AUDIT OF THE SAN ANDREAS REGIONAL CENTER FOR FISCAL YEARS 2015-16 AND 2016-17

Department of Developmental Service
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EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) conducted a fiscal compliance audit of San Andreas Regional Center (SARC) to ensure SARC is compliant with the requirements set forth in the Lanterman Developmental Disabilities Services Act and Related Laws/Welfare and Institutions (W&I) Code; the Home and Community-based Services (HCBS) Waiver for the Developmentally Disabled; California Code of Regulations (CCR), Title 17; Federal Office of Management and Budget (OMB) Circulars A-122 and A-133; and the contract with DDS. Overall, the audit indicated that SARC maintains accounting records and supporting documentation for transactions in an organized manner.

The audit period was July 1, 2015, through June 30, 2017, with follow-up, as needed, into prior and subsequent periods. This report identifies some areas where SARC's administrative and operational controls could be strengthened, but none of the findings were of a nature that would indicate systemic issues or constitute major concerns regarding SARC's operations. A follow-up review was performed to ensure SARC has taken corrective action to resolve the findings identified in the prior DDS' audit report.

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

I. Findings to be addressed.

Finding 1: **Payments for Unoccupied Beds**

The sample review of 101 Purchase of Service (POS) vendor files revealed SARC reimbursed nine vendors for unoccupied beds. SARC stated that it authorized the reimbursement in order to accommodate consumers with behavioral, health and safety issues who had difficulties sharing a room with another consumer. However, SARC did not request Health and Safety Waivers from DDS for these consumers to allow for the additional payments. This resulted in overpayments totaling $726,703.74 for the unoccupied beds. This is not in compliance with the WIC, Section 4691.9(a)(1).

Finding 2: **Duplicate Payments and Overlapping Authorizations**

The review of the Operational Indicator Reports revealed SARC over-claimed expenses to the State totaling $23,166.78 for 30 vendors. These overpayments were due to duplicate payments and/or overlapping authorizations. This is not in compliance with CCR, Title 17, Section 54326(a)(10).

Finding 3: **Over/Understated Claims**

The sample review of 101 POS vendor files revealed seven vendors were reimbursed for services provided at an incorrect rate. The rates paid to the seven vendors differed from the rates listed on the rate letters. In addition, SARC incorrectly applied the proration factor of 30.44 for partial-month stays for two consumers. Furthermore, SARC reimbursed one vendor above the authorized amount. This resulted in over and understated claims totaling $48,152.41 and $6,568.62, respectively. This is not in compliance with CCR, Title 17, section 57300(c)(2).

Finding 4: **Bank Reconciliations Not Completed Timely**

SARC's bank reconciliations are not completed in a timely manner. As of March 2018, reconciliations for the General and Payroll Accounts had last been completed in June 2017 and August 2017, respectively. This is not in compliance with SARC's Bank Reconciliation Policies and Procedures.

Finding 5: **Family Cost Participation Program**

A. Late Assessments (Repeat)

The sample review of 24 Family Cost Participation Program (FCPP) consumers' files revealed eight instances in which SARC did not assess the families' share of cost participation as part of the consumers' Individualized Program Plan (IPP) or Individualized Family Service Plan (IFSP) review. This is not in compliance with W&I Code, Section 4783(g)(1)(A)(B)(C).

B. Late Notification of Families' Share of Cost

The sample review of 24 FCPP consumer files revealed two instances in which SARC did not notify parents of their share of cost within 10 working days of receiving income documentation. This is not in compliance with W&I Code, Section 4783(3).

Finding 6: **Missing Documentation**

A. Home and Community-Based Services Provider Agreement Forms (Repeat)

The sample review of 101 POS vendor files revealed SARC was not able to provide the HCBS Provider Agreement form for 14 vendors. This is not in compliance with CCR, Title 17, Sections 54326(a)(16) and 54332(a)(8).

B. **Contract and Rate Letters**

The sample review of 101 POS vendor files revealed that SARC was unable to provide the contract or rate letters for 10 vendors. This is not in compliance with CCR, Title 17, Section 54332(a)(7), and the State Contract, Article IV, Section 3(a) and (b).

