



**AUDIT OF THE
SOUTH CENTRAL LOS ANGELES REGIONAL CENTER
FOR FISCAL YEARS 2016-17 AND 2017-18**

Department of Developmental Services

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TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	1
BACKGROUND	5
AUTHORITY.....	6
CRITERIA.....	6
AUDIT PERIOD	6
OBJECTIVES, SCOPE, AND METHODOLOGY	7
I. Purchase of Service	8
II. Regional Center Operations	9
III. Targeted Case Management (TCM) and Regional Center Rate Study	9
IV. Service Coordinator Caseload Survey	10
V. Early Intervention Program (EIP; Part C Funding)	11
VI. Family Cost Participation Program (FCPP).....	11
VII. Annual Family Program Fee (AFPF).....	11
VIII. Parental Fee Program (PFP).....	12
IX. Procurement.....	13
X. Statewide/Regional Center Median Rates	14
XI. Other Sources of Funding from DDS	15
XII. Follow-up Review on Prior DDS Audit Findings	15
CONCLUSIONS	16
VIEWS OF RESPONSIBLE OFFICIALS.....	17
RESTRICTED USE	18
FINDINGS AND RECOMMENDATIONS	19
EVALUATION OF RESPONSE	31
ATTACHMENTS.....	A-C
REGIONAL CENTER'S RESPONSE.....	Appendix A

EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) conducted a fiscal compliance audit of South Central Los Angeles Regional Center (SCLARC) to ensure SCLARC 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 SCLARC maintains accounting records and supporting documentation for transactions in an organized manner.

The audit period was July 1, 2016, through June 30, 2018, with follow-up, as needed, into prior and subsequent periods. This report identifies some areas where SCLARC'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 SCLARC's operations. A follow-up review was performed to ensure SCLARC has taken corrective action to resolve the findings identified in the prior DDS audit report.

Findings that need to be addressed.

Finding 1: Unsupported Consultant Expenses

The review of five Consultant contracts revealed one consultant, Quantum Business, was reimbursed for unsupported expenditures. SCLARC overpaid the consultant \$27,740.50 for a special project from October 2016 through April 2017. This is not in compliance with State Contract, Article IV, Section 3(a) & (b).

Finding 2: Credit Card Practices - Credit Card Procedures Not Followed (Repeat)

The review of credit card statements found that SCLARC continues to violate its credit card reimbursement procedures. The review noted \$8,091.30 in credit card purchases were either missing receipts or had insufficient documentation to detail the items purchased. This issue was identified in the Fiscal Year (FY) 2005-06 audit report and has been a recurring issue in six of the eight prior audits. This is not in compliance with the State Contract, Article IV, Section 3(a) and (b) and SCLARC's Procedures for Credit Card Purchases, Section D(3)(A), and is a repeat finding from prior audits that has not been corrected.

SCLARC provided additional documents with its response indicating purchases totaling \$6,001.00 of the \$8,091.30 were supported; therefore, SCLARC must reimburse DDS \$2,090.30 for the remaining balance.

Finding 3: Family Cost Participation Program (FCPP) – Overstated Share of Cost

The sampled review of 20 FCPP consumer files revealed SCLARC paid the share of cost for one consumer that was the responsibility of the family. This resulted in overpayments totaling \$5,912.64. This is not in compliance with CCR, Title 17, Sections 50255(a) and 50257(c).

Finding 4: In-Kind Services (Repeat)

The review of Friends of Housing Inc.'s (FHI) account revealed that two SCLARC employees continued to provide accounting, administrative and program services to FHI for FYs 2016-17 and 2017-18. In return for the services provided by these employees, FHI was to provide services or funding to SCLARC consumers totaling \$1,416.89 for the two FYs. However, the review noted SCLARC did not receive any in-kind services nor was it reimbursed for the services it provided to FHI. In addition, SCLARC has not taken corrective action to collect \$1,219.83 that was identified in the prior audit. This is not in compliance with the State Contract, Article III, Section 13(b) and the First Amendment to SCLARC's In-Kind Service Agreement with FHI, and is a repeat finding from prior audits that has not been corrected.

