 still outstanding. The total overpayments from the prior and current audits are $423,147.98. This is not in compliance with CCR, Title 17, Section 50604(d) and State Contract, Article IV, Section 3(a) and (b).

B. <u>Deceased Consumers</u> (Repeat)

A follow-up review for the two missing consumer files and death certificates identified in the prior audit revealed the files for Unique Client Identification (UCI) Numbers [redacted] and [redacted] remain missing. This is not in compliance with the State Contract, Article IV, Section 3(a) and (b).

C. <u>Service Coordinator Caseload Ratios</u> (Repeat)

The review of the service coordinator caseload ratios revealed KRC still did not retain source documents to support its calculations for the service coordinator caseloads for March 2013 and March 2014. These documents are necessary to verify that the caseload ratios reported to DDS are accurate. This issue was identified in the prior audit. In its response to the audit report, KRC stated that it will maintain records of the caseload ratios by unit and will have records available upon request for review. This is not in compliance with the State Contract, Article IV, Section 3(a) and (b) and the DDS Service Coordinator Caseload Survey Instructions.

D. <u>Rate Letters, Award Letters, E-Attendance Enrollment Forms, and Income Documentation</u>

The sampled review of 133 POS vendor files revealed that KRC was unable to provide the rate letter for As One, Inc., Vendor Number PK5240, Service Code 880, the e-attendance enrollment form for Southland Transit, Vendor Number HL0135, Service Code 875, the Social Security Award Letters for 16 consumers, and the supporting documents to justify the reduced Annual Family Program Fee (AFPF) assessment from $200 to $150 for three families. This is not in compliance with W&I Code, Section 4785(b)(1) and (2), the State Contract, Article IV, Section 3(a) and (b), and DDS' E-Billing Web Application User Manual.

Finding 2: <u>KRC Foundation – Developmental Services Support Foundation for Kern, Inyo, and Mono Counties</u>

A. <u>Deleted</u>

This finding was appealed in the prior audit report and the finding was not upheld.

B. <u>Conflict of Interest</u> (Repeat)

The follow-up review of the prior audit report noted that no action has been taken regarding the conflict of interest finding. The review found that KRC continues to serve as the sole corporate member of DSSF, which authorizes the KRC Board to appoint DSSF Board members. This is not in compliance with CCR, Title 17, Sections 54522(a) and (b)(1)(2)(6)(7) and 54523(a)(b) and (c).

C. <u>KRC Vendorization</u> (Repeat)

The prior audit report identified that KRC was vendored as a service provider using DSSF's Employer Identification Number (EIN) under Vendor Number Z00372, Service Codes 024 and 103, Vendor Number Z28346, Service Code 024, and Vendor Number PK0620, Service Code 102. KRC utilized these vendor numbers to reimburse itself from July 2010 through January 2013 using POS funds totaling $1,150,398.75. The follow-up review revealed that KRC continued to utilize these vendor numbers and reimbursed itself $966,298.91 from February 2013 through January 2015.

The vendors have since been de-vendored as of July 2015. However, the total overpayment from prior and current audits totaling $2,116,697.66 is still outstanding. This is not in compliance with W&I Code, Section 4648(a), CCR, Title 17, Sections 54314(a)(3) and (4), 54326(a)(10), and 50604(d), and the State Contract, Article IV, Section 3(a) and (b).

Finding 3: **Improper Allocation of Community Placement Plan Funds (Repeat)**

The review of the Community Placement Plan (CPP) expenditures revealed that KRC included expenses for five consumers that did not move from the Developmental Centers to the community in FYs 2012-13 and 2013-14. This resulted in an improper allocation of CPP funds totaling $73,092.08. This issue was identified in the prior audit report and KRC provided documentation indicating CPP funds for FYs 2012-13 that remained open were reclassified; however, KRC was unable to reclassify funds for the closed fiscal years. This is not in compliance with W&I Code, Section 4418.25(c) and (d), State Contract, Exhibit E, and the DDS Guidelines for Regional Center Community Placement Plan (III)(A).

KRC provided additional documentation with its response to the draft report indicating that it resolved $69,148.08 and remains with $3,944.00 still improperly allocated to CPP.

Finding 4: **Unauthorized Services**

A. Services Not Specified in the Individual Program Plan (IPP) (Repeat)

The sampled review of payments to 133 POS vendors revealed 13 consumers received transportation and home modification services that were not specified in the consumers' IPPs. Five vendors were reimbursed a total of $25,499 for providing these services; however, KRC was unable to justify the consumers' need for these services, since the services were not identified in the consumers' IPPs. It was further noted that KRC did not have the approved Requests for Purchase of Service for these consumers. This issue was also identified in the prior audit with $217,497 still outstanding. The total payments from both prior and current audits are $242,996. This is not in compliance with W&I Code, Section 4646(c) and (d).

B. Payment for Services Provided Without Authorizations

The sampled review of 133 POS vendor files revealed KRC paid one vendor, Roger Cook, Vendor Number PK5655, $95,169.30 for services without any approved authorizations. KRC paid the vendor using a manual check and authorizations were subsequently created to justify the payments, however, the services were not identified in the consumers' IPPs and it could not be determined if the consumers ever received services. This is not in compliance with DDS' service code definition and CCR, Title 17, Section 50612.

Finding 5: Deleted

KRC provided sufficient documentation with its response to the draft report to resolve the finding.

Finding 6: Payments for Unoccupied Beds (Repeat)

A follow-up review of payments for unoccupied beds revealed that KRC continued to pay 10 vendors for unoccupied beds from October 2010 through February 2013. This resulted in overpayments totaling $1,216,646.57. The vendors have since closed, however the overpayments from the prior two audits totaling $434,108.34 for unoccupied beds remain outstanding. The overpayments for unoccupied beds identified in the prior and current audits total $1,650,754.91. This is not in compliance with CCR, Title 17, Section 54326(a)(10).

Finding 7: Payment Reduction (Repeat)

The sampled review of 133 POS vendor files revealed KRC incorrectly applied the mandated payment reductions for eight vendors. This resulted in over-and underpayments totaling $1,121.21 and $2,284.71, respectively. This issue was also identified in the prior audit with $67,756.42 in overpayments to one vendor still outstanding from the prior audit. The total over-and underpayments from both the prior and current audits are $68,877.64 and $2,284.71, respectively. This is not in compliance with Section 10 of Chapter 13 of the Third Extraordinary Session of Statutes of 2009, as amended by Section 16 of Chapter 9 of the Statutes of 2011.

KRC provided additional documentation with its response to the Draft Report which indicated that $69.03 in overpayments and $53.04 underpayments from the current audit have been resolved. Furthermore, the Letter of Findings issued by DDS reduced the prior audit finding from $67,756.42 to $56,055.14. The total over and underpayments from both the prior and current audits are $57,107.33 and $2,231.67, respectively.

Finding 8: Rate Increase After the Rate Freeze (Repeat)

The sampled review of 133 POS vendor files revealed KRC increased the rate for five vendors after the rate freeze became effective on July 1, 2008. This resulted in overpayments totaling $168,741.62. This issue was identified in the prior audit with $47,874.20 in overpayments to the eight vendors still outstanding. The overpayments from the prior and current audits total $216,615.82. This is not in compliance with W&I Code, Section 4648.4(b).

KRC provided additional documentation with its response to the Draft Report to resolve $1,291.10. KRC remains with overpayments from the prior and current audits totaling $215,324.72.

Finding 9: **<u>Over/Understated Claims</u> (Repeat)**

The sampled review of 133 POS vendor files and the Operational Indicator reports revealed 172 instances where KRC over-and understated claims for 18 vendors totaling $49,570.05 and $6,548.94, respectively. The over- and understated claims were due to duplicate payments, overlapping authorizations, payments above the authorized units, and payments at the incorrect rate. This issue was identified in the prior audit report with overstated claims totaling $22,255.75 and understated claims totaling $59.12, still outstanding. The over-and understated claims from prior and current audits are $71,825.80 and $6,608.06 respectively. This is not in compliance with CCR, Title 17, Section 54326(a)(10).

KRC provided additional documentation with its response to the Draft Report to resolve $3,208.80 in overpayments. Furthermore, $3,005.70 was resolved from the prior audit as identified in the Letter of Findings. KRC remains with over and underpayments from both the prior and current audits totaling $65,611.30 and $6,608.06, respectively.

Finding 10: **<u>Deleted</u>**

This finding was appealed in the prior audit report and the finding was not upheld.

Finding 11: **<u>Client Trust Disbursements Not Supported</u> (Repeat)**

A sampled review of 25 consumer trust money management disbursements revealed that KRC did not retain receipts to support 34 out of the 76 money management disbursement checks sampled. This resulted in unsupported money management disbursements totaling $19,387.30. This issue was identified in the prior audit report with unsupported money management disbursements totaling $10,096.54 still outstanding. The total unsupported money management disbursements from prior and current audits are $29,483.84. This is not in compliance with the Social Security Handbook, Chapter 16, Section 1616.

Finding 12: Targeted Case Management (TCM)

A. Time Study – Recording of Attendance

Review of the TCM Time Study revealed that 3 out of 20 sampled employees had “time off” hours recorded on their timesheets that were inconsistent with hours recorded on the employees’ TCM Time Study forms (DS 1916). This resulted in 17 hours that were overstated and 12.50 hours that were understated. This is not in compliance with the TCM Rate Study process and instructions.

B. Rate Study – Expenses Did Not Match to the Year-End General Ledger (Repeat)

The review of the TCM Rate Study worksheets for 2014 and 2015 revealed that KRC was not reporting salary and wage expenses for the Foster Grandparent Program (FGP). The operating expenses on Attachment D of the TCM Rate Study worksheets submitted to DDS were underreported by $51,678.77 and $51,472.66 respectively. This is not in compliance with the TCM Rate Study instructions.

Finding 13: Purchase of Service Expenses Not Tied To Consumer UCI Numbers (Repeat)

The review of Start-Up invoices revealed that Delano Association, Vendor Number PK1414, Service Code 101, billed KRC a total of $328,225 in POS funds for developing and maintaining housing for consumers from August 2006 to September 2012. KRC reimbursed $328,225 to the vendor, but the payments were billed under a contract rate and not tied to any consumer UCI. This issue was identified in the prior audit and KRC indicated that it could not reclassify the expenditures to individual consumers because the fiscal years were closed. This is not in compliance with W&I Code, Section 4659(a) and (b) and CCR, Title 17, Section 54326(a)(3) and (10).

Finding 14: Bank Reconciliation

A. Bank Reconciliation Policy (Repeat)

The review of KRC’s Bank Reconciliation Policy revealed that KRC allows for its bank reconciliations to be completed up to 90 days after month end, even though the monthly bank statements can be obtained online within two days after the end of each month. This issue was identified in the prior audit report. In its response, KRC stated that it would “change its procedure to better adhere to the staff’s workload for completing bank reconciliations,” however this issue continues to persist.

Good business practice requires that bank reconciliations be completed before the receipt of the next month-end bank statement in order to identify reconciling items and errors in a timely manner.

B. Stale-Dated Checks

The review of KRC bank accounts revealed that as of May 29, 2015, 159 checks totaling $29,440.23 remained outstanding for more than six months, with the oldest checks dating back to February 2011. KRC stated that this occurred due to excessive workload for the Accounting Manager and his subsequent separation of employment from KRC. This is not in compliance with KRC's Bank Reconciliation Policy.