C. **Missing Vendor Applications and Applicant/Vendor Disclosure Statements (Repeat)**

The sample review of 101 POS vendor files revealed that three vendors did not have the DS1890 forms on file and 12 vendors did not have the Applicant/Vendor Disclosure Statement (DS 1891) forms on file. This is not in compliance with CCR, Title 17, Sections 54310(a), 54332(a)(1) and 54311(b) and (c).

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

Finding 7: Improper Allocation of CPP Funds (Repeat)

The review of SARC's CPP claims revealed that SARC continues to improperly allocate CPP expenditures. SARC included 11 consumers who did not move from a Developmental Center to the community for FY 2016-17. This issue was identified in the two prior audit reports. This resulted in $31,454.27 of improper allocation of CPP funds for FY 2016-17. This is not in compliance with the State Contract, Exhibit E (2)(a) and the Guidelines for Regional Center Community Placement Plan, Section III(A).

SARC provided additional information after the fieldwork indicating it had reallocated the CPP funds to resolve the finding.

BACKGROUND

DDS is responsible, under the W&I Code, for ensuring that persons with developmental disabilities (DD) receive the services and supports they need to lead more independent, productive, and integrated 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 (RCs). 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, 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 Section 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 (CPAs) 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 San Andreas Regional Center Inc., entered into State Contract HD149016, effective July 1, 2014, through June 30, 2021. This contract specifies that San Andreas Regional Center Inc., will operate an agency known as the San Andreas Regional Center (SARC) to provide services to individuals with DD and their families in Monterey, San Benito, Santa Clara and Santa Cruz Counties. The contract is funded by state and federal funds that are dependent upon SARC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at SARC from February 5, 2018, through March 16, 2018, by the Audit Section of DDS.

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 between DDS and SARC.

CRITERIA

The following criteria were used for this audit:

- W&I Code,
- "Approved Application for the HCBS Waiver for the Developmentally Disabled,"
- CCR, Title 17,
- OMB Circulars A-122 and A-133, and
- The State Contract between DDS and SARC, effective July 1, 2014.

AUDIT PERIOD

The audit period was July 1, 2015, through June 30, 2017, 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 RCs' fiscal, administrative, and program operations. The objectives of this audit were:

- To determine compliance with the W&I Code,
- To determine compliance with the provisions of the HCBS Waiver Program for the Developmentally Disabled,
- To determine compliance with CCR, Title 17 regulations,
- To determine compliance with OMB Circulars A-122 and A-133, and
- To determine that costs claimed were in compliance with the provisions of the State Contract between DDS and SARC.

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 SARC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that SARC was in compliance with the objectives identified above. Accordingly, DDS examined transactions on a test basis to determine whether SARC was in compliance with the W&I Code; the HCBS Waiver for the Developmentally Disabled; CCR, Title 17; OMB Circulars A-122 and A-133; and the State Contract between DDS and SARC.

DDS' review of SARC'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 reports that were conducted by an independent CPA firm for Fiscal Year (FY) 2015-16 issued on November 23, 2016. It was noted that no management letter was issued for SARC. 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 SARC. The rates charged for the services provided to individual consumers were reviewed to ensure compliance with the provision of the W&I Code; the HCBS Waiver for the Developmentally Disabled; CCR, Title 17, OMB Circulars A-122 and A-133; and the State Contract between DDS and SARC.

- DDS selected a sample of individual Consumer Trust Accounts to determine if there were any unusual activities and whether any account balances exceeded $2,000, as prohibited by the Social Security Administration. In addition, DDS determined if any retroactive Social Security benefit payments received exceeded the $2,000 resource limit for longer than nine months. DDS also reviewed these accounts to ensure that the interest earnings were distributed quarterly, personal and incidental funds were paid before the 10th of each month, and proper documentation for expenditures was maintained.

- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, was tested to determine whether funds received were properly identified to a consumer or returned to the Social Security Administration in a timely manner. An interview with SARC staff revealed that SARC has procedures in place to determine the correct recipient of unidentified consumer trust funds. If the correct recipient cannot be determined, the funds are returned to the Social Security Administration or other sources in a timely manner.

- DDS selected a sample of Uniform Fiscal Systems (UFS) reconciliations to determine if any accounts were out of balance or if there were any outstanding items that were not reconciled.

- DDS analyzed all of SARC’s bank accounts to determine whether DDS had signatory authority, as required by the State Contract with DDS.

- DDS selected a sample of bank reconciliations for Operations (OPS) accounts and Consumer Trust bank accounts to determine if the reconciliations were properly completed on a monthly basis.

II. Regional Center Operations

DDS selected a sample of OPS claims billed to DDS to determine compliance with the State Contract. The sample included various expenditures claimed for administration that were reviewed to ensure SARC's accounting staff properly input data, transactions were recorded on a timely basis, and expenditures charged to various operating areas were valid and reasonable. The following procedures were performed:

- A sample of the personnel files, timesheets, 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 OPS 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 SARC'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 (TCM) and Regional Center Rate Study

The TCM Rate Study determines the DDS rate of reimbursement from the federal government. The following procedures were performed upon the study:

- Reviewed applicable TCM records and SARC's Rate Study. DDS examined the months of April 2016 and April 2017 and traced the reported information to source documents.

- Reviewed SARC's TCM Time Study. DDS selected a sample of payroll timesheets for this review and compared timesheets to the Case Management Time Study Forms (DS 1916) to ensure that the forms were properly completed and supported.

IV. Service Coordinator Caseload Survey

Under the 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)(1)(2)(3)(A)(B)(C):

"(c) Contracts between the department and regional centers shall require regional centers to have service coordinator-to-consumer ratios, as follows:

(1) An average service coordinator-to-consumer ratio of 1 to 62 for all consumers who have not moved from the developmental centers to the community since April 14, 1993. In no case shall a service coordinator for these consumers have an assigned caseload in excess of 79 consumers for more than 60 days.

(2) An average service coordinator-to-consumer ratio of 1 to 45 for all consumers who have moved from a developmental center to the community since April 14, 1993. In no case shall a service coordinator for these consumers have an assigned caseload in excess of 59 consumers for more than 60 days.

(3) Commencing January 1, 2004, the following coordinator-to-consumer ratios shall apply:

(A) All consumers three years of age and younger and for consumers enrolled in the Home and Community-based Services Waiver program for persons with developmental disabilities, an average service coordinator-to-consumer ratio of 1 to 62.

(B) 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, an average service coordinator-to-consumer ratio of 1 to 62.

(C) All consumers who have not moved from the developmental centers to the community since April 14, 1993, and who are not described in subparagraph (A), an average service coordinator-to-consumer ratio of 1 to 66."

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 (EIP; Part C Funding)

For the EIP, there are several sections contained in the Early Start Plan. However, only the Part C section was applicable for this review.

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 Individual Program Plan (IPP)/Individualized Family Services Plan (IFSP). To determine whether SARC was in compliance with CCR, Title 17, and the W&I Code, Section 4783, 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 SARC was paying for only its assessed share of cost.

VII. Annual Family Program Fee (AFPF)

The AFPF was created for the purpose of assessing an annual fee of up to $200 based on the income level of families with children between the ages of 0 through 17 years 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 was assessed to the parents under FCPP. To determine whether SARC was in compliance with the W&I Code, Section 4785, 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 DD 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. Parental Fee Program (PFP)

The PFP was created for the purpose of prescribing financial responsibility to parents of children under the age of 18 years who are receiving 24-hour, out-of-home care services through an RC or who are residents of a state hospital or on leave from a state hospital. Parents shall be required to pay a fee depending upon their ability to pay, but not to exceed (1) the cost of caring for a child without DD at home, as determined by the Director of DDS, or (2) the cost of services provided, whichever is less. To determine whether SARC is in compliance with the W&I Code, Section 4782, DDS requested a list of PFP assessments and verified the following:

- Identified all children with DD who are receiving the following services:

  (a) All 24-hour, out-of-home community care received through an RC for children under the age of 18 years;

  (b) 24-hour care for such minor children in state hospitals. Provided, however, that no ability to pay determination shall be made for services required by state or federal law, or both, to be provided to children without charge to their parents.