SCLARC provided documentation with its response indicating it reimbursed DDS \$2,636.72.

Finding 5: Misuse of Operational Funds (Repeat)

The review of Operational (OPS) expenses revealed that SCLARC misused OPS funds. SCLARC used OPS funds to reimburse expenses that were the responsibility of the Friends of SCLARC (FOS) Foundation. SCLARC paid \$262.39 for food at a FOS Board meeting and subsequently recorded it as an expense of SCLARC. This is a repeat finding from prior audits that has not been corrected.

SCLARC provided additional documentation with its response indicating it received \$262.39 from FOS.

Finding 6: Conflict of Interest Statements Not Reviewed by the Executive Director (Repeat)

The sample review of 20 employee files revealed the Executive Director (ED) does not review the COI statements for SCLARC employees. This is not in compliance with W&I Code, Section 4626(e) and (k), and is a repeat finding from prior audits that has not been corrected.

Finding 7: Lack of Minutes for Closed Board Meetings (Repeat)

A discussion with SCLARC's Chief Financial Officer (CFO) revealed SCLARC conducted closed Board meetings. However, SCLARC does not provide minutes for closed Board meetings related to employee governance policies, labor issues and lawsuits. In addition, prior to and directly after holding any closed session, SCLARC's Board did not state the specific reason or reasons for the closed session. This is not in compliance with W&I Code, Section 4663(a) and (b), and is a repeat finding from prior audits that has not been corrected.

Finding 8: Lack of Annual Notification of the Whistleblower Policy (Repeat)

SCLARC continues to fail to notify its Board members annually of the Whistleblower policy. This is not in compliance with the State Contract, Article I, Sections 17(b)(6), and is a repeat finding from prior audits that has not been corrected.

Finding 9: Transparency Portal Website

SCLARC did not post all of the required documents per W&I Code Sections 4629.5(b)(4), (13), 4639.5(c) and (d)(13) on its Transparency Portal website for FYs 2016-17, 2017-18 and 2018-19.

Finding 10: Parental Fee Program

The review of the Parental Fee Program (PFP) revealed that SCLARC did not notify DDS of new placements, terminated cases and client deaths for consumers identified under the PFP. This is not in compliance with CCR, Title 17, Section 50225(b).

Finding 11: Sensitive Equipment

The review of the equipment inventory listing and a discussion with staff revealed SCLARC did not maintain adequate control over its sensitive items that are prone to theft/loss or misuse. It was noted that 14 smartphones were not tagged with a DDS issued barcode tag. This is not in compliance with State Contract, Article IV, Section 4(a), State's

Equipment Management System Guidelines, Section III(C), (D), (E) and (F) and State Administrative Manual (SAM), Section 8600 and 8603.

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 South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc., entered into State Contract HD149019, effective July 1, 2014, through June 30, 2021. This contract specifies that South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc., will operate an agency known as SCLARC to provide services to individuals with DD and their families in the Compton, San Antonio, South, Southeast, and Southwest Los Angeles County Health Districts. The contract is funded by state and federal funds that are dependent upon SCLARC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at SCLARC from April 29, 2019, through May 24, 2019, 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 SCLARC.

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 SCLARC, effective July 1, 2014.

AUDIT PERIOD

The audit period was July 1, 2016, through June 30, 2018, 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 SCLARC.

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 SCLARC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that SCLARC was in compliance with the objectives identified above. Accordingly, DDS examined transactions on a test basis to determine whether SCLARC 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 SCLARC.