Finding 15: Conflict of Interest Forms

The review of KRC's Governing Boards' Conflict of Interest (COI) disclosure statements revealed four Board members with missing COI disclosure statements. KRC stated that it was not aware that these Board members did not have COI disclosure statements on file. Also, five newly appointed KRC Board Members failed to submit their COI disclosure statements within 30 days of being selected. In addition, two of the Board members submitted their COI disclosure statements more than a year after being appointed. This is not in compliance with W&I, Section 4626(f) and KRC's Conflict of Interest Policy.

Finding 16: Segregation of Duties (Repeat)

The review of KRC's payroll process revealed a lack of separation of duties for the Payroll Specialist. The review noted that the Payroll Specialist's primary function is to ensure timesheets are accurate, payroll is processed timely and checks are distributed. In addition, it was also found that the Payroll Specialist has the authority to add and delete employees and make changes to employee pay rates. The ability to access and make changes to employee pay rates should be limited to the Human Resources Department. This issue was identified in the prior audit report. In its response to the audit report, KRC stated that it would shift control of the Human Resources functions from the payroll staff to the Human Resources Department. However, this issue continues to persist. These weaknesses in KRC's controls increase the risk of fraud and decrease chances of detecting errors.

Finding 17: Equipment Inventory

A. Missing Equipment (Repeat)

A sample of 50 items was selected for testing from KRC's equipment inventory listing. The testing revealed three items that could not be located but remained on KRC's property inventory listing. This issue was identified in the prior audit report and KRC stated that it would continue to improve its equipment inventory procedures to better safeguard State property. However, KRC did not provide details on how this would be accomplished. This is not in compliance with State Contract, Article IV, Section 4(a) and the State's Equipment Management System Guidelines, Section III (E).

B. Equipment Acquisition and Disposal (Repeat)

KRC did not complete, or submit on a quarterly basis, the Equipment Acquired Under Contract Form (DS 2130) to DDS' Customer Support Section (CSS) for 55 pieces of equipment. In addition, KRC was unable to provide copies of the required Standard State Form 152 (Std 152) for six items that were disposed. This issue was identified in the prior audit report and in its response, KRC stated that it would begin using the DS 2130 form for all KRC offices. This is not in compliance with the State Contract, Article IV, Section 4(a), and the State's Equipment Management System Guidelines, Section III (B) and (E), and the State's Equipment Management System Guidelines issued by DDS.

C. Physical Inventory

KRC was unable to provide documentation of when the last physical inventory was completed. This is not in compliance with KRC's Fixed Asset Inventory Instructions, the State's Equipment Management Guidelines Section III, and the State Administrative Manual (SAM) 8652.

Finding 18: Whistleblower Policy Not Distributed Annually (Repeat)

KRC is not distributing KRC's and the State's Whistleblower Policies to its employees, Board members, consumers/families, and the vendor community annually. This issue was noted in the prior audit report. This is not in compliance with the State Contract, Article 1, Section 18 and KRC's Whistleblower Policy.

Finding 19: Family Cost Participation Program (FCPP)

A. Late Assessments (Repeat)

The sampled review of 24 FCPP consumer files revealed 14 instances in which KRC did not assess the parents' share of cost participation as part of the consumer's IPP or Individualized Family Services Program (IFSP) review. The assessments were completed more than 30 days after the IPP was signed. This issue was identified in the prior audit report. In its response to the audit report, KRC stated that it had updated its process for conducting FCPP assessments, however this issue continues to occur. This is not in compliance with W&I Code, Section 4783(g)(1).

B. **<u>Overstated Share of Cost</u>**

The sample review of 24 FCPP consumer files revealed that KRC has been paying the cost of services for four consumers, which under the requirements of the FCPP, are the responsibility of the parents. KRC paid above its share of cost for respite service to three vendors, resulting in overpayments totaling $5,347.56. This is not in compliance with CCR, Title 17, Section 50255(a) and the W&I Code Section 4686.5(a)(2).

Finding 20: <u>Deceased Consumers - Multiple Dates of Death</u> (Repeat)

The sampled review of 20 deceased consumer files identified one consumer with two different dates of death recorded in the Uniform Fiscal Systems (UFS) and two consumers with dates of death recorded in the UFS Deceased Consumers Report that did not match the death certificate. This issue was identified in the prior audit report. The six consumers with multiple dates of death remain unresolved. This is not in compliance with the State Contract, Article IV, Section 1(c)(1).

Finding 21: <u>Lack of Minutes for Closed Board Meetings</u> (Repeat)

The review of KRC's Board minutes revealed that minutes were recorded for all open Board meetings; however, KRC could not provide the minutes for closed Board meetings. KRC did not have the minutes for any of its closed Board meetings, including meetings which involved discussions related to employee governance policies, labor issues, and lawsuits. This issue was identified in the prior audit report, however KRC did not address how it would maintain minutes for closed Board meetings. This is not in compliance with W&I Code, Section 4663(a)(b).

Finding 22: <u>Contract Awards not Posted on KRC Website</u>

The review of KRC's transparency webpage revealed that contract awards are not posted on its website. KRC stated it was not aware that contract awards need to be posted on its website. This is not in compliance with W&I Code, Section 4629.5 (a) and (b).

Finding 23: <u>Unsupported Credit Card Purchases</u>

The review of KRC credit card statements for FYs 2012-13 and 2013-14 revealed five credit card payments totaling $310.05 did not have documentation to support the items purchased. This is not in compliance with KRC's credit card procedures.

Finding 24: <u>Lack of Oversight over the Self-Determination Program</u>

The review of KRC's Self-Determination program revealed major deficiencies in oversight for the Self-Determination program. The review found that KRC does not monitor the consumers' Self-Determination budget or expenditures. KRC has no knowledge of the amount that must be returned at the end of the year by the Fiscal Management Services (FMS) companies or to which fiscal year to apply the funds once the funds are returned. In addition, KRC does not have controls in place to ensure that expenditures are adequately supported. This is not in compliance with CCR, Title 17, Section 50604(d) and the State Contract, Article IV, Section 3(a) and (b).

BACKGROUND

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 (RC). The RCs 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 and Centers for Medicare and Medicaid Services (CMS), that services billed under California's 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 RC no less than every two years, and completes follow-up reviews in alternate years. Also, DDS requires RCs 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 RC will also be monitored by the DDS Federal Programs Operations Section to assess overall programmatic compliance with HCBS Waiver requirements. The HCBS Waiver compliance monitoring review has its own criteria and processes. These audits and program reviews are an essential part of an overall DDS monitoring system that provides information on RCs' fiscal, administrative and program operations.

DDS and Kern Regional Center, Inc., entered into contract HD099009 (State Contract) effective July 1, 2009, through June 30, 2016. The contract specifies that Kern Regional Center, Inc. will operate as an agency known as the Kern Regional Center (KRC) to provide services to persons with DD and their families in the Inyo, Kern, and Mono Counties. The contract is funded by state and federal funds that are dependent upon KRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at KRC from June 1, 2015, through July 10, 2015, 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's W&I Code,
- "Approved Application for the HCBS Waiver for the Developmentally Disabled"
- CCR, Title 17,
- Federal Office of Management Budget (OMB) Circular A-133, and the
- State Contract between DDS and KRC, effective July 1, 2009.

AUDIT PERIOD

The audit period was July 1, 2012, through June 30, 2014, 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 the RC's fiscal, administrative, and program operations. The objectives of this audit were:

- To determine compliance with the W&I Code (or the Lanterman Act),
- To determine compliance with CCR, Title 17 Regulations,
- To determine compliance with the provisions of the 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 the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. However, the procedures do not constitute an audit of KRC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that KRC was in compliance with the objectives identified above. Accordingly, DDS examined transactions on a test basis, to determine whether KRC was in compliance with the Lanterman Act, CCR, Title 17, the HCBS Waiver for the Developmentally Disabled, and the State Contract.

DDS' review of KRC'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 FY 2012-13, issued on June 16, 2014. In addition, DDS noted no management letter issued for KRC. This review was performed to determine the impact, if any, upon the DDS audit and, as necessary, 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 and vendor rates. 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 KRC. 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, and the W&I Code.

- DDS analyzed all of KRC'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 accounts to determine if the reconciliations were properly completed on a monthly basis.

II. Regional Center Operations

DDS audited KRC's operations and conducted tests to determine compliance with the State Contract. The tests included various expenditures claimed for administration to ensure that KRC's accounting staff is properly inputting data, transactions were recorded on a timely basis, and ensure that expenditures charged to various operating areas were valid and reasonable. These tests included the following:

- A sample of the personnel files, time sheets, payroll ledgers, and other support documents were 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 KRC'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 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 KRC's Rate Study. DDS examined the month of June 2013 and traced the reported information to source documents.
- Reviewed KRC's TCM Time Study. DDS selected a sample of payroll timesheets for this review and compared it to the Case Management Time Study Forms (DS 1916) to ensure that they were properly completed and supported.

IV. Service Coordinator Caseload Survey

Under W&I Code, Section 4640.6(e), RCs 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 operations reduction to regional centers as required per W&I Code, Section 4640.6(i) and (j). The ratio continued to be suspended from July 2010 until July 2012 with imposition of the subsequent 4.25 percent and 1.25 percent payment reductions.

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).

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 Federal Part C funding to determine if the funds were properly accounted for in the RC's accounting records.

VI. Family Cost Participation Program

The 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 IPP. To determine whether KRC 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 years who live with their parents and are not Medi-Cal eligible, to determine their contribution for the FCPP.
- Reviewed the parents' income documentation to verify their level of participation based on the FCPP Schedule.
- Reviewed copies of the notification letters to verify that the parents were notified of their assessed cost participation within 10 working days of receipt of the parents' income documentation.
- Reviewed vendor payments to verify that KRC is paying for only its assessed share of cost.

VII. Annual Family Program Fee

The AFPF was created for the purpose of assessing an annual fee of up to $200 based on income level of families of children between the ages of 0 through 17 receiving qualifying services through the RC. The AFPF fee shall not be assessed or collected if the child receives only respite, day care, or camping services from the RC, and a cost for participation is assessed to the parents under FCPP. To determine whether KRC is in compliance with the W&I Code, DDS requested a list of AFPF assessments and verified the following:

- The adjusted gross family income is at or above 400 percent of the Federal poverty level based upon family size.

- The child has a developmental disability or is eligible for services under the California Early Intervention Services Act.

- The child is less than 18 years of age and lives with his or her parent.

- The child or family receives services beyond eligibility determination, needs assessment, and service coordination.

- The child does not receive services through the Medi-Cal program.

- Documentation was maintained by the RC to support reduced assessments.

VIII. Procurement

The Request for Proposal (RFP) process was implemented to ensure RCs outline the vendor selection process when using the RFP process to address consumer service needs. As of January 1, 2011, DDS requires RCs to document their contracting practices, as well as how particular vendors are selected to provide consumer services. By implementing a procurement process, RCs 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 KRC implemented the required RFP process, DDS performed the following procedures during the audit review:

- Reviewed the KRC 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 comply 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 KRC. 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:

- Selected a sample of Operational, Start-Up and negotiated POS contracts subject to competitive bidding to ensure KRC notified the vendor community and the public of contracting opportunities available.

