AUDIT OF THE SAN DIEGO REGIONAL CENTER FOR FISCAL YEARS 2016-17 AND 2017-18

Department of Developmental Services

February 24, 2020

This audit report was prepared by the California Department of Developmental Services
1600 Ninth Street, Sacramento, CA 95814

Karyn Meyreles, Acting Deputy Director, Administration
Vicky Lovell, Chief, Research, Audit, and Evaluation Branch
Edward Yan, Manager, Audit Section
Luciah Ellen Nzima, Chief, Regional Center Audit Unit
Oscar Perez, Supervisor, Regional Center Audit Unit

Audit Staff: Carlos Whylesmenchaca, Chanta Ham and Gordon Ho

For more information, please call (916) 654-3695.

TABLE OF CONTENTS

Page

EXECUTIVE SUMMARY 1

BACKGROUND 4
AUTHORITY 5
CRITERIA 5
AUDIT PERIOD 5

OBJECTIVES, SCOPE, AND METHODOLOGY 6

I. Purchase of Service 7

II. Regional Center Operations 8

III. Targeted Case Management (TCM) and Regional Center Rate Study 8

IV. Service Coordinator Caseload Survey 9

V. Early Intervention Program (EIP; Part C Funding) 10

VI. Family Cost Participation Program 10

VII. Annual Family Program Fee (AFPF) 10

VIII. Parental Fee Program (PFP) 11

IX. Procurement 12

X. Statewide/Regional Center Median Rates 13

XI. Other Sources of Funding from DDS 14

XII. Follow-up Review on Prior DDS Audit Findings 14

CONCLUSIONS 15

VIEWS OF RESPONSIBLE OFFICIALS 16

RESTRICTED USE 17

FINDINGS AND RECOMMENDATIONS 18

EVALUATION OF RESPONSE 24

ATTACHMENTS A - D .... A - D

REGIONAL CENTER'S RESPONSE .... Appendix A

EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) conducted a fiscal compliance audit of San Diego Regional Center (SDRC) to ensure SDRC 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 SDRC 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 SDRC'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 SDRC's operations. A follow-up review was performed to ensure SDRC has taken corrective action to resolve the findings identified in the prior DDS audit report.

Findings that need to be addressed.

Finding 1: <u>Overstated Claims</u>

The review of the operational indicator reports revealed 19 instances where SDRC overstated expenses claimed to the State totaling $49,405.58. These expenses were due to duplicate payments and overlapping authorizations. This is not in compliance with CCR, Title 17, Section 54326(a)(10) and Section 57300(c).

SDRC provided additional information with its response indicating overpayments totaling $21,057.93 have been corrected. Therefore, the total outstanding overpayment is $28,347.65.

Finding 2: <u>Overpayment due to Incorrect Rate</u>

The sample review of 102 Purchase of Service (POS) vendor files revealed one vendor, Rady Children's Hospital, Vendor Number H85690, Service Code 805, was reimbursed at an incorrect rate. This resulted in overpayments totaling $259.46 from July 2016 through June 2018. This is not in compliance with CCR, Title 17, Section 57300(c).

Finding 3: **<u>Expenses Did Not Match to the Year-End General Ledger</u> (Repeat)**

The review of the Targeted Case Management (TCM) Rate Study worksheets for April 2018 revealed the expenses included in the Administrative Survey - Computation of Applicable Operating Expenses did not reconcile to the Year-End General Ledger. SDRC over and underreported expenses on the rate study totaling $399,677.07 and $135,034.68, respectively for April 2017, and $116,186.33 and $251,280.46, respectively for April 2018. This issue was identified in the three prior DDS audit reports. This is not in compliance with DDS' Instructions for the TCM Rate Study.

Finding 4: **<u>Equipment Inventory</u>**

A. <u>Physical Inventory</u>

The review of SDRC's last comprehensive inventory revealed that SDRC has not conducted an inventory since October 1, 2014. SDRC is required to complete a comprehensive inventory at least once every three years. This is not in compliance with the State's Equipment Management Guidelines, Section III (F) and the State Administrative Manual (SAM) 8652.

B. <u>Missing Equipment</u>

The sampled review of 44 items from SDRC's inventory listing revealed five items were missing. This is not in compliance with the State Contract, Article IV, Section 4(a) and the State's Equipment Management System Guidelines, Section III (C).