DDS' review of SCLARC'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 Years (FYs) 2016-17 and 2017-18, issued on April 30, 2018 and March 22, 2019, respectively. It was noted that no management letters were issued for SCLARC. 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 Purchase of Service (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 SCLARC. 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 SCLARC.
- 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 SCLARC staff revealed that SCLARC has procedures in place to determine the correct recipient of unidentified consumer trust funds. If the correct recipient cannot be determined, the funds are returned to 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 SCLARC'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 SCLARC'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 SCLARC'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 SCLARC's Rate Study. DDS examined the months of May 2015 and May 2016 and traced the reported information to source documents.
- Reviewed SCLARC'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.
 - (2) 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 (FCPP)

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 SCLARC 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 SCLARC 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 SCLARC 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 a 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 SCLARC 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. To determine whether SCLARC implemented the required RFP process, DDS performed the following procedures during the audit review:

- Reviewed SCLARC'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 SCLARC. 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 SCLARC notified the vendor community and the public of contracting opportunities available.
- Reviewed the contracts to ensure that SCLARC 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 SCLARC 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 SCLARC 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 SCLARC'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 SCLARC'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 SCLARC was in compliance with the Lanterman Act, DDS performed the following procedures during the audit review:

- Reviewed sample vendor files to determine whether SCLARC is using appropriately vendorized service providers and correct service codes, and that SCLARC 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 SCLARC 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 SCLARC 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 SCLARC'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;
- Denti-Cal;
- Part C – Early Start Program; and
- Family Resource Center.

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 SCLARC and reviewed supporting documentation to determine the degree of completeness of SCLARC'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, SCLARC 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 SCLARC for the audit period, July 1, 2016, through June 30, 2018.

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

From the review of the 11 prior audit findings, it has been determined that SCLARC has taken appropriate corrective action to resolve six findings, with five repeat findings identified with no corrective actions taken.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued the draft audit report on December 23, 2019. The findings in the draft audit report were discussed at a formal exit conference with SCLARC on January 6, 2020. The views of SCLARC'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 SCLARC. 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: Unsupported Consultant Expenses

The review of five Consultant contracts revealed one consultant, Quantum Business, was reimbursed for unsupported expenditures. SCLARC overpaid the consultant \$27,740.50 for a special project from October 2016 through April 2017. The special project was not part of their existing contract and the expenses were not supported by a contract/amendment detailing the scope of work to be performed and payment terms. (See Attachment A)

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:

SCLARC must reimburse DDS \$27,740.50 for the unsupported consultant expenditures. In addition, SCLARC must enter into a new contract or amend the existing contract when the scope of work and/or terms change.

**Finding 2: Credit Cards Practices - Credit Card Procedures Not Followed
(Repeat)**

The review of SCLARC's credit card statements found that SCLARC continues to violate its credit card reimbursement procedures. The review of six months of credit card statements identified the following:

- 11 instances of credit card purchases without receipts, totaling \$7,612.97.
- 6 instances of credit card purchases totaling \$478.33 without detailed/itemized receipts.

SCLARC incurred a total of \$8,091.30 in unsupported credit card expenditures. This issue was initially identified in the FY 2005-06 audit report and has been a recurring issue in six of the eight prior DDS audits. (See Attachment B)

SCLARC provided additional documents with its response indicating purchases totaling \$6,001 of the \$8,091.30 were supported; therefore, SCLARC must reimburse DDS \$2,090.30 for the remaining balance.

State Contract, Article IV, Section 3(a) and (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 term 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.”

SCLARC's Procedures for Credit Card Purchases, Section D (3)(A) states in part:

"3. Every purchase made with the company credit card, must have an original receipt to support the expenditure and a completed credit card form. Employees who fail to provide original receipts on two occasions may have their credit card privileges suspended indefinitely.

A. Employees making purchases at a restaurant must obtain a receipt that indicates the item(s) purchased at the restaurant. The agency doesn't reimburse for purchases of alcohol (No exceptions)."