- Provided DDS with a listing of new placements, terminated cases, and client deaths for those clients. Such listings shall be provided not later than the 20th day of the month following the month of such occurrence.

- Informed parents of children who will be receiving services that DDS is required to determine parents' ability to pay and to assess, bill, and collect parental fees.

- Provided parents a package containing an informational letter, a Family Financial Statement (FFS), and a return envelope within 10 working days after placement of a minor child.

- Provided DDS a copy of each informational letter given or sent to parents, indicating the addressee and the date given or mailed.

IX. 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 SARC implemented the required RFP process, DDS performed the following procedures during the audit review:

- Reviewed SARC's 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 SARC. The process was reviewed to ensure that the vendor selection process is transparent and 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, written documentation is retained as justification for such a selection.

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

- Selected a sample of Operations, Community Placement Plan (CPP), and negotiated POS contracts subject to competitive bidding to ensure SARC notified the vendor community and the public of contracting opportunities available.

- Reviewed the contracts to ensure that SARC has adequate and detailed documentation for the selection and evaluation process of vendor proposals and written justification for final vendor selection decisions and that 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 contracts in place as of March 24, 2011: Reviewed to ensure SARC 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 SARC Board-approved Operations, 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, the usage of funds is of direct benefit to consumers, and the contracts are supported with sufficiently detailed and measurable performance expectations and results.

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

X. Statewide/Regional Center Median Rates

The Statewide and RC Median Rates were implemented on July 1, 2008, and amended on December 15, 2011, to ensure that 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 SARC was in compliance with the Lanterman Act, DDS performed the following procedures during the audit review:

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

- Reviewed vendor contracts to ensure that SARC 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 required by regulation, or health and safety exemptions were granted by DDS.

- Reviewed vendor contracts to ensure that SARC did not negotiate rates with new service providers for services which are higher than the RC's median rate for the same service code and unit of service, or the statewide median rate for the same service code and unit of service, whichever is lower. DDS also ensured that units of service designations conformed with existing RC designations or, if none exists, ensured that units of service conformed to a designation used to calculate the statewide median rate for the same service code.

XI. 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 SARC'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;
- CPP;
- Part C – Early Start Program;
- Foster Grandparent (FGP);
- Senior Companion (SC);

XII. 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 SARC and reviewed supporting documentation to determine the degree of completeness of SARC's implementation of corrective actions.

CONCLUSIONS

Based upon the audit procedures performed, DDS determined that except for the items identified in the Findings and Recommendations section, SARC was in compliance with applicable sections of the W&I Code; the HCBS Waiver for the Developmentally Disabled; CCR, Title 17; OMB Circulars A-122 and A-133; and the State Contract between DDS and SARC for the audit period, July 1, 2015, through June 30, 2017.

The costs claimed during the audit period were for program purposes and adequately supported.

From the review of the 15 prior audit findings, it has been determined that SARC has taken appropriate corrective action to resolve 11 findings. The remaining four audit findings are listed as repeat findings in this report.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued the draft audit report on March 14, 2019. The findings in the draft audit report were discussed at a formal exit conference with SARC on April 2, 2019. The views of SARC'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 SARC. This restriction does not limit distribution of this audit report, which is a matter of public record.

FINDINGS AND RECOMMENDATIONS

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

I. Findings that need to be addressed.

Finding 1: **Payments for Unoccupied Beds**

The sample review of 101 POS vendor files revealed SARC reimbursed nine vendors for unoccupied beds when rooms were occupied by one instead of two consumers. SARC stated that this occurred because these consumers could not be placed in a shared room due to behavioral, health and safety issues. In order to offset the vendors' lost revenue, SARC supplemented these vendors with an additional payment for the unoccupied bed under Service Code 113, Subcode "EXTRA." However, SARC did not request a Health and Safety Waiver from DDS for the affected consumers. This resulted in overpayments totaling $726,703.74 for the unoccupied beds. (See Attachment A)

W&I Code, Section 4691.9(a)(1).