Finding 5: **<u>Family Cost Participation Program - Late Assessments</u> (Repeat)**

The sample review of 20 Family Cost Participation Program (FCPP) files revealed SDRC did not assess the parent's share of cost participation as part of the consumer's Individual Program Plan (IPP) or Individualized Family Service Plan (IFSP) review for two consumers. The assessments were completed more than 30 days after the signing of the IPP or IFSP. This issue was also noted in the prior DDS audit report. This is not in compliance with W&I Code, Section 4783(g)(1)(A)(B)(C).

Finding 6: **<u>Bank Signature Cards - Lack of Signature Authority</u> (Repeat)**

The review of bank signature cards revealed SDRC still has not given current DDS management signatory authority to its bank accounts. The names of the representatives to receive signature authority were sent by DDS to SDRC on December 29, 2016; however, SDRC has yet to update the bank signature cards. This issue was also noted in the prior DDS audit report. This is not in compliance with State Contract, Article II, Section 3(f) and (g).

Finding 7: **Follow-Up for Vendor Reports Not Conducted**

SDRC did not follow up with vendors that did not submit a required independent audit report or review in calendar year 2018. This is not in compliance with SDRC's Vendor Audit Tracking Procedure.

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 Diego-Imperial Counties Developmental Services, Inc. entered into State Contract HD149017, effective July 1, 2014, through June 30, 2021. This contract specifies that San Diego-Imperial Counties Developmental Services, Inc. will operate an agency known as SDRC to provide services to individuals with DD and their families in Imperial and San Diego Counties. The contract is funded by state and federal funds that are dependent upon SDRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at SDRC from November 13, 2018, through December 14, 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 SDRC.

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 SDRC, 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 SDRC.

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

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

DDS reviewed the annual audit report that was conducted by an independent CPA firm for Fiscal Year (FY) 2016-17, issued on February 13, 2018. It was noted that no management letter was issued for SDRC. 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 SDRC. 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 SDRC.

- 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 SDRC staff revealed that SDRC 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 SDRC'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 SDRC'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 SDRC's policies and procedures for compliance with the DDS Conflict of Interest regulations, and DDS selected a sample of personnel files to determine if the policies and procedures were followed.

III. Targeted Case Management and Regional Center Rate Study

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

- Reviewed applicable TCM records and SDRC's Rate Study. DDS examined the months of Month Year and Month Year and traced the reported information to source documents.

- The last Case Management Time Study, performed in May 2016, was reviewed in the prior DDS audit that included FY 2015-16. As a result, there was no Case Management Time Study to review for this audit period.

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 SDRC 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 SDRC 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 SDRC 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 SDRC 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 SDRC implemented the required RFP process, DDS performed the following procedures during the audit review:

- Reviewed SDRC'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 SDRC. 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 SDRC notified the vendor community and the public of contracting opportunities available.
- Reviewed the contracts to ensure that SDRC 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 SDRC 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 SDRC 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 SDRC'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 SDRC'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 and July 1, 2018, 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 SDRC was in compliance with the Lanterman Act, DDS performed the following procedures during the audit review:

- Reviewed sample vendor files to determine whether SDRC is using appropriately vendorized service providers and correct service codes, and that SDRC 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 SDRC 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 SDRC 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 SDRC'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:

- CPP;
- Denti-Cal;
- Part C – Early Start Program;
- Self Determination; and
- Mental Health Services Act.

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

CONCLUSIONS

Based upon the audit procedures performed, DDS has determined that except for the items identified in the Findings and Recommendations section, SDRC 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 SDRC 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 12 prior audit findings, it has been determined that SDRC has taken appropriate corrective action to resolve nine findings.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued the draft audit report on November 18, 2019. The findings in the draft audit report were discussed at a formal exit conference with SDRC on November 25, 2019. The views of SDRC's responsible officials are included in this final audit report.

RESTRICTED USE

This audit report is solely for the information and use of DDS, CMS, the Department of Health Care Services, and SDRC. 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: **Overstated Claims**

The review of the operational indicator reports revealed 19 instances where SDRC overstated $49,405.58 in expenses to the State. These overstated expenses were due to duplicate payments and overlapping authorizations. SDRC indicated this occurred due to lack of appropriate staff oversight, as staff did not identify the errors during the payment process.