Recommendation:

SCLARC must enforce its credit card procedures by suspending credit card privileges for those employees who fail to provide itemized receipts for purchases made using credit cards. In addition, SCLARC must reimburse to DDS a total of \$2,090.30 for the unsupported expenditures still outstanding.

Finding 3: Family Cost Participation Program (FCPP) – Overstated Share of Cost

The sampled review of 20 FCPP consumer files revealed SCLARC paid the share of cost for one consumer, UCI number [REDACTED] that was the responsibility of the family. This resulted in overpayments totaling \$5,912.64, from November 2017 through October 2018. SCLARC stated this occurred due to oversight on its part. (See Attachment C)

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

"(a) 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."

CCR, Title 17, Section 50257(c) states in part:

"(c) Regional centers are responsible for funding their authorized share of services without regard to the family's cost participation assessment."

Recommendation:

SCLARC must reimburse DDS the overpayment totaling \$5,912.64. In addition, SCLARC must follow its FCPP procedures and ensure its staff do not authorize payment for services that are the responsibility of the family.

Finding 4: In-Kind Services (Repeat)

The review of the FHI's account revealed that two SCLARC employees continued to provide accounting, administrative and program services to FHI amounting to a total of \$714.52 and \$702.37 per year in FYs 2016-17 and 2017-18, respectively. In return for the services provided by these employees, FHI was to provide services or funding to SCLARC consumers totaling \$1,416.89 for the two FYs. However, this audit found that SCLARC did not receive any in-kind services or funding in exchange for the services provided to FHI. SCLARC stated that it did not seek in-kind services from FHI since the in-kind services received through its FOS in-kind agreement exceeded the services it provided and covered the FHI in-kind portion.

In addition, SCLARC did not collect \$1,219.83 in administrative costs identified in the prior audit. The total amount owed to SCLARC from current and prior FYs is \$2,636.72.

SCLARC provided documentation with its response indicating it reimbursed DDS \$2,636.72.

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

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

First Amendment to In-Kind Services Agreement (SCLARC and Friends Housing, Inc.) states in part:

“1. Valuation of SCLARC's In-Kind Services The Agreement identified the percentage of time applicable that SCLARC staff members have spent, and intend to continue to spend, on in-

kind services to FHI. Based on such percentages, the monetary value of such services for FY 2012-13 and FY 2013-14 will be \$2,852.47 (the “**Monetary value of SCLARC’s In-Kind Services**”). This sum has been calculated by multiplying the salaries of each SCLARC staff member by the expected amount of time such staff member expects to provide to FHI in the form of in-kind services, as set forth in greater detail in Exhibit “A” attached hereto. To the extent the salaries or time commitments of such staff members change, SCLARC will on an annual basis (i) recalculate and update the Monetary Value of SCLARC’s In-Kind Services, (ii) provide a statement to FHI stating such updated amount and (iii) attach such statement to this Amendment.”

3. Records: Annual Reconciliation Within 90 days after the end of a fiscal year, the parties shall provide to each other adequate records to reasonably document the monetary value of all in-kind services from SCLARC to FHI, and the monetary value of all services from FHI to SCLARC. Based on such documentation, the parties shall then calculate and compare the Monetary Value of SCLARC’s In-Kind Services during such fiscal year against the Monetary Value of FHI’s during that same fiscal year.
4. Payment by FHI to SCLARC If the Monetary Value of SCLARC’s In-Kind Services in a fiscal year exceeds the Monetary Value of FHI’s Services in that same year, FHI shall remit the difference to SCLARC (the “Payment”) within 90 days thereafter. FHI may remit the Payment either in (i) cash, (ii) grants to SCLARC’s consumers and/or (iii) non-monetary assistance to SCLARC’s staff and consumers.”

Recommendation:

SCLARC must seek monetary equivalence from FHI for services provided to FHI by SCLARC employees.