- Reviewed the contracts to ensure that KRC has adequate and detailed documentation for the selection and evaluation process of vendor proposals, written justification for final vendor selection decisions, and those 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:

- Reviewed to ensure KRC 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 KRC board approved Operational, Start-Up, and POS vendor contracts of $250,000 or more, 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, that the usage of funds is of direct benefit to consumers, and that contracts are sufficiently detailed and supported with measurable performance expectations and results.

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

IX. 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 RCs 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 RCs demonstrate the exemption is necessary for the health and safety of the consumers.

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

- Reviewed sample vendor files to determine whether KRC is using appropriately vendorized service providers and correct service codes, and that KRC is paying authorized contract rates and complying with the median rate requirements of the W&I Code, Section 4691.9.

- Reviewed vendor contracts to verify that KRC is reimbursing vendors using authorized contract median rates and verified that rates paid represented the lower of the statewide or RC 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.

X. Other Sources of Funding from DDS

RCs may receive other sources of funding from DDS. DDS performed sample tests on identified sources of funds from DDS to ensure KRC'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 sources of funding from DDS identified in this audit are:

- Start-Up Funds, Community Placement Plan.
- Prevention Program.
- Part C.
- Family Resource Center.
- FGP and Senior Companion (SC).
- Self Determination.

XI. 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 prior audit findings that were reported to KRC and reviewed supporting documentation to determine the degree and completeness of KRC's implementation of corrective actions. The review indicated 21 prior issues remain outstanding.

CONCLUSIONS

Based upon the audit procedures performed, DDS has determined that KRC was significantly out of compliance with applicable sections of CCR, Title 17, W&I Code, the HCBS Waiver, and the State Contract with DDS for the audit period, July 1, 2012, through June 30, 2014.

From the review of prior audit issues, it has been determined that KRC has not taken appropriate corrective action to resolve prior audit issues.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued the draft audit report on June 14, 2017. The findings in the draft audit report were discussed at a formal exit conference with KRC on June 21, 2017. The views of KRC's responsible officials are included in this final audit report.

RESTRICTED USE

This audit report is solely for the information and use of DDS, Department of Health Care Services, CMS, and KRC. This restriction does not limit distribution of this audit report, which is a matter of public record.

FINDINGS AND RECOMMENDATIONS

Findings That Need to be Addressed.

Finding 1: <u>Missing Documentation</u>

A. <u>Purchase of Service</u> (Repeat)

The sampled review of 133 POS vendor files revealed KRC was unable to provide invoices and attendance for one vendor, As One, Inc., Vendor Number PK5240, Service Code 880, for the audit period. This resulted in unsupported payments totaling $325,710.63. The prior audit identified unsupported payments to two vendors totaling $97,437.35, which remains outstanding. In its prior response, KRC stated that it will continue to improve upon its policies and procedures to ensure supporting documentation is retained.

The total unsupported payments for the seven vendors identified in the prior and current audits are $423,147.98. (See Attachment A)

CCR Title 17, Section 50604(d) states in part:

> "All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program . . . Service records used to support service providers' billing/invoicing shall include, but not be limited to:
>
> (2) Documentation for each consumer reflecting the dates for program entrance and exit, if applicable, as authorized by a regional center.
>
> (3) A record of services provided to each consumer. The record shall include:
>
> (C) For community-based day programs, the dates of service, place where service was provided, the start and end times of service provided to the consumer, and the daily or hourly units of service provided . . ."

State Contract, Article IV, Section 3(a) and (b) states:

> ". . . Contractor shall keep records, as follows:
>
> a. The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures, and consumers served under this contract . . .

b. The Contractor shall make available at the office of the Contractor at any time during the terms of this agreement during normal working hours, and for a period of three years after final payment under this annual contract, any of its records (personnel records excepted) for the inspection, audit, examination or reproduction by an authorized representative of the State, federal auditor, the State Auditor of the State of California, or any other appropriate State agency, which shall be conducted with the minimum amount of disruption to Contractor's program . . ."

Recommendation:

KRC must reimburse to DDS $423,147.98 in total unsupported payments made to its vendors. KRC must ensure supporting documentation, such as invoices and attendance records, are retained and that no payments are made to vendors without appropriate documentation.

B. <u>Deceased Consumers</u> (Repeat)

A follow-up review for the missing consumer files and death certificates identified in the prior audit for UCI Numbers [redacted] and [redacted] revealed the files and death certificates remain missing. In its response to the prior audit, KRC stated that it was going to start imaging and archiving the documents to assure the documents are safeguarded, accessible, and available upon request for review. However, current review found that KRC had started archiving closed files, but the process has been suspended. KRC indicated that it was searching for a new company to electronically archive its files.

State Contract, Article IV, Section 3(a) and (b) states:

". . . Contractor shall keep records, as follows:

a. The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures, and consumers served under this contract . . .

b. The Contractor shall make available at the office of the Contractor at any time during the terms of this agreement during normal working hours, and for a period of three years after final payment under this annual contract, any of its records (personnel records excepted) for the inspection, audit, examination or reproduction by an authorized representative of the State, federal auditor, the State

Auditor of the State of California, or any other appropriate State agency, which shall be conducted with the minimum amount of disruption to Contractor's program . . ."

Recommendation:

KRC must adhere to the requirements set forth in the State Contact, Article IV, Section 3(a) and (b) and ensure that documents are retained, properly safeguarded, and readily available for review.

C. <u>Service Coordinator Caseload Ratios</u> (Repeat)

The review of the service coordinator caseload ratios revealed KRC did not retain source documents to support its calculations for the service coordinator caseloads for March 2013 and March 2014. KRC stated that the caseload data could not be found because the previous Executive Director who was responsible for compiling the caseload ratios, is no longer with KRC. This issue was identified in the prior audit. In its response to the prior audit report, KRC stated that it will maintain records of the caseload ratios by unit and have records available upon request for review. However, KRC could not locate the source documents for the current review. These documents are necessary to verify that the caseload ratios reported to DDS are accurate and supported.

State Contract, Article IV, Section 3(a) and (b) states:

". . . Contractor shall keep records, as follows:

a. The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures, and consumers served under this contract . . .

b. The Contractor shall make available at the office of the Contractor at any time during the terms of this agreement during normal working hours, and for a period of three years after final payment under this annual contract, any of its records (personnel records excepted) for the inspection, audit, examination or reproduction by an authorized representative of the State, federal auditor, the State Auditor of the State of California, or any other appropriate State agency, which shall be conducted with the minimum amount of disruption to Contractor's program . . ."

DDS Service Coordinator Caseload Survey Instructions, paragraph 5, states:

> "For audit purposes, the center must maintain supporting documentation for a minimum of three years. The law requires the Department, as part of its routine auditing responsibility, to review and verify documentation used to respond to this survey."

Recommendation:

KRC must ensure that service coordinator caseload data is retained to justify the calculation for all its service coordinator caseload ratios.

D. <u>Rate Letters, Award Letters, E-Attendance Enrollment Forms, and Income Documentation</u> (Repeat)

The sampled review of 133 POS vendor files revealed that KRC was unable to provide the rate letter for As One, Inc., Vendor Number PK5240, Service Code 880, the e-attendance enrollment form for Southland Transit, Vendor Number HL0135, Service Code 875, the Social Security Award Letter for 16 consumers, and the supporting documents to justify the reduced AFPF assessment from $200 to $150 for three families.

State Contract, Article IV, Section 3(a) and (b) states:

> ". . . Contractor shall keep records, as follows:
>
> a. The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures, and consumers served under this contract . . .
>
> b. The Contractor shall make available at the office of the Contractor at any time during the terms of this agreement during normal working hours, and for a period of three years after final payment under this annual contract, any of its records (personnel records excepted) for the inspection, audit, examination or reproduction by an authorized representative of the State, federal auditor, the State Auditor of the State of California, or any other appropriate State agency, which shall be conducted with the minimum amount of disruption to Contractor's program . . ."

DDS E-Billing Web Application User Manual states:

> "Every Service Provider employee or representative requiring access to the E-Billing web based application MUST complete the agreement form in its entirety and submit to the appropriate Regional Center for registration and access."

W&I, Section 4785(b) (1) and (2) states:

> (b) (1) The annual family program fee for parents described in paragraph (1) of subdivision (a) shall be two hundred dollars ($200) per family, regardless of the number of children in the family with developmental disabilities or who are eligible for services under the California Early Intervention Services Act.
>
> (2) Notwithstanding paragraph (1), parents described in paragraph (1) of subdivision (a) who demonstrate to the regional center that their adjusted gross family income is less than 800 percent of the federal poverty level shall be required to pay an annual family program fee of one hundred fifty dollars ($150) per family, regardless of the number of children in the family with developmental disabilities or who are eligible for services under the California Early Intervention Services Act.

Recommendation:

KRC must adhere to the requirements set forth in the State Contact and the W&I Code to ensure that documents are retained, properly safeguarded, and readily available for review. In addition, KRC must reimburse to DDS a total of $150 for the unsupported reduction of the AFPF for three families.

Finding 2: <u>KRC Foundation – Developmental Services Support Foundation for Kern, Inyo, and Mono Counties</u>

A. <u>Deleted</u>

This finding was appealed in the prior audit report and the finding was not upheld.

B. <u>Conflict of Interest</u> (Repeat)

The follow-up review of the audit report noted that no action has been taken regarding the prior conflict of interest finding. The DSSF continues to benefit financially from the lease agreement signed by the prior Chief

Executive Officer (CEO) and prior Chief Financial Officer (CFO). The review of DSSF's bylaws, lease agreement, Board member listing, and the KRC staff listing, revealed conflicts of interest that exist between KRC and DSSF. The review found that KRC's prior CEO incorporated DSSF. KRC's prior CEO and CFO simultaneously served as Board President and Vice President/Treasurer of DSSF, respectively. In addition, it was found that KRC's prior CEO and CFO signed the lease agreement between KRC and DSSF representing both parties as lessor and lessee. Furthermore, serving as the Board President and Vice President/Treasurer of DSSF, KRC's CEO and CFO signed the $13,000,000 bond agreement for DSSF to fund the renovation and expansion of KRC's headquarters' building which is owned by DSSF. These were non-arm's length transactions as the prior CEO and CFO were responsible for making all financial and operational decisions for KRC and DSSF.

Further review of DSSF's bylaws found that KRC is the sole corporate member of DSSF, which authorizes KRC's Board to appoint DSSF Board members. This authority gives KRC total control of DSSF's operational functions.

CCR, Title 17, Sections 54522(a) and (b)(1)(2)(6)(7) states in part:

> "(a) A regional center governing board member or regional center executive director shall not make, participate in making, or in any way attempt to use his or her position to influence a regional center or board decision in which he or she knows or has reason to know that he or she or a family member has a financial interest.
>
> (b) Financial interest, as used in this section, includes any current or contingent ownership, equity, or security interest that could result, directly or indirectly, in receiving a pecuniary gain or sustaining a pecuniary loss as a result of the interest in any of the following:
>
> (1) business entity worth two thousand dollars ($2,000) or more.
>
> (2) real or personal property worth two thousand dollars ($2,000) or more in fair market value.
>
> (6) future interests for compensation of five hundred dollars ($500) or more.
>
> (7) personal finances of two hundred fifty dollars ($250) or more."