"(a) Notwithstanding any other law or regulation, commencing July 1, 2008:

(1) A regional center shall not pay an existing service provider, for services where rates are determined through a negotiation between the regional center and the provider, a rate higher than the rate in effect on 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:

SARC must reimburse DDS for overpayments totaling $726,703.74. In addition, SARC should either identify suitable alternative housing placements for these consumers rather than continuing to pay for the empty beds or renegotiate the contracts with the vendors to stipulate that no payments will be made for maintaining empty beds. Furthermore, if alternative housing cannot be located and SARC intends to continue paying the vendors for the unoccupied beds, SARC must obtain a Health and Safety Waiver from DDS.

Finding 2: **Duplicate Payments and Overlapping Authorizations**

The review of the Operational Indicator Reports revealed SARC over-claimed expenses totaling $23,166.78 for 30 vendors. These overpayments were due to duplicate payments and/or overlapping authorizations. (See Attachment B)

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

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

Recommendation:

SARC must reimburse to DDS a total of $23,166.78 in overpayments to the 30 vendors due to duplicate payments/overlapping authorizations. In addition, SARC should review the Operational Indicator Reports to ensure any overpayments are addressed and corrected in a timely manner.

Finding 3: **Over/Understated Claims**

The sample review of 101 POS vendor files revealed seven vendors were reimbursed for services provided at an incorrect rate. The rates paid to the seven vendors differed from the rates listed on the rate letters. This resulted in over- and understated claims totaling $47,316.28 and $6,448.79, respectively. In addition, SARC incorrectly applied the partial-month proration factor of 30.44 for partial-month stays for one vendor, which resulted in over- and understated claims totaling $775.33 and $119.83, respectively. Furthermore, SARC reimbursed one vendor above the authorized amount for one month which resulted in an overstated claim totaling $60.80. The total over- and understated claims for the 11 vendors amounted to $48,152.41 and $6,568.62, respectively. (See Attachment C)

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

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

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

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

Recommendation:

SARC must reimburse to DDS the overpayments totaling $48,152.41 and reimburse to the vendors the underpayments totaling $6,568.62 for services provided. In addition, SARC should ensure that the rates paid to vendors match the rates specified in the contracts with the vendors. This will prevent any future payment errors to the vendors.

Finding 4: **Bank Reconciliations Not Completed Timely**

SARC's bank reconciliations are not completed in a timely manner. As of March 2018, it was found that the bank reconciliations for the General Account from September 2016 through May 2017 and the Payroll Account from September 2016 through May 2017 were not completed until June 2017 and August 2017, respectively. Failure to complete bank reconciliations timely may lead to errors or fraudulent transactions if not detected immediately.

SARC stated this occurred because errors were identified by the reviewer, resulting in the need to amend the reconciliations. The process of amending the reconciliations has hampered SARC's ability to stay current with the monthly bank reconciliations.

SARC's Bank Reconciliation Policies and Procedures states:

"Policy Statements

- All accounts will be reconciled on a monthly basis
- All reconciling items will be cleared within a month or explanation provided
- Reconciliations will be reviewed by Controller before the end of the month."

Recommendation:

SARC must adhere to its policies and procedures to comply and complete bank reconciliations timely. This will ensure that errors or fraudulent transactions can be detected, analyzed and rectified immediately.

Finding 5: **Family Cost Participation Program**

A. Late Assessments (Repeat)

The sample review of 24 FCPP consumers' files revealed eight instances in which SARC did not assess the families' share of cost participation as part of the consumers' IPP or IFSP. This issue was identified in the two prior audit reports. In its response, SARC stated that it will continue to train the managers and service coordinators to ensure assessments are timely to prevent overpayments from recurring. (See Attachment D)

W&I Code, Section 4783(g)(1)(A)(B)(C) 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:

SARC must comply with W&I Code, Section 4873(g)(1)(A)(B)(C) and ensure that all FCPP assessments are completed as part of the consumers' IPP or IFSP review.