Finding 5: Misuse of Operational Funds (Repeat)

The review of OPS expenses revealed that SCLARC misused OPS funds. SCLARC continues to fail to follow its procedures and used OPS funds to reimburse one expense that was the responsibility of the FOS. SCLARC paid \$262.39 for food at a FOS Board meeting and subsequently recorded it as an expense of SCLARC.

In its response to the prior DDS' audit report, SCLARC stated that it would monitor FOS expenditures to ensure expenses that are the responsibility of FOS are not recorded in SCLARC's ledger; however, this issue reoccurred.

SCLARC provided additional documentation with its response indicating it received \$262.39 from FOS.

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

Recommendation:

SCLARC must ensure that all financial activities and accounting transactions for SCLARC and FOS are maintained separately.

Finding 6: Conflict of Interest Statements Not Reviewed by the Executive Director (Repeat)

The sample review of 20 employee files revealed the ED continues to fail to review all of SCLARC employees' COI disclosure statements. This review would ensure employees are free from COIs that could adversely influence their judgment, objectivity or loyalty to the regional center, its consumers or its mission. In its response to the prior DDS audit report, SCLARC stated that a system was to be implemented to ensure the ED's review of the COI statements. However, a system has not been implemented.

W&I Code, Section 4626(e) and (k) states in part:

“(e) The department shall develop and publish a standard conflict-of-interest reporting statement. The conflict-of-interest statement shall be completed by each regional center governing board member and each regional center employee specified in regulations, including, at a minimum, the executive director, every administrator, every program director, every service coordinator, and every employee who has decision making or policymaking authority or authority to obligate the regional center's resources. ...

“(k) The director of the regional center shall review the conflict of interest statement of each regional center employee referenced in subdivision (e) within 10 days of the receipt of the statement.”

Recommendation:

The ED must review all employees’ COI disclosure statements to ensure employees are free from COIs that could adversely influence their judgment, objectivity or loyalty to the regional center, its consumers or its mission.

Finding 7: Lack of Minutes for Closed Board Meetings (Repeat)

A discussion with SCLARC’s CFO revealed SCLARC conducted closed Board meetings. However, SCLARC continues to be unable to provide minutes for the closed Board meetings related to employee governance policies, labor issues and lawsuits. In addition, prior to and directly after holding any closed session, SCLARC’s Board did not state the specific reason or reasons for the closed session. Further, SCLARC still does not have a designated officer or employee of the regional center responsible for keeping minutes of closed sessions. In its response to the prior DDS audit report, SCLARC stated that it will record the minutes of closed Board meetings and have the minutes maintained by a designated officer or employee of SCLARC; however, this issue reoccurred.

W&I Code, Section 4663(a) and (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:

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

Finding 8: Lack of Annual Notification of the Whistleblower Policy (Repeat)

SCLARC continues to fail to notify its Board members annually of the Whistleblower policy. In its response to the prior DDS audit report, SCLARC stated that it will develop a process to notify its Board members of the regional center and the State’s Whistleblower policy within 30 days of the effective date of the policy and annually thereafter. The current review noted that SCLARC developed a process to notify the Board during the annual Board retreat; however, this could not be verified since the retreat was scheduled after fieldwork testing for the current audit was completed.

The State Contract, Article I, Section 17(b)(6) states:

“(b)(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.”

Recommendation:

SCLARC must notify its Board annually of the Whistleblower policy and ensure that they are aware of the process.

Finding 9: Transparency Portal Website

SCLARC did not post all of the required documents per WIC 4629.5(b)(4), (13), 4639.5(c) and (d)(13) on its Transparency Portal website for FYs 2016-17, 2017-18 and 2018-19. SCLARC stated that the documents were not posted on their Transparency Portal website since it is in the process of being redesigned.

W&I Code, Section 4629.5(b)(4) and (13) states:

“(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. ...

(13) Reports required pursuant to Section 4639.5.”