CCR, Title 17, Section 54523(a)(b) and (c) states:

“(a) The purpose of this section is to make certain that regional center governing board members and regional center executive directors are guided solely by the interests of the regional center and its consumers and not by their personal financial interests when participating in the making of contracts in their official capacity.

(b) Regional center governing board members and regional center executive directors shall not be financially interested in any contract in which they participate in making in their official capacity.

(1) Financially interested, for purposes of this section, means any financial interest regardless of the dollar amount, and includes aiming to achieve a financial gain or avoid a financial loss. The financial interest may be direct or indirect and includes any monetary or proprietary benefit, gain of any sort, or the contingent possibility of monetary or proprietary benefits, and extends to expectations of economic benefit. Certainty of financial gain is not necessary to create a conflict of interest.

(A) The financial interest is direct when the individual, in his or her official capacity, does business with himself or herself in his or her private capacity.

(B) The financial interest is indirect if a regional center board member or executive director enters into a contract in his or her official capacity with an individual or entity, and because of the relationship between the individual or entity to the board member or executive director, the individual or entity is in a position to render actual or potential pecuniary benefits to the board member or executive director based on that contract.

(2) Participation in the making of a contract includes any act involving preliminary discussions, development, negotiations, compromises, reasoning, planning, drawing of plans and specifications, solicitation for bids, approval, and execution.

(c) If a regional center governing board member, regional center executive director, or his or her family member has a financial interest in a potential contract that creates a present or potential conflict of interest, the regional center board member or executive director shall do all of the following prior to the first consideration of the potential contract:

(1) fully disclose the existence and nature of the conflicting financial interest to the regional center board;

(2) have it noted in the official board records;

(3) recuse himself or herself from making, participating in making, or in any way attempting to use his or her position to influence a decision on the matter;

(4) leave the room during any discussion or deliberations of the matter and shall not return until disposition of the matter is concluded; and

(5) shall not cast his or her vote upon any matter or contract concerning the financial interest or be counted for purposes of a quorum."

Recommendation:

When law permits, KRC shall pursue refinancing of the bond incorporating a rent reduction for KRC. In addition, consistent with the revised bylaws, KRC must continue to ensure that KRC and DSSF board members are not comprised of the same individuals. Should any potential conflict of interest arise, KRC is to request a review by its attorney to ensure that any intended practice will not result in a conflict of interest.

C. <u>KRC Vendorization</u> (Repeat)

The prior audit report identified that KRC was vendored as a service provider using DSSF's EIN under POS Vendor Number Z00372, Service Codes 024 and 103, Vendor Number Z28346, Service Code 024, and Vendor Number PK0620, Service Code 102, and reimbursed itself a total of $1,150,398.75, which remain unresolved.

A follow-up review found that KRC continued to reimburse itself a total of $966,298.91 using these vendor numbers through January 2015. KRC utilized Vendor Number Z00372, Service Code 024, as a POS reimbursement account. KRC stated it paid for consumer services using its credit card when there was a need to expedite payment for POS and subsequently reimbursed itself under this vendor number using POS funds. However, services provided could not be tied to consumer IPPs, nor tied to specific consumer UCI number and/or authorizations. This resulted in KRC reimbursing itself a total of $205,333.56 without proper authorization.

In addition, KRC also reimbursed itself using Vendor Number Z00372, Service Code 103, under Subcode "TLMED." KRC indicated that it reimburses itself using POS funds for time spent by its service coordinators scheduling tele-medicine conferences with doctors and consumers when these employees' salaries are already paid under operations (OPS). The review also indicated that KRC has four doctors who are separately vendored and reimbursed for actual tele-medicine services provided to consumers. This resulted in KRC reimbursing itself a total of $686,895.38 under Service Code 103.

Furthermore, KRC reimbursed itself under Vendor Number Z28346, Service Code 024, $74,069.97 under a contract UCI. This vendor number was established so KRC could reimburse itself for services provided in case of consumer emergencies. However, services provided could not be tied to consumer IPPs, nor tied to a specific consumer UCI numbers and authorizations.

KRC reimbursed itself a total of $2,116,697.66 from July 2010 through January 2015. The vendors have since been de-vendored as of July 2015. (See Attachment B)

W&I Code, Section 4648(a)(1) states in part:

"(a)(1) The regional center shall secure services and supports that meet the needs of the consumer, as determined in the consumers' individual program plan."

CCR, Title 17, Section 54314(a)(3) and (4) states:

"(a) The following applicants shall not be vendored:

(3) Employees and board members of any regional center with a conflict of interest pursuant to Title 17, Sections 54500 through 54525, unless the conflict is eliminated or a waiver is obtained pursuant to Title 17, Sections 54522 through 54525;

(4) Any applicant in which the regional center employee or board member has a relationship which creates a conflict of interest pursuant to Title 17, Sections 54500 through 54525, unless the conflict is eliminated or a waiver is obtained pursuant to Title 17, Sections 54522 through 54525;"

CCR, Title 17, Section 54326(a)(10) states in part:

> "All vendors shall:
>
> (10) Bill only for services which are actually provided to consumers and which have been authorized by the referring regional center."

CCR Title 17, Section 50604(d) states in part:

> "All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program. Service records used to support service providers' billing/invoicing shall include, but not be limited to:
>
> (1) Information identifying each regional center consumer including the Unique Consumer Identifier and consumer name;
>
> (2) Documentation for each consumer reflecting the dates for program entrance and exit, if applicable, as authorized by a regional center.
>
> (3) A record of services provided to each consumer. The record shall include:
>
> (C) For community-based day programs, the dates of service, place where service was provided, the start and end times of service provided to the consumer and the daily or hourly units of service provided . . ."

State Contract, Article IV, Section 3(a) and (b) states in relevant part:

> ". . . Contractor shall keep records, as follows:
>
> a. The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures, and consumers served under this contract…
>
> b. The Contractor shall make available at the office of the Contractor at any time during the terms of this agreement during normal working hours, and for a period of three years after final payment under this annual contract, any of its records (personnel records excepted) for the inspection, audit, examination or reproduction by an authorized representative of the State, federal auditor, the State Auditor of the State of California, or any other appropriate State agency, which shall be conducted with the minimum amount of disruption to Contractor's program . . ."

Recommendation:

KRC must reimburse DDS $2,116,697.66 for the payments of unauthorized services. In addition, KRC must implement policies and procedures which comply with CCR, Title 17, Section 54324, for providing emergency services to consumers.

Finding 3: **Improper Allocation of Community Placement Plan Funds (Repeat)**

The review of KRC's CPP expenditures revealed that KRC included five consumers that did not move from the developmental centers to the community in FYs 2012-13 and 2013-14. This resulted in an improper allocation of CPP funds totaling $73,092.08. KRC stated that this occurred because its staff was not reviewing the State Claim File Listings to ensure that consumers who received CPP services that did not move from a developmental center to the community are not included under the CPP funding. The prior audit report identified $384,341.38 of improperly allocated CPP funds, which KRC had resolved by reallocating the funds to the correct funding source. (See Attachment C)

KRC provided additional documentation with its response to the draft report which showed that it resolved $69,148.08 and had $3,944.00 improperly allocated to CPP still outstanding.

W&I Code, Section 4418.25(d)(e), states in relevant part:

"(d) The department shall review, negotiate, and approve regional center community placement plans for feasibility and reasonableness, including recognition of each regional centers' current developmental center population and their corresponding placement level, as well as each regional centers' need to develop new and innovative service models. The department shall hold regional centers accountable for the development and implementation of their approved plans. The regional centers shall report, as required by the department, on the outcomes of their plans. The department shall make aggregate performance data for each regional center available, upon request, as well as data on admissions to, and placements from, each developmental center.

(e) Funds allocated by the department to a regional center for a community placement plan developed under this section shall be controlled through the regional center contract to ensure that the funds are expended for the purposes allocated. Funds allocated for community placement plans that are not used for that purpose may be transferred to Item 4300-003-0001 for expenditure in the state developmental centers if their population exceeds the budgeted level. Any unspent funds shall revert to the General Fund."

State Contract, Exhibit E states, in relevant part:

> "1. Community Placement Plan
>
> Contractor shall develop and submit an approved Community Placement Plan in accordance with Welf. & Inst. Code §§ 4418.25 and 4418.3 and consistent with Welf. & Inst. Code §§ 4418.7, 4519 and 4648.
>
> Contractor's Community Placement Plan shall, where appropriate, include budget requests for regional center operations, consumer assessments, resource development, deflections and ongoing placement costs.
>
> 2. Dedicated Funding
>
> a. Contractor shall use funds allocated for the regional center's approved Community Placement Plan only for the purposes allocated and in compliance with the State's Community Placement Plan and Housing Guidelines. Funds will be allocated through the following categories: Operations, Purchase of Service Placement, Purchase of Service Deflection, Purchase of Service Assessment, and Purchase of Service Start Up. The State shall reduce the contract in the amount of any unspent funds allocated for the Community Placement Plan that are not used for that purpose. Any unspent funds shall revert to the State or be transferred to another regional center for Community Placement Plan activities . . ."

Guidelines for Regional Center Community Placement Plan (III)(A) states in part:

> ". . . Placement funding will be allocated based on claims associated with reconciled CPP placements that occur during each FY. As part of the POS claims review process, the Department may periodically request verification of consumers who have transitioned to the community and their associated costs."

Recommendation:

KRC must reclassify the $3,944.00 of improper CPP allocations back into the general POS fund. In addition, KRC must review the State Claim File Listings for CPP claims to ensure expenditures are allocated to proper funding sources before claims are made to DDS.

Finding 4: **<u>Unauthorized Services</u>**

A. <u>Services Not Specified in the IPP</u> (Repeat)

The sampled review of payments to 133 POS vendors revealed five vendors provided transportation or home modification services to 13 consumers totaling $25,499 that were not specified in the consumers' IPPs. Since the services were not identified in the consumers' IPPs, KRC was unable to justify the need for these services. It was further noted that KRC did not have the approved Requests for Purchase of Service for these consumers. This issue was also identified in the prior audit with $217,497 still outstanding.

KRC provided a total of $242,996 of services in the prior and current audits that were not specified in the consumers' IPP. (See Attachment D)

W&I Code, Section 4646 (c) and (d), states in relevant part:

"(c) An individual program plan shall be developed for any person who, following intake and assessment, is found to be eligible for regional center services…

(d) Individual program plans shall be prepared jointly by the planning team. Decisions concerning the consumer's goals, objectives, and services and supports that will be included in the consumer's individual program plan and purchased by the regional center or obtained from generic agencies shall be made by agreement between the regional center representative and the consumer or, where appropriate, the parents, legal guardian, conservator, or authorized representative at the program plan meeting."

Recommendation:

KRC must reimburse to DDS $242,996 for the unauthorized services. In addition, KRC should ensure that services provided tie to consumers' IPPs, UCIs, and authorizations. This will ensure all POS payments are accurately accounted for and authorized.

B. <u>Payment for Services Provided Without Authorizations</u>

The sampled review of 133 POS vendor files revealed KRC paid one vendor, Roger Cook, Vendor Number PK5655, Service Code 100 for services provided prior to having approved authorizations. Roger Cook submitted invoices to KRC for payment totaling $113,919.30 for allegedly providing conservatorship services to 151 consumers from January 2011 through September 2013. KRC issued a manual check on November 21, 2014, to Roger Cook for $95,169.30 and withheld the remaining $18,750 payment due to an audit finding involving the vendor in the FYs 2008-09 and 2009-10 audit reports, which KRC had reimbursed to DDS.