B. <u>Late Notification of Families' Share of Cost</u>

The sample review of 24 FCPP consumer files revealed two instances in which SARC did not notify parents of their share of cost within 10 working days of receiving income documentation. The families of consumers [redacted] and [redacted] were notified of their share of cost 18 and 21 working days, respectively, after the income documentation was received.

W&I Code, Section 4783(3) states:

> "(3) A regional center shall notify parents of the parents' assessed cost participation within 10 working days of receipt of the parents' complete income documentation."

Recommendation:

SARC must comply with the W&I Code, Section 4873(3) and ensure that all families are notified of their share of cost within 10 working days of receiving the income documentation.

Finding 6: **Missing Documentation**

A. Home and Community-Based Services Provider Agreement Forms (Repeat)

The sample review of 101 POS vendor files revealed SARC was not able to provide the HCBS Provider Agreement form for 14 vendors. This issue was identified in the prior audit report and in its response, SARC indicated that it implemented new procedures to withhold reimbursements to the vendor until it receives the requested document. (See Attachment E)

CCR, Title 17, Section 54326(a)(16), states in part:

"(a) All vendors shall . . .

(16) Sign the Home and Community-Based Services Provider Agreement (6/99), if applicable pursuant to section 54310(a)(10)(I), (d) and (e)."

CCR, Title 17, Section 54332(a)(8), states in part:

"(a) The vendoring regional center shall maintain a file for each vendor which includes copies of: …

(8) The signed Home and Community Based Services Provider Agreement, (6/99) if applicable."

Recommendation:

SARC must locate the 14 missing HCBS Provider Agreement forms or have the vendors complete a new one. In addition, SARC must review all the vendor files to ensure the HCBS Provider Agreement forms are on file. SARC must follow its implemented procedures and withhold reimbursements to the vendor until it receives the missing documents.

B. Contract and Rate Letters

The sample review of 101 POS vendor files revealed that SARC was unable to provide the contract or rate letters for 10 vendors. Without contracts or rate letters, it cannot be determined whether SARC is paying its vendors correctly. (See Attachment F)

CCR, Title 17, Section 54332(a)(7) states:

> “(a) The vendoring regional center shall maintain a file for each vendor which includes copies of:…
>
> (7) Notification of established rate and all documentation submitted pursuant to Sections 57422, 57433 through 57439, 58020, and 58033 through 58039 of these regulations, for a rate determination, if applicable;”

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

SARC should adhere to the requirements set forth in CCR, Title 17, Section 54332(a)(7) and the State Contact, Article IV, Section 3 (a) and (b). In addition, SARC should ensure that all contracts and rate letters with its vendors are retained, properly safeguarded, and readily available for review.

C. <u>Vendor Applications and Applicant/Vendor Disclosure Statements</u> (Repeat)

The sample review of 101 POS vendor files revealed three vendors with missing DS 1890 forms and 12 vendors with missing DS 1891 forms on file. This issue was identified in the prior audit report and in its response, SARC indicated that it implemented new procedures to withhold reimbursements to the vendor until it receives the requested document. (See Attachment G)

CCR, Title 17, Section 54310(a), states:

> “(a) An applicant who desires to be vendored shall submit Form DS 1890 (7/2011), entitled Vendor Application, and the information specified in (1) through (10) below, to the vendoring regional center.”

CCR, Title 17, Section 54332(a)(1), states in part:

> “(a) The vendoring regional center shall maintain a file for each vendor which includes copies of:
>
> (1) The vendor application as described in Section 54310(a) of these regulations;”

CCR, Title 17, Section 54311(b) and (c), states:

> “(b) Each applicant or vendor shall submit a new signed and dated DS 1891 (7/2011) to the regional center within 30 days of any change in the information previously submitted pursuant to this section or upon a written request by the regional center for such information.
>
> (c) All current vendors shall submit a signed and dated DS 1891 (7/2011) to the vendoring regional center within 120 days of the effective date of these regulations for review by regional center by June 30, 2012.”