W&I Code, Section 4639.5(c) and (d) states:

“(c) Beginning July 1, 2016, and to the extent funds are appropriated in the annual Budget Act for this purpose, the department shall allocate thirty-one million one hundred thousand dollars (\$31,100,000), plus any associated matching funds, to provide a salary increase, benefit increase, or both, excluding unfunded retirement liabilities, for regional center operations...Regional centers shall maintain documentation, subject to audit, on how this funding was allocated.”

(d) By March 10, 2017, and again by October 1, 2017, and in a format prescribed by the department, each regional center shall report the following information to the department:

(1) The total amount provided to staff for purposes of subdivision (c).

(2) The position titles of staff receiving the increase and amounts of increase by title.

(3) The number of service coordinators receiving the increase.

(4) Data on staff turnover.

(5) The classification of expenditures and amount for each of the administrative costs outlined in subdivision (b) of Section 4629.7.

(6) The allocation methodology used by a regional center to distribute the funding.

(7) Any other information determined by the department.”

Recommendation:

SCLARC must post the current transparency reports per WIC on its Transparency Portal website for transparency requirements.

Finding 10: Parental Fee Program

The review of the PFP revealed that SCLARC is not notifying DDS of new placements, terminated cases or dates of death for consumers identified under the PFP. SCLARC stated this was due to a training issue. The new employee responsible for the placement listing was unaware of the RC's requirement to notify DDS of any PFP cases.

CCR, Title 17, Section 50225(b) states:

“Regional centers shall have the following duties and responsibilities:

- (b) Provide the Department of Developmental Services with a listing of new placements, terminated cases, and client deaths for those clients identified in paragraph (a) of this section. Such listing shall be provided not later than the 20th day of the month following the month of such occurrence and shall be provided in the format as determined by the Department of Developmental Services.”

Recommendation:

SCLARC must develop procedures and inform staff of the PFP requirements to notify DDS of any new placements, terminated cases, or clients' date of death for consumers identified under the PFP.

Finding 11: Sensitive Equipment

The review of the equipment inventory listing and a discussion with staff revealed SCLARC did not maintain adequate control over its sensitive items that are prone to theft/loss or misuse. It was noted that 14 smartphones were not tagged with a DDS issued barcode tag. In addition, these items were not listed in the inventory list which includes the serial number, acquisition date and original cost of the items. SCLARC stated it was unaware that the smartphones are considered sensitive equipment.

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

“Contractor shall maintain and administer, in accordance with sound business practice, a program for the utilization, care, maintenance, protection and preservation of State of California

property so as to assure its full 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 (C)(1) and (D) states in part:

“(C) All State-owned equipment must be promptly and clearly tagged as State of California, DDS’ property. The RC Property Custodian will order supplies of appropriate tags as described below by the Customer Support Section (CSS).

(1) ‘Non-expendable equipment’ and ‘sensitive equipment,’ as defined in Attachment A, will be tagged with a DDS-issued, bar-code tag and entered onto the RC property records as described in D below . . .”

(D) A record of state-owned, nonexpendable equipment and sensitive equipment shall be maintained by the RC Property Custodian in a format that includes the following information: description of the equipment item, the location (e.g., RC office or room number), the state I.D. tag number, the serial number (if any), the acquisition date, and the original cost.”

State’s Equipment Management System Guidelines, Section IV states:

“RCs will follow standard accounting guidelines as described in SAM Section 8600 et seq.”

SAM, Sections 8603, Non-Capitalized Property states:

“Departments will maintain adequate control over sensitive and high-risk items, which are prone to theft/loss, misuse, and may contain sensitive data. Examples of sensitive and high-risk items are:

Computers, printers, scanners
Smartphones, tablets, and other hand held devices
Device or media capable of storing or processing information
TVs, audio visual equipment, cameras
Weapons, power tools
Works of art
Software”

Recommendation:

SCLARC must follow the State Equipment Management Guidelines and SAM to ensure all state-owned, sensitive equipment is tagged with a state ID tag number and properly recorded in the inventory list.