On March 25, 2015, KRC management directed its program managers to retro-actively create authorizations for the payment made to Roger Cook, even though KRC had documented instances where the consumer did not receive services. KRC management was informed of instances where Roger Cook approached KRC clients' families to provide services to them without authorization from KRC.

CCR, Title 17, Section 50612 states:

"Regional Center Purchase of Service Requirements.

(a) A purchase of service authorization shall be obtained from the regional center for all services purchased out of center funds. This requirement may be satisfied if the information is provided, sent, or delivered, as the case may be, in an electronic record capable of retention by the recipient at the time of receipt.

(b) The authorization shall be in advance of the provision of service, except as follows:

(1) A retroactive authorization shall be allowed for emergency services if services are rendered by a vendored service provider:

(A) At a time when authorized personnel of the regional center cannot be reached by the service provider either by telephone or in person (e.g., during the night or on weekends or holidays);

(B) Where the service provider, consumer, or the consumer's parent, guardian or conservator, notifies the regional center within five working days following the provision of service; and

(C) Where the regional center determines that the service was necessary and appropriate.

(c) The authorization for the purchase of service shall be in the following form:

(1) The authorization shall be in writing except as follows:

(A) A verbal authorization by the regional center director or his authorized agency representative shall be allowed to provide emergency services utilizing…"

Recommendation:

KRC must reimburse to DDS $95,169.30 for the unauthorized services claimed under Service Code 100. In addition, KRC should ensure that services provided tie to consumer IPPs, UCIs, and authorizations. This will ensure all POS payments are accurately accounted for and authorized.

Finding 5: Deleted

KRC provided sufficient documentation with its response to the draft report to resolve the finding.

Finding 6: Payments for Unoccupied Beds (Repeat)

A follow-up review of payments for unoccupied beds revealed that KRC continued to pay 10 vendors for unoccupied beds from October 2010 through February 2013, totaling $1,216,646.57. The vendors have since closed and were deactivated as of March 2013, however the overpayments from the prior two audits totaling $434,108.34 for unoccupied beds remains outstanding. The total overpayments for unoccupied beds identified in the prior and current audits are $1,650,754.91. (See Attachment E)

CCR Title 17, Section 54326 (a)(10) states in part:

"All vendors shall:

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

Recommendation:

KRC must reimburse DDS the overpayments totaling $1,650,754.91. In addition, KRC must ensure its contracts with residential vendors stipulate that no payments will be made for maintaining empty beds.

Finding 7: Payment Reduction (Repeat)

The sampled review of 133 POS vendor files revealed KRC incorrectly applied the payment reductions for eight vendors. This resulted in over- and underpayments totaling $1,121.21 and $2,284.71, respectively. The overpayments occurred because KRC failed to apply the mandated payment reductions and it incorrectly calculated the payment reductions for consumers who do not receive Supplemental Security Income (SSI) benefits. In addition, the underpayments occurred because KRC continued to pay a reduced rate after the mandated payment reduction had expired. This issue was identified in the prior audit with $67,756.42 in overpayments to the vendor still outstanding from the prior audit. The total over-and underpayments from both the prior and current audits are $68,877.64 and $2,284.71, respectively. (See Attachment F)

KRC provided additional documentation with its response to the Draft Report to resolve $69.03 in overpayments and $53.04 underpayments. Furthermore, the Letter of Findings issued by DDS reduced the prior audit finding from $67,756.42 to $56,055.14. The total over-and underpayments from both the prior and current audits are $57,107.33 and $2,231.67, respectively.

Section 10 of Chapter 13 of the Third Extraordinary Session of Statutes of 2009, as amended by Section 16 of Chapter 9 of the Statutes of 2011, states in part:

"(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 and effective July 1 2012, by 1.25 percent unless the regional center demonstrates that a non-reduced payment is necessary to protect the health and safety of the individual from whom the services and supports are proposed to be purchased, and the State Department of Developmental Services has granted prior written approval."

Recommendation:

KRC must reimburse to DDS a total of $57,107.33 for the overpayments, and issue payments to the underpaid vendors a total of $2,231.67. KRC must also review vendor payments from July 2013, to ensure the payments were reduced by 3 percent rather than the 4.25 percent.

Finding 8: **<u>Rate Increase After the Rate Freeze</u> (Repeat)**

The sampled review of 133 POS vendor files revealed KRC increased the rate for five vendors after the rate freeze became effective on July 1, 2008, which resulted in overpayments totaling $168,741.62.

Disabled Sports Eastern Sierra, Vendor Number PK2607, Service Code 008, had its rate increased from $65 per consumer per ½ day session to $75 per consumer per ½ day session effective July 1, 2008. The rate increase resulted in an overpayment totaling $1,230 from July 2012 through December 2013.

Aimes Consulting, Inc., Vendor Number PK4168, Service Code 860, had its rate increased from $19 per consumer, per hour to $20 per consumer, per hour effective July 1, 2008. The rate increase resulted in overpayments of $26,604.71 from July 2012 through January 2015.

Wesley Crawford, Vendor Number PK2539, Service Code 062, had its rate increased from $2,650 per month to $3,150 per month, effective April 10, 2010. KRC did not have a rate letter on file to document the rate increase. A copy of the original rate letter had a handwritten note on it stating “Dr. Clark to give amended agreement w/new rate of $3,150 eff 4-1-10,” which was provided as justification for the rate increase. The rate increase resulted in overpayments of $13,791 from July 2012 through December 2014.

Employment through Adaptation-Tehachapi, Vendor Number PK3742, Service Code 063, increased its rate from $34.24 per hour to $37.21 per hour, effective July 1, 2012. The rate increase resulted in overpayments of $127,054.81 from July 2012 through January 2015.

Holdambeck and Associates, Vendor Number PT0467, Service Code 048, had its rate increased from $400 per family, per class on March 1, 2010, to $412.37 per family, per class on April 27, 2010, which resulted in overpayments totaling $61.10. KRC has provided a new payment agreement dated July 22, 2015 that confirms the rate has been corrected to the original amount of $400 per family, per class. This issue was identified in the prior audit however, the overpayments to the eight vendors totaling $47,874.20 remain outstanding. The overpayments from the prior and current audits total $216,615.82. (See Attachment G)

KRC provided additional documentation with its response to the Draft Report to resolve a total of $1,291.10 for Vendors PK2607 and PT0467. KRC remains with overpayments from the prior and current audits totaling $215,324.72.

W&I Code, Section 4648.4(b) states:

> "(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:

KRC must reimburse to DDS a total of $215,324.72 for the overpayments from the prior and current audits. In addition, KRC must revert to the original payment terms of the contracts that were in place prior to the implementation of the rate freeze.

Finding 9: <u>Over/Understated Claims</u> (Repeat)

The sampled review of 133 POS vendor files and the Operational Indicator reports revealed 173 instances where KRC over and understated claims to the State totaling $49,570.05 and $6,548.94, respectively. The over and understated claims were due to duplicate payments, overlapping authorizations, payments above the authorized units and payments at the incorrect rate. This issue was identified in the prior audit report with overstated claims totaling $22,255.75 and understated claims totaling $59.12 that still remain outstanding. (See Attachment H)

KRC provided additional documentation with its response to the indicating that it resolved $3,208.80 in overpayments. Furthermore, $3,005.70 was resolved from the prior audit as identified in the Letter of Findings. KRC remains with over and underpayments from both the prior and current audits totaling $65,611.30 and $6,608.06, respectively.

CCR, 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..."

Recommendation:

KRC must reimburse to DDS a total of $65,611.30 for the overstated claims and issue payments totaling $6,608.06 to the underpaid vendors identified in the prior and current audit reports. In addition, KRC should review the Operational Indicator reports and payment invoices to ensure any overpayments are addressed and corrected in a timely manner.

Finding 10: Deleted

This finding was appealed in the prior audit report and the finding was not upheld.

Finding 11: Client Trust Disbursements Not Supported (Repeat)

A sampled review of 25 consumer trust money management disbursements revealed that KRC did not retain receipts to support 34 out of the 76 sampled money management disbursement checks to the vendors during the current review. This resulted in unsupported money management disbursements totaling $19,387.30. This issue was identified in the prior audit report with unsupported money management disbursements totaling $10,096.54 still outstanding from the prior audit.

The unsupported money management disbursements from current and prior audit total $29,483.84. (See Attachment I)

Social Security Handbook, Chapter 16, Section 1616 states:

> "The responsibilities of a representative payee are to:
>
> Keep written records of all payments received from SSA and how the payments were spent and/or saved along with receipts for shelter expenses and major purchases to prove how funds were spent and/or saved on behalf of the beneficiary."

Recommendation:

KRC must reimburse the consumers a total of $29,483.84 in unsupported money management disbursements paid to the vendors identified in the current and prior audits. As the representative payee, KRC must ensure its vendors are aware that receipts to support the client trust money management disbursements are to be submitted to KRC and must request reimbursement from vendors who do not comply. This will ensure all money management checks disbursed are for appropriate purposes, and that there is accurate accountability for the consumer benefits.

Finding 12: Targeted Case Management

A. Time Study – Recording of Attendance

The review of the TCM Time Study revealed that three of 20 sampled employees had "Time Off" hours recorded on their timesheets which did not properly reflect the hours recorded on their DS 1916. This resulted in 17 hours that were overstated and 12.50 hours that were understated.

The Targeted Case Management Rate Study Process and Instructions state:

> "…All regional center case management staff (category CM) will complete the DS1916 during the rate study…The total hours worked during the day, including overtime must be shown…For each day work was performed, enter the number of hours spent on each function outlined on the time sheet…"

Recommendation:

KRC must ensure case workers accurately report the number of hours spent on each function. Supervisors should also compare the DS 1916 forms to the timecards to ensure hours worked during the time study period are properly reported.

B. Rate Study – Expenses Did Not Match to the Year-End General Ledger (Repeat)

The review of the TCM Rate Study worksheets for 2014 and 2015 revealed that KRC was not reporting the salary and wage expenses for the FGP program. The operating expenses on Attachment D of the TCM Rate Study worksheets submitted to DDS were underreported by $51,678.77 and $51,472.66 respectively. KRC stated that the salaries and wages for the FGP program were not included in the TCM Rate Study because it is recorded separately as a line item in the general ledger.

Instructions for the TCM Rate Study Attachment B states:

> "ADMINISTRATIVE SURVEY – Computation of Applicable Operating Expenses
> Operating Expenses:
>
> 1. On the worksheet below, enter the actual [2012-13 or 2013-14] FY operating expenses, including outstanding encumbrances and accounts payable that will be paid during the current fiscal year for each program per your UFS GL 310 Budget Report – Detail."

Recommendation:

KRC must follow the instructions for completing the TCM Rate Study and ensure the completed worksheets match expenses reported on the Year-End General Ledger before submitting the reports to DDS.