SDRC provided additional information with its response indicating overpayments totaling $21,057.93 have been corrected. Therefore, the total outstanding overpayment is $28,347.65. (See Attachment A)

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

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

CCR, Title 17, Section 57300(c) states:

> "Regional centers shall not reimburse vendors:
>
> (1) Unless they have a rate established pursuant to these regulations which is currently in effect; nor
>
> (2) For services in an amount greater than the rate established pursuant to these regulations."

Recommendation:

SDRC must reimburse to DDS the overstated expenses totaling $28,347.65. In addition, SDRC must revise its procedures to ensure it only reimburses vendors for services provided and at the rate established.

Finding 2: **Overpayment Due to Incorrect Rate**

The sample review of 102 POS vendor files revealed one vendor, Rady Children's Hospital, Vendor Number H85690, Service Code 805, was reimbursed at an incorrect rate. SDRC reimbursed the vendor $52.35 per hour, while the rate issued by DDS was $52.34 per hour. This resulted in overpayments totaling $259.46 from July 2016 through June 2018. SDRC indicated this was due to an input error that occurred while entering the rate into the UFS system. (See Attachment B)

CCR, Title 17, Section 57300(c) states:

> "Regional centers shall not reimburse vendors:
>
> (1) Unless they have a rate established pursuant to these regulations which is currently in effect; nor
>
> (2) For services in an amount greater than the rate established pursuant to these regulations."

Recommendation:

SDRC must reimburse to DDS the overpayment totaling $259.46. In addition, SDRC must correct the rate in its UFS system to reflect the correct rate issued by DDS, and ensure payments made after June 2018 are correct.

Finding 3: **<u>Expenses Did Not Match to the Year-End General Ledger</u> (Repeat)**

The review of the TCM Rate Study worksheets for April 2017 and 2018 revealed that the expenses included in the Administrative Survey - Computation of Applicable Operating Expenses (Attachment B) did not reconcile to the Year-End General Ledger. The over and underreported expenses total $399,677.07 and $135,034.68, respectively for April 2017, and $116,186.33 and $251,280.46, respectively for April 2018.

Although SDRC stated in its prior responses that it would follow the DDS issued instructions to ensure expenses reported on the TCM Rate Study reconcile to the Year-End General Ledger, this issue has continued to reoccur for the past three audits. TCM Rate Study amounts recorded incorrectly affect the reimbursement rate billed to the federal government, since the rate is established based on SDRC's actual costs.

Instructions for the TCM Rate Study, Attachment B, state:

> "ADMINISTRATIVE SURVEY-Computation of Applicable Operating Expenses

Operating Expenses:

1. On the worksheet below, enter the actual 2013-14 FY operating expenses, including outstanding encumbrances and accounts payable that will be paid during the current fiscal year for each program per your UFS GL 310 Budget Report-Detail."

Recommendation:

SDRC must follow the instructions for the TCM Rate Study and ensure that the expenses reported on the TCM Rate Study reconcile to SDRC's actual expenses reported on the Year-End General Ledger. Since this is the third consecutive audit with this finding, the issue will be referred to DDS' Program Operations Branch with a recommendation that SDRC re-submit its FY 2019 TCM Rate Study, with complete supporting documention, to the Rates and Fiscal Support Section for review.

Finding 4: **Equipment Inventory**

A. Physical Inventory

The review of SDRC's last comprehensive physical inventory revealed that SDRC has not conducted an inventory since October 1, 2014. SDRC is required to complete a comprehensive physical inventory at least once every three years. SDRC indicated that the comprehensive inventory has not been conducted due to the vacancy of the Property Custodian position. SDRC stated that it has assigned this responsibility to another employee who should ensure a physical inventory is conducted at least once every three years.

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

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

State Administrative Manual (SAM) 8652 states in part:

"Departments will make a physical count of all property and reconcile the count with accounting records at least once every three years."

Recommendation

SDRC must adhere to the State's Equipment Management Guidelines and SAM and ensure that a comprehensive physical inventory is conducted at least once every three years.

B. <u>Missing Equipment</u>

The sampled review of 44 items from SDRC's inventory listing revealed five items were missing. SDRC indicated it was unaware that the items were missing, as a comprehensive inventory had not been conducted for over three years. (See Attachment C)

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) states:

> "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)."

Recommendation:

SDRC must ensure it adheres to all of the guidelines set forth in the State Contract regarding the safeguarding of State property. In addition, if SDRC is unable to locate the missing items, the items must be removed from the inventory listing and a Property Survey Report (Std. 152) for proper disposal should be prepared.

Finding 5: <u>Family Cost Participation Program - Late