EVALUATION OF RESPONSE

As part of the audit report process, SCLARC was provided with a draft audit report and requested to provide a response to the finding. SCLARC's response dated February 6, 2020, is provided as Appendix A.

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

Findings that need to be addressed.

Finding 1: Unsupported Consultant Expenses

SCLARC agreed to enter into a new contract with Quantum Business or amend the existing contract when the scope of work and/or terms expands. In addition, SCLARC agreed to reimburse DDS \$27,740.50 for the unsupported consultant expenditures.

Finding 2: Credit Cards Practices - Credit Card Procedures Not Followed (Repeat)

SCLARC stated it is committed to enforcing its credit card procedures and monitoring credit card purchases. In addition, SCLARC provided additional documents indicating purchases totaling \$6,001.00 out of \$8,091.30 were supported. (The supported amount of \$5,998.41 stated in the audit response is incorrect.) Therefore, the remaining balance to be reimbursed to DDS is \$2,090.30.

Finding 3: Family Cost Participation Program (FCPP) – Overstated Share of Cost

SCLARC stated it will follow its FCPP procedures and complete the FCPP assessment when a new service is approved. SCLARC provided documentation with its response to show that the family was below the dollar threshold to be assessed a share of cost and requested DDS not seek reimbursement for the share of cost totaling \$5,912.64 identified in the report. However, the additional documentation provided did not support the reduced assessment. As a result, SCLARC must reimburse DDS the overstated share of cost totaling \$5,912.64.

Finding 4: In-Kind Services (Repeat)

SCLARC provided documentation indicating it reimbursed DDS \$2,636.72. In addition, SCLARC proposed amending the In-Kind Service Agreement to allow using the excess FOS funds contributed to SCLARC to cover

FHI's In-Kind portion. (SCLARC noted that FHI is a subsidiary of FOS.) Since FHI and FOS are two different entities with different tax identifications, DDS disagrees with the idea of amending the In-Kind Service Agreement in the proposed manner until SCLARC discusses this issue with DDS management.

Finding 5: Misuse of Operational Funds (Repeat)

SCLARC provided documentation indicating it received \$262.39 from FOS and stated it will monitor accounts to ensure FOS expenditures are not recorded in SCLARC's general ledger account.

Finding 6: Conflict of Interest Statements Not Reviewed by the Executive Director (Repeat)

SCLARC stated it revisited its procedures and trained Human Resources and Executive staff on the procedures to ensure the ED reviews and signs all COI statements.

Finding 7: Lack of Minutes for Closed Board Meetings (Repeat)

SCLARC agreed to record the minutes of closed Board meetings and to ensure minutes are maintained by a designated officer or employee of SCLARC.

Finding 8: Lack of Annual Notification of the Whistleblower Policy (Repeat)

SCLARC stated that the Board was notified of its Whistleblower policy during the independent auditor's presentation of Form 990 (Return of Organization Exempt From Income Tax) and at its annual Board retreat. However, documentation was not provided to verify the Board was notified. Going forward SCLARC must maintain documentation to verify the Board was notified.

Finding 9: Transparency Portal Website

SCLARC stated it will ensure that contract awards and other reports will be posted on its Transparency Portal website.

Finding 10: Parental Fee Program

SCLARC stated it has developed new procedures and trained staff on the requirements to notify DDS of new placements, terminated cases or dates of death for consumers identified under the PFP.

Finding 11: Sensitive Equipment

SCLARC took corrective action to maintain adequate control over its smartphones and has assigned State ID tag numbers and included the smartphones in the inventory listing. DDS audit staff confirmed that these actions were completed. Therefore, this issue is considered resolved.

ATTACHMENTS A - C

SOUTH CENTRAL LOS ANGELES 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

SOUTH CENTRAL LOS ANGELES 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.