Finding 13: <u>Purchase of Service Expenses Not Tied To Consumer UCI Numbers</u> (Repeat)

The review of Start-Up invoices revealed that Delano Association, vendor PK1414, service code 101, billed KRC a total of $328,225 in POS funds for developing and maintaining housing for consumers from August 2006 to September 2012. KRC reimbursed $328,225 to the vendor, but the payments were billed at a contract rate and not tied to any consumer UCI. This issue was identified in the prior audit and KRC indicated that it could not reclassify the expenditures to individual consumers because the fiscal years were closed. (See Attachment J)

W&I Code, Section 4659(a) and (b) state, in relevant part:

> "(a) Except as otherwise provided in subdivision (b) or (e), the regional center shall identify and pursue all possible sources of funding for consumers receiving regional center services…
>
> (b) Any revenues collected by a regional center pursuant to this section shall be applied against the cost of services prior to use of regional center funds for those services. This revenue shall not result in a reduction in the regional center's purchase of services budget, except as it relates to federal supplemental security income and the state supplementary program."

CCR, Title 17, section 54326(a)(3) and (10) state, in relevant part:

> "(a) All vendors shall:
>
> (3) Maintain records of services provided to consumers in sufficient detail to verify delivery of the units of service billed:
>
> (10) Bill only for services which are actually provided to consumers and which have been authorized by the referring regional center..."

Recommendation:

KRC must reclassify the $328,225 of POS expenditures to ensure services are associated with individual consumers. In addition, KRC shall ensure all future POS payments made to vendors are tied to a consumer UCI number before any funds are disbursed.

Finding 14: Bank Reconciliation

A. Bank Reconciliation Policy (Repeat)

The review of KRC's Bank Reconciliation Policy revealed that KRC allows bank reconciliations to be completed up to 90 days after month end, even though the monthly bank statements can be obtained online within two days after the end of each month. This issue was identified in the prior audit report and KRC stated in its response that it would "change its procedure to better adhere to the staff's workload for completing bank reconciliations." However, this issue continues to persist.
Good business practice requires that bank reconciliations be completed before the receipt of the next month-end bank statements in order to identify reconciling items and errors in a timely manner.

Recommendation:

KRC must amend its policy to ensure bank reconciliations are completed timely. Completing bank reconciliations timely ensure early detection of errors and inappropriate transactions.

B. Stale-Dated Checks

The review of KRC's bank accounts revealed 159 checks totaling $29,440.23 remained outstanding as of May 29, 2015. Some of the checks were dated back to February 2011. KRC stated that this occurred due to excessive workload for the Accounting Manager and his subsequent separation from employment with KRC.

KRC's Bank Reconciliation Policy states, in part:

> "Every six months, all outstanding checks shall be stale-dated, unless otherwise noted from research to void the check and reissue."

Recommendation:

KRC must follow its Bank Reconciliation Policy for stale-dated checks and research each stale-dated check to determine if the checks should be voided or re-issued. Allowing stale-dated checks to remain on the bank account will misrepresent the actual bank balance resulting in an inflated bank account balance.

Finding 15: Conflict of Interest Forms

The review of KRC's Governing Board COI disclosure statements revealed four Board members with missing COI disclosure statements. KRC stated that it was not aware that these Board members did not have their COI disclosure statements on file. The review also revealed five newly appointed

KRC Board members who failed to submit their COI disclosure statements within 30 days of being selected. In addition, two of the Board members submitted their COI disclosure statements more than a year after being appointed.

Lanterman Act, Section 4626 (f) states:

> "(f) Every new regional center governing board member and regional center executive director shall complete and file the conflict–of–interest statement described in subdivision (e) with his or her respective governing board within 30 days of being selected.

KRC's Policy No. O-7, Conflict of Interest, states:

> "All KRC Board Members and all KRC employees shall at least annually submit and have on record at KRC a Conflict of Interest Disclosure Statement. These statements shall be formatted and processed consistent with current law (Lanterman Act, Sections 4626 and 4626.5), regulation (California Code of Regulations, Title 17, Division 2, Chapter 3, Sections 54500-54535) and Department of Developmental Services policies and guidelines.
>
> The KRC Board shall comply with conflict of interest regulations as put forth in CCR, Title 17, Section 54500-54535. The KRC Human Resources Department shall provide assistance to any board member or employee as appropriate in completing disclosure statements."

Recommendation:

KRC must comply with WIC Section 4626 and ensure that new governing Board members submit a COI disclosure statement within 30 days of being selected and that the COI disclosure statements are completed annually.

Finding 16: <u>Segregation of Duties</u> (Repeat)

The review of KRC's payroll process revealed a lack of separation of duties for the Payroll Specialist. The review noted that the Payroll Specialist's primary function is to ensure timesheets are accurate, payroll is processed timely and checks are distributed. In addition to primary functions, the review also found that the Payroll Specialist has the authority to add and delete employees and make changes to employee pay rates. The ability to access and make changes to employee pay rates should be limited to the Human Resources Department. This issue was identified in the prior audit report. In its response to the audit report, KRC stated that it would shift control of the Human Resources functions from the payroll staff to the Human Resources Department, however this issue continues to persist. These weaknesses in KRC's controls increase the risk of fraud and decreases the opportunity to detect errors.

Good business practices and adequate internal controls require that payroll and personnel functions must be clearly separated.

Recommendation:

KRC should restrict payroll staff from having access to personnel functions. In addition, the receipt and distribution of checks should be handled by someone other than the person processing the payroll.

Finding 17: <u>Equipment Inventory</u>

A. <u>Missing Equipment</u> (Repeat)

A sample of 50 items was selected for testing from KRC's equipment inventory listing. The testing revealed three items, Sony laptop, State Tag Number 00350164; HP Laserjet Printer, State Tag Number 00350119; and a desktop computer, State Tag Number 00350068, that could not be located but remain on KRC's equipment inventory listing. This issue was noted in the prior audit report. In its response, KRC stated that it will continue to improve upon its equipment inventory to better safeguard State property. However, this issue remains ongoing and prior issues were not resolved.

State Contract, Article IV, Section 4(a) states:

(a) "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 availability and usefulness for the performance of this contract. 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."

State's Equipment Management System Guidelines, Section III (E), states:

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

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

Recommendation:

KRC must follow the State Contract and the State's Equipment Management System Guidelines for the safeguarding of State property. KRC must also ensure missing items are reported to the proper authorities in a timely manner and that a survey form is completed to remove the items from the inventory register.

B. Equipment Acquisition and Disposal (Repeat)

The follow-up review of KRC's physical equipment process noted KRC is now utilizing the Equipment Acquired Under Contract form (DS 2130) to record its inventory purchases. However, the review noted that KRC did not complete and submit the DS2130 to DDS' Customer Support Section on a quarterly basis. In addition, KRC was unable to provide copies of the required Property Survey Report form (Std. 152) for the six items that were disposed.

State Contract, Article IV, Section 4(a) states:

(a) "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 availability and usefulness for the performance of this contract. 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."

State's Equipment Management System Guidelines, Section III (B) states in part:

"…RCs will also provide the Department of Developmental Services' (DDS) Customer Support Section (CSS) with a list of all State-owned, nonexpendable and sensitive equipment received during each calendar quarter. This information is to be provided to CSS quarterly, utilizing the Equipment Acquired Under Contract form (DS 2130), or suitable electronic alternative..."

State’s Equipment Management Guidelines Section III (E) states:

> “RCs will conform with the following guidelines for any state-owned equipment that is junked, recycled, lost, stolen, donated destroyed, traded-in, transferred or otherwise removed from the control of the RC.
>
> RCs shall work directly with their regional Department of General Services’ (DGS) office to properly dispose of state-owned equipment. RCs will complete a Property Survey Report (Std. 152) for all state-owned equipment subject to disposal. DGS must review and approve Std. 152 before the equipment is actually disposed. A copy of the Std. 152 will be forwarded to CSS after the items have been disposed and all required approvals and certifications have been obtained. Another copy of the Std. 152 shall be forwarded to the RC Accounting Unit for posting. The RC will retain copies of all completed Std. 152s for audit purposes.”

Recommendation:

KRC must revise its policies and procedures to ensure compliance with the State Contract and the State’s Equipment Management System Guidelines. These policies and procedures should include promptly logging newly acquired items and deleting items that have been disposed of from KRC’s inventory listing.

C. <u>Physical Inventory</u>

The review of KRC’s policies and procedures regarding inventory of fixed assets, require KRC to perform a physical inventory of its assets annually. The Property Custodian, however, indicated that inventory is taken twice a year at headquarters and once every three years for its satellite offices, but was unable to provide documentation of when the last physical inventory was completed.

KRC’s Fixed Asset Inventory Instructions state:

> “It is the responsibility of the Property Custodian to ensure that the fixed asset inventory is kept up to date. An annual inventory is to be performed to ensure it is accurate.”

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

> “Each RC shall conduct a comprehensive physical inventory of all state-owned, nonexpendable equipment and sensitive equipment, as defined in Attachment A, at least once every three years. The inventory will be conducted per State Administrative Manual (SAM) Section 8652...”

State Administrative Manual (SAM) 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 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:

KRC must adhere to its policies and procedures and ensure that inventory is conducted annually for all of its locations. In addition, KRC must ensure that the worksheets used to take inventory are retained for audit review and show the date of inventory and the name of the inventory taker.

Finding 18: Whistleblower Policy Not Distributed Annually (Repeat)

The review of KRC’s Board-approved Whistleblower Policy and discussions with KRC staff revealed that the Whistleblower Policy is still not being distributed annually. This issue was identified in the prior audit report. In its response, KRC provided documentation which showed that the Whistleblower Policy was last distributed on July 31, 2013; no subsequent Whistleblower Policy have since been distributed to employees, board members, consumers/families and the vendor community.

State Contract, Article I, Section 18(b)(6) states:

> b. “This policy must be consistent with the State’s directive entitled Department of Developmental Services Whistleblower Complaint Process, dated July 28, 2010, and must:…
>
> 6) Include a process for ensuring notification of employees, board members, consumers/families, and vendor community of both the regional center and the State’s Whistleblower policy within 30 days of the effective date of the regional center’s policy and annually thereafter.”

KRC’s Whistleblower Policy states:

> “This KRC Board Policy becomes effective December 31, 2010. It, along with the State’s Whistleblower Policy, shall be distributed to employees, board members, consumers/families and the vendor community within 30 days of the effective date and annually thereafter.”

Recommendation:

KRC must ensure that all required parties are notified about the Whistleblower Policy annually. Improper activities may go unreported if people are not aware that a Whistleblower Policy exists.

Finding 19: Family Cost Participation Program

A. Late Assessments (Repeat)

The sampled review of 24 FCPP consumer files revealed 14 instances in which KRC did not assess the parents' share of cost participation as part of the consumer's IPP or IFSP review. The assessments were completed more than 30 days after the IPP was signed. This issue was identified in the prior audit report. In its response, KRC stated that it had implemented new procedures to review case management. These procedures require staff to review Attendance History Reports one month prior to the assessment date of the FCPP. This would ensure assessments are completed timely. However the procedures had not been implemented and the issue continues to occur. (See Attachment K)

W&I Code, Section 4783(g)(1) states:

"(g) Family cost participation assessments or reassessments shall be conducted as follows:

(1)(A) A regional center shall assess the cost participation for all parents of current consumers who meet the criteria specified in this section. A regional center shall use the most recent individual program plan or individualized family service plan for this purpose.

(B) A regional center shall assess the cost participation for parents of newly identified consumers at the time of the initial individual program plan or the individualized family service plan.

(C) Reassessments for cost participation shall be conducted as part of the individual program plan or individual family service plan review pursuant to subdivision (b) of Section 4646 of this code or subdivision (f) of Section 95020 of the Government Code."