Recommendation:

SARC must locate the missing DS 1890s and DS 1891s or obtain new completed forms from the 14 vendors. In addition, SARC must follow its new procedures to withhold reimbursements to the vendor until it receives the requested document.

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

Finding 7: Improper Allocation of CPP Funds (Repeat)

The review of SARC’s CPP claims revealed that SARC continues to improperly allocate CPP expenditures. SARC included 11 consumers who did not move from a Developmental Center to the community for FY 2016-17. This resulted in improper allocation of $31,454.27 in CPP funds for FY 2016-17.

This issue was identified in the two prior audit reports, and in its response, SARC stated it had developed procedures to prevent the misallocation of funds from reoccurring. SARC stated it will have the Fiscal Assistants validate that the services can be allocated to CPP by referring to a spreadsheet containing consumer, vendor and placement date information prior to being paid, but this issue continues to persist.

SARC provided additional information after the fieldwork indicating it had reallocated the CPP funds to resolve the finding.

State Contract, Exhibit E (2) (a) states in part:

> "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."

Guidelines for Regional Center Community Placement Plan, Section 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:

SARC must ensure that the Fiscal Assistants are properly trained to implement the new procedures for identifying CPP consumers who have moved from the Developmental Centers. This will ensure consumers' expenditures are allocated to proper funding sources before claims are made to DDS.

EVALUATION OF RESPONSE

As part of the audit report process, SARC was provided with a draft audit report and requested to provide a response to the findings. SARC's response dated May 17, 2017, is provided as Appendix A.

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

Finding 1: **Payments for Unoccupied Beds**

SARC maintains that it was not in violation of W&I Code, Section 4691.9(a)(1) because it did not pay the vendor above the established rate and contends that W&I Section 4681.1(a)(3) grants the regional center authority to add additional services to meet the needs of the consumer. SARC also indicated that DDS has stated on numerous occasions that health and safety waiver exemptions would not be approved for individuals living in a residential setting. However, no documentation was provided to support this argument. Further, SARC's statement is contradictory to a memo dated October 23, 2007 from DDS to Regional Center Executive Directors regarding requesting Health and Safety Waiver Exemptions. The memo states that regional centers must "obtain written authorization from the Department of Developmental Services (Department) granting a residential service ARM level increase and/or a rate increase to other services subject to the rate freeze to protect consumer's health and safety."

Furthermore, SARC requested that the finding be deleted since SARC followed DDS' approved Director's Exception (DE) process and IPP recommendation. SARC stated that after consulting with the interdisciplinary team, the Executive Director utilized the DE to authorize the purchase of service for the extra beds so consumers could have their own rooms. SARC also stated that the consumers in these settings have shown improvements in their behavior and a decreased need for psychiatric holds.

SARC also indicated that paying for the extra beds was the most cost-effective way to meet the consumers' needs since there were no facilities capable of caring for these high-risk consumers and that the alternative would have been to place the consumers in hospitals or other locked settings. SARC has made alternate arrangements for the consumers identified in the audit and going forward has agreed to submit Health and Safety Waiver requests to DDS for consumers who are in the same situation. SARC is working to secure a Health and Safety Waiver for the one remaining consumer who is receiving extra bed payments.

DDS maintains that by paying the Service Code 113 rate, in addition to the "EXTRA" sub-code rate, SARC violated W&I Code, Section 4691.9(a)(1); as the total monthly amount paid to house the consumers exceeded the rate that was in effect prior to June 30, 2008. The vendor did not provide any additional services or supports to the consumers for the rate paid using the "EXTRA" sub-code.