Recommendation:

KRC must ensure its new procedures are implemented and the FCPP assessments are completed as part of the consumers' IPP or IFSP review. This will ensure compliance with W&I Code, Section 4873(g)(1).

B. Overstated Share of Cost

The sample review of 24 FCPP consumer files revealed that KRC has been paying the cost of services for four consumers, which under the requirements of the FCPP, are the responsibility of the consumers' parents. KRC paid above its share of cost for respite service to three vendors, resulting in overpayments totaling $5,347.56. This occurred because KRC allowed authorized monthly respite hours to be annualized. (See Attachment L)

CCR, Title 17, Section 50255(a) states in pertinent part:

> "The parents of a child who meet the definition under Section 4783(a) (1) of the Welfare and Institutions Code shall be jointly and severally responsible for the assessed amount of family cost participation."

Welfare and Institution Code Section 4686.5 (a) (2) states:

> "(2) A regional center shall not purchase more than 21 days of out–of–home respite services in a fiscal year nor more than 90 hours of in–home respite services in a quarter, for a consumer."

Recommendation:

KRC must reimburse to DDS a total of $5,347.56 in overpayments that resulted from KRC paying above the RC's share of cost. In addition, KRC must discontinue the practice of allowing authorized monthly respite hours to be annualized.

Finding 20: Deceased Consumers - Multiple Dates of Death (Repeat)

The sampled review of 20 deceased consumer files identified one consumer with two different dates of death recorded in UFS and two consumers with dates of death recorded in UFS that did not match the death certificate. This issue was identified in the prior audit report with six consumers with multiple dates of death still unresolved. In its response, KRC stated that it will work toward better compliance with regard to recording the consumers' date of death in UFS; however, KRC did not provide details on how this will be accomplished and the issue continues to occur. (See Attachment M)

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

> "Contractor shall make available accurate and complete UFS and SANDIS 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 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 sound accounting practices, KRC should ensure the consumer's actual date of death is accurately recorded in UFS to avoid any potential payments after the consumer's death.

Recommendation:

KRC must correct the dates of death in UFS for the nine consumers identified, to reflect the date of death listed on the death certificate. In addition, KRC must ensure its employees are properly trained to record the date of death in UFS. Furthermore, KRC should review all current deceased consumer files to ensure that only one date of death is recorded in UFS.

Finding 21: <u>Lack of Minutes for Closed Board Meetings</u> (Repeat)

The review of KRC's Board minutes revealed that minutes were recorded for all open Board meetings; however, KRC could not provide the minutes for closed Board meetings. KRC did not have the minutes for any of its closed Board meetings, including meetings which involved discussions related to employee governance policies, labor issues, and lawsuits. This issue was identified in the prior audit report, however in its response, KRC did not address how it would resolve this issue of recording or maintaining closed Board minutes.

W&I Code, Section 4663(a)(b) states:

> "(a) The governing board of a regional center may hold a closed meeting to discuss or consider one or more of the following:
>
> (1) Real estate negotiations.
>
> (2) The appointment, employment, evaluation of performance, or dismissal of a regional center employee.

(3) Employee salaries and benefits.

(4) Labor contract negotiations.

(5) Pending litigation.

(b) . . . Minutes of closed sessions shall be kept by a designated officer or employee of the regional center, but these minutes shall not be considered public records. Prior to and directly after holding any closed session, the regional center board shall state the specific reason or reasons for the closed session. In the closed session, the board may consider only those matters covered in its statement."

Recommendation:

KRC must ensure all minutes of closed Board sessions are recorded and kept by a designated officer or employee of KRC. In addition, prior to, and directly after, holding any closed session, KRC's Board shall state the specific reason or reasons for the closed session.

Finding 22: <u>Contract Awards not Posted on KRC Website</u>

The review of KRC's transparency webpage revealed that contract awards are not posted on its website. KRC indicated it was not aware that contract awards needed to be posted on its website.

W&I Code, Section 4629.5 (a) and (b)(4) states:

"(a) In addition to the requirements set forth in Section 4629, the department's contract with a regional center shall require the regional center to adopt, maintain, and post on its Internet Web site a board–approved policy regarding transparency and access to public information. The transparency and public information policy shall provide for timely public access to information, including, but not limited to, information regarding requests for proposals and contract awards, service provider rates, documentation related to establishment of negotiated rates, audits, and IRS Form 990.

(b) To promote transparency, each regional center shall include on its Internet Web site, as expeditiously as possible, at least all of the following:

(4) Contract awards, including the organization or entity awarded the contract, and the amount and purpose of the award."

Recommendation:

KRC should ensure that all contract awards are posted on its website in accordance with KRC's contract with the State, and as required by W&I Code, Section 4629.5 (a).

Finding 23: <u>Unsupported Credit Card Purchases</u>

The review of KRC credit card statements for FYs 2012-13 and 2013-14 revealed five credit card payments totaling $310.05 did not have documentation to support the items purchased.

KRC's American Express credit card procedures states in relevant part:

> "The following is the workflow regarding charges and payments for Amex cardholders and Accounting:
>
> 1) Amex cardholders will be responsible for their charges within the general purpose guidelines for each cardholder set above.
>
> 2) Amex cardholders will retain their receipts and any backup when the charge has occurred…
>
> 4) The Amex cardholder will review the American Express Bill, match up charges and any backup, and turn into accounting for payment…
>
> 7) The CFO and/or Manager of Accounting Services will review all American Express Bills of the Amex Cardholders for budgetary and accounting purposes and will follow up with any questions to the Amex Cardholders.

Recommendation:

KRC must strengthen its credit card procedures for handling lost receipts, including revoking credit card privileges for employees who constantly fail to submit supporting documentation for items purchased.

Finding 24: <u>Lack of Oversight over Self-Determination</u>

The review of KRC's Self-Determination program revealed major deficiencies in oversight for the Self-Determination program. The review found that KRC does not have an adequate process in place to monitor the consumers' Self-Determination budget or expenditures, and has relied primarily on the six FMS vendors for keeping records for its 44 consumers in the

Self-Determination program. The FMS receives monthly advances in anticipation for expenses to be incurred by each consumer. Since the funds are advanced to the FMS, KRC has no knowledge of the actual expenses incurred or the amount of unspent funds that must be returned to KRC at year end. Furthermore, because the funds are not actively being tracked, KRC arbitrarily applies the returned advances to either the current or prior year, because the consumers' annual Self-Determination budget typically crosses two fiscal years.

Additionally, DDS identified areas of concern regarding the lack of required education or social work experience working with people with developmental disabilities, necessary to become a Self-Determination broker. KRC utilizes support brokers, who act as liaisons for KRC, to facilitate the planning and implementation of Self-Determination programs for its consumers. The brokers write person-centered plans and negotiate appropriate services, support, and budget cost with KRC. Lack of oversight and the use of unqualified brokers resulted in some questionable purchases with Self-Determination funds, specifically the purchase and repair of an uninhabitable mobile home, which was subsequently sold at a substantial loss. It remains unclear who benefited from the proceeds of the sale.

CCR Title 17, Section 50604(d) states in part:

> " All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program . . . Service records used to support service providers' billing/invoicing shall include, but not be limited to:
>
> (2) Documentation for each consumer reflecting the dates for program entrance and exit, if applicable, as authorized by a regional center.
>
> (3) A record of services provided to each consumer. The record shall include:
>
> (C) For community-based day programs, the dates of service, place where service was provided, the start and end times of service provided to the consumer, and the daily or hourly units of service provided . . ."

State Contract, Article IV, Section 3(a) and (b) states:

> ". . . Contractor shall keep records, as follows:
>
> a. The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures, and consumers served under this contract . . .

b. The Contractor shall make available at the office of the Contractor at any time during the terms of this agreement during normal working hours, and for a period of three years after final payment under this annual contract, any of its records (personnel records excepted) for the inspection, audit, examination or reproduction by an authorized representative of the State, federal auditor, the State Auditor of the State of California, or any other appropriate State agency, which shall be conducted with the minimum amount of disruption to Contractor's program . . ."

Recommendation:

KRC must develop policies and procedures for monitoring the Self-Determination program and ensure it maintains its own records of the consumers' Self-Determination budgets and expenditures. In addition, KRC should ensure that its Self-Determination brokers are qualified to determine appropriate services and supports needed for people with developmental disabilities, as well as formulating a budget, and understanding the RC system.

EVALUATION OF RESPONSE

As part of the audit report process, KRC was provided with a draft audit report and requested to provide a response to the findings. KRC's response dated September 4, 2018, is provided as Appendix A.

DDS' Audit Section has evaluated IRC's response and will confirm whether appropriate corrective actions have been taken during the next scheduled audit.

Finding 1: **<u>Missing Documentation</u>**

A. <u>Purchase of Service</u> (Repeat)

In its response, KRC indicated that it provided supporting documentation for As One, Inc. Vendor Number PK5240. However, no invoices or attendance documents were provided as documentation for the unsupported payments totaling $325,710.63 to As One, Inc. In addition, $97,437.35 in unsupported payments remains outstanding from the prior audit. Therefore, the total overpayment of $423,147.98 from the current and prior audits must be reimbursed to DDS.

B. <u>Deceased Consumers</u> (Repeat)

KRC provided DDS a copy of the death certificate for UCI [redacted] and stated it would forward a copy of the death certificate for UCI [redacted] when found. If KRC is unable to locate the death certificate for UCI [redacted] KRC should reorder the death certificate from the local County Recorder's Office.

C. <u>Service Coordinator Caseload Ratios</u> (Repeat)

KRC did not address how it would resolve this finding in its response. Therefore, DDS' recommendation that KRC must ensure that the service coordinator caseload data be retained to support the calculation for its service coordinator caseload ratios remains.

D. <u>Rate Letters, Award Letters, E-Attendance Enrollment Forms, and Income Documentation</u> (Repeat)

1. KRC was unable to locate the rate letter or payment agreement for As One, Inc., Vendor Number PK5240, Service Code 880, for the audit period, but indicated that a new contract was executed in 2015. Since KRC did not provide a copy of the new contract with its response, DDS will follow up during the next scheduled audit.

2. KRC provided a copy of the e-attendance enrollment form for Southland Transit, Vendor Number HL0135, Service Code 875. This has resolved the issue.

3. KRC was unable to obtain the Social Security Award Letters for the 16 consumers identified in the report. KRC stated that going forward, it will request award letters from the Social Security Administration.

4. KRC was unable to obtain the income documentation to justify the reduced AFPF assessment for the three families. KRC stated that it will encourage consumer parents to provide income documentation. KRC must require families to provide income documentation or assess the $200 maximum under AFPF.

Finding 2: **<u>KRC Foundation – Developmental Services Support Foundation for Kern, Inyo, and Mono Counties</u>**

A. <u>Deleted</u>

The issue was a continuation from the DDS Audit Report for FYs 2010-11 & 2011-12, which KRC appealed and which was resolved in the Letter of Findings dated March 16, 2018.

B. <u>Conflict of Interest</u> (Repeat)

DDS agreed with KRC to modify the recommendation to be consistent with the Letter of Findings. The revised recommendation is as follows:

When law permits, KRC shall pursue refinancing of the bond incorporating a rent reduction for KRC. In addition, consistent with the revised bylaws, KRC must continue to ensure that KRC and DSSF board members are not comprised of the same individuals. Should any potential conflict of interest arise, KRC is to request a review by its attorney to ensure that any intended practice will not result in a conflict of interest.

C. <u>KRC Vendorization</u> (Repeat)

DDS agreed with KRC to reduce the overpayment for the FYs 2009-10 & 2010-11 audit by $595,014.66 to the revised amount of $1,150,398.75 per the Letter of Findings dated March 16, 2018. Further, KRC indicated it had resolved $167,501 of the $1,086,873.63 in the current audit. However, the review of the backup documents revealed KRC only resolved $120,574.72 in the current audit, leaving a balance of $966,298.91. Therefore, the total overpayment amount for both the prior and current audits is $2,116,697.66.

Finding 3: **Improper Allocation of Community Placement Plan Funds (Repeat)**

KRC agreed with part of the finding and provided additional documentation with its response, which indicated that $69,148.08 of the $73,092.08 improperly allocated CPP funds were reclassified. However, KRC did not take corrective action to reclassify the remaining improperly allocated CPP funds totaling $3,944. KRC did not provide any explanation why these funds were not reclassified. Therefore, KRC must reclassify the remaining $3,944 of improperly allocated CPP funds back into the general POS fund.

Finding 4: **Unauthorized Services**

A. Services Not Specified in the IPP (Repeat)

KRC indicated this is a practice that KRC no longer follows and that it has implemented a new POS process to ensure all services funded by KRC are specified in each consumer's IPP. However, KRC did not provide sufficient documentation to resolve the $25,499 identified in the current audit or the $217,497 identified in the prior audit. Therefore, KRC must reimburse to DDS a total of $242,996 for the unauthorized services.

B. Payment for Services Provided Without Authorizations

KRC stated that this is a legacy matter and that it has discontinued the practice of providing services to consumers prior to having approved authorizations. Although KRC may have discontinued this practice, KRC must reimburse to DDS $95,169.30 for payments to a vendor in November 2014 for services that were allegedly provided from January 2011 through September 2013, which were never authorized.

Finding 5: **Deleted**

KRC provided documentation that indicated the rate for Aimes Consulting, Inc. was negotiated prior to the implementation of the median rate on July 1, 2008. In addition, the unresolved overpayments to Riverlakes Residential Care identified in the DDS Audit Report for FYs 2010-11 & 2011-12 was appealed in the SODI and was resolved in KRC's favor in the Letter of Findings dated March 16, 2018. Since KRC provided sufficient documentation that indicated the rates for these two vendors were established prior to the implementation of the median rate, this issue is deleted.

Finding 6: Payments for Unoccupied Beds (Repeat)

KRC stated this is this a practice that KRC no longer follows and has discontinued paying vendors for maintaining empty beds. Although KRC may have discontinued this practice going forward, KRC must reimburse DDS for payments to vendors for unoccupied beds from October 2010 through February 2013, totaling $1,216,646.57. In addition, the unresolved overpayments identified in the two prior audits totaling $434,108.34 were appealed in the SODI and the overpayment was upheld in the Letter of Findings dated March 16, 2018. Therefore, KRC must reimburse DDS the overpayments totaling $1,650,754.91 identified in the prior and current audits.

Finding 7: Payment Reduction (Repeat)

KRC provided supporting documentation to resolve $69.03 of the $1,121.21 in overpayments to two vendors and $53.04 of the $2,284.71 in underpayments to six vendors in the current audit. The over and underpayments totaling $1,052.18 and $2,231.67, respectively, remain outstanding.

In addition, the overpayments identified in the prior audit totaling $56,055.14 were appealed in the SODI and the overpayments were upheld in the Letter of Findings dated March 16, 2018. This amount remains unresolved.

As a result, KRC must reimburse to DDS overpayments totaling $57,107.32 and issue payments to the underpaid vendors totaling $2,231.67 identified in the prior and current audits.

Finding 8: Rate Increase After the Rate Freeze (Repeat)

KRC resolved $1,291.10 of the $168,741.62 identified in the audit report. The $1,291.10 consisted of $1,230.00 in overpayments to Disabled Sports Eastern Sierra, which KRC resolved by providing documentation showing the vendor was under a Usual & Customary rate. In addition, KRC resolved the $61.10 overpayment to Holdsambeck and Associates by providing documentation indicating it had recovered this amount from the vendor. Therefore, $167,450.52 in overpayments from the current audit and $47,874.20 from the prior audit remain outstanding. KRC must reimburse to DDS a total of $215,324.72 from the current and prior audits.

Finding 9: Over/Understated Claims (Repeat)

KRC stated that this is a practice it no longer follows “to the extent these claims concern vendors who are closed.” KRC provided documentation indicating that $3,208.80 of the $49,570.05 in overpayments due to duplicate payments and overlapping authorizations had been resolved, but did not address the $6,548.94 in underpayments. Therefore, the over and underpayments still remaining are $46,361.25 and $6,548.94, respectively.

This issue was also identified in the prior audit report. KRC had $3,005.70 of the $22,255.75 in overpayments resolved as identified in the Letter of Findings and has a balance of $19,250.05 still outstanding. In addition, underpayments totaling $59.12 from the prior audit report remain unresolved.

KRC must reimburse to DDS a total of over $65,611.30 from both the current and prior audits. KRC must also issue a total of $6,608.06 in payments to the underpaid vendors.

Finding 10: Deleted

The issue was a continuation from the prior audit, which KRC appealed in the SODI and resolved in KRC's favor.

Finding 11: Client Trust Disbursements Not Supported (Repeat)

KRC states that it is unable to locate receipts for the client trust disbursements. To resolve the issue prospectively, KRC contracted with New Leaf Solutions to provide assistance with the client trust disbursements. However, KRC must reimburse the consumers a total of $29,483.84 in unsupported money management disbursements paid to the vendors identified in both current and prior audits.

Finding 12: Targeted Case Management

A. Time Study – Recording of Attendance

KRC implemented a review process in 2015 that involves the Human Resources and Payroll Departments to assist in reviewing the TCM Time Study forms (DS1916) for accuracy.

B. Rate Study – Expenses Did Not Match to the Year-End General Ledger (Repeat)

KRC stated the issue was a legacy matter, that the practice is no longer used by KRC, and that KRC will follow the instructions in the TCM Rate Study.

Finding 13: Purchase of Service Expenses Not Tied To Consumer UCI Numbers (Repeat)

KRC is unable to reclassify the $328,255.00 in POS expenditures for Vendor Number, PK1414 (Service Code 101) because the fiscal years are closed for the period of August 2006 through September 2012. KRC also stated it has closed this vendor as of October 1, 2012. KRC must ensure all future POS payments made to vendors are tied to a consumer UCI number before any funds are disbursed.

Finding 14: Bank Reconciliation

A. Bank Reconciliation Policy (Repeat)

KRC agreed with the finding and stated that it will work towards completing its bank reconciliations on a timely basis.

B. Stale-Dated Checks

KRC agreed with the finding and stated that it will work towards reviewing stale-dated checks twice each fiscal year.

Finding 15: Conflict of Interest Forms

KRC stated that this is a legacy issue and that the Executive Assistant will now be responsible for sending out and tracking Conflict of Interest (COI) forms for Board Members to ensure they are completed in a timely manner.

Finding 16: Segregation of Duties (Repeat)

KRC stated that this is a legacy issue. KRC agreed with the finding and stated that it will work towards implementing better internal control between the Human Resources and Payroll Departments, but did not provide any details as to what controls it would implement. This issue was identified in the prior audit report. In its response to that audit report, KRC stated that it would shift control of the Human Resources functions from the payroll staff to the Human Resources Department; however, this issue continues to persist.

Finding 17: Equipment Inventory

A. Missing Equipment (Repeat)

KRC agreed with the finding and stated that it will work towards safeguarding of State Property, but did not indicate how it would do so.

This issue was noted in the prior audit report. In its response, KRC stated that it would continue to improve upon its equipment inventory to better safeguard State property. However, this issue remains ongoing, and prior issues were not resolved.

B. Equipment Acquisition and Disposal (Repeat)

KRC agreed with the finding and stated that it will work towards better safeguarding of State Property, but did not indicate how it would do so. This issue was noted in the prior audit report. In its response, KRC stated that it would continue to improve upon its equipment inventory to better safeguard State property. However, this issue remains ongoing, and prior issues were not resolved.

C. Physical Inventory

KRC agreed with the finding and stated that it will work towards better safeguarding of State Property, but did not indicate how it would resolve the issue. DDS will conduct a follow-up during the next scheduled audit to ensure the issue has been resolved.

Finding 18: Whistleblower Policy Not Distributed Annually (Repeat)

KRC stated that it now distributes the whistleblower policy annually and posts it on KRC's website. DDS confirmed that the whistleblower policy is posted on the KRC website.

Finding 19: Family Cost Participation Program

A. Late Assessments (Repeat)

KRC stated that it is implementing a procedure that tracks when the FCPP is due a month before it is scheduled; further, program managers and service coordinators are now required to follow up at the end of the client's birth month on the status of the FCPP assessment, to ensure it has been timely completed with KRC's accounting staff. All service coordinators are also required to submit the FCPP informational receipt form to the accounting staff for processing within five business days after the IPP/IFSP meeting. Finally, all case management staff serving clients under the age of 18 must undergo training on the FCPP process to ensure it complies with W&I Code Section 4872(g)(1).

B. **Overstated Share of Cost**

KRC agreed with the overpayments for one consumer (UCI Number [redacted] and disagreed with the remaining three consumers (UCI Numbers [redacted] [redacted] and [redacted] however, KRC did not provide sufficient documentation to resolve the overstated share of cost. The hours billed per month for the consumers exceed the hours authorized per month. KRC must reimburse DDS $5,347.56 for the overstated share of cost.

Finding 20: Deceased Consumers - Multiple Dates of Death (Repeat)

KRC updated its records to reflect the dates of death on the death certificates for the three consumers identified in FYs 2012-13 and 2013-14. However, KRC did not address the multiple dates of death for the six consumers identified in the prior audit report, which remain unresolved.

Finding 21: Lack of Minutes for Closed Board Meetings (Repeat)

KRC stated that minutes for closed sessions are now kept by the Executive Assistant. Prior to and directly after holding any closed session, the Board now states the specific reason or reasons for the closed session, which will be recorded in the minutes.

Finding 22: Contract Awards not Posted on KRC Website

KRC stated that it now posts contracts on KRC's website. DDS verified that POS contract awards are now posted on KRC's website.

Finding 23: Unsupported Credit Card Purchases

KRC agreed with the finding. It stated that this is a practice it no longer follows, and it will work towards strengthening its procedures for handling lost receipts.

Finding 24: Lack of Oversight over Self-Determination

KRC detailed its current procedures for monitoring the Self-Determination Program budgets and expenditures. In addition, KRC indicated that its consumers in the Self-Determination Program have full access to Brokers and KRC resources, including service coordination and clinical and behavioral teams.

ATTACHMENTS A - M

KERN REGIONAL CENTER

To request a copy of the attachments for this audit report, please contact the DDS Audit Section at (916) 654-3695.

Appendix A

KERN REGIONAL CENTER

RESPONSE
TO AUDIT FINDINGS

To request a copy of the regional center response to the audit findings, please contact the DDS Audit Section at (916) 654-3695.