Furthermore, regarding the use of the Director's Exception, DDS' approval of SARC's POS policy was "contingent upon the regional center's assurance that the policies are implemented so as to comply with applicable federal and state laws and regulations." Since payments to the vendors violated W&I Code, Section 4691.9(a)(1), the DE does not apply. Therefore, SARC should either identify suitable alternative housing placements for these consumers or renegotiate the contracts with the vendors to stipulate that no payments will be made for unoccupied beds. If alternative housing cannot be secured, SARC must obtain a Health and Safety Waiver from DDS. In addition, SARC must reimburse DDS for overpayments totaling $726,703.74.

Finding 2: **<u>Duplicate Payments and Overlapping Authorizations</u>**

In its response to the Draft Report, SARC provided documentation that it collected $13,397.35 of the $23,166.78 in overpayments. In addition, SARC provided documentation disputing $3,799.56. However, the review of the documentation showed that only $3,666.88 was resolved with $6,102.55 still remaining.

Subsequent to the response, SARC provided additional documentation indicating it collected $3,318.83 from one vendor. Therefore, SARC must reimburse to DDS the overpayment totaling $2,783.72 still outstanding.

Finding 3: **<u>Over/Understated Claims</u>**

SARC agreed to reimburse vendors the underpayments totaling $6,568.62. In addition, SARC agreed with $837.23 out of the $48,152.41 in overpayments resulting from the incorrect application of the 30.44 proration factor for partial month stays, payments above the authorization, and the incorrect rate paid to one vendor.

SARC disagreed that it paid three vendors at incorrect rates totaling $47,315.18 and provided documentation that the vendors were paid correctly per the Assembly Bill (AB) X2-1 rate increase.

SARC must reimburse to DDS the outstanding overpayments totaling $837.23 and reimburse to vendors the underpayments totaling $6,568.62

for services provided. SARC also stated that it will review operational indicator reports regularly and make any needed corrections in a timely manner.

Finding 4: Bank Reconciliations Not Completed Timely

SARC stated that it has created a tracking spreadsheet to record when bank reconciliations are completed to ensure they are done timely and that it amended its bank reconciliations from June 2014 onward.

Finding 5: Family Cost Participation Program

A. Late Assessments (Repeat)

SARC stated that it would revise its FCPP policies and procedures, to emphasize the need to complete the assessment within 10 working days of the parent's signature on the IPP. In addition, SARC stated it would train its case management staff and FCPP administrator to complete assessments in a timely manner.

B. Late Notification of Families' Share of Cost

SARC stated it would revise its FCPP policies and procedures and train staff to ensure that all letters are sent to families within 10 working days of receiving income documentation.

Finding 6: Missing Documentation

A. Home and Community-Based Services Provider Agreement Forms (Repeat)

SARC indicated it has dedicated an employee to scan vendor files into its electronic record-keeping system. Additionally, SARC is employing a temporary worker to review vendor files to ensure they are complete and include the HCBS Waiver Form.

B. Contract and Rate Letters

SARC stated that eight of the 10 vendors who were missing rate letters were part of the group of vendors who received ABX2 1 increases. SARC did not issue individual rate letters to each vendor, but instead issued generic letters for ABX2 1 increases and posted it on SARC's website and e-billing site. SARC provided copies of the letters issued for the ABX2 1 increase to DDS. SARC reissued the rate letters for the remaining two vendors as it was unable to locate them.

C. <u>Vendor Applications and Applicant/Vendor Disclosure Statements</u> **(Repeat)**

SARC indicated it is has dedicated an employee to scan vendor files into its electronic record-keeping system. Additionally, SARC is employing a temporary worker to review vendor files to ensure they are complete and include the DS1890 and DS1891 forms. In addition, the employee will complete the registration of all SARC vendored providers in the OIG Compliance Now electronic portal to ensure future updates of the DS1891 can be tracked and requested in a timely manner.

Finding 7: <u>Improper Allocation of CPP Funds</u> (Repeat)

SARC stated it trained the POS Fiscal Assistants to process CPP authorizations only for CPP consumers who are on the verified list of consumers who moved into the community in the current fiscal year. This list will be reviewed by the Forensic group's District Manager and the POS Supervisor.

ATTACHMENTS A - G

SAN ANDREAS 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

SAN ANDREAS 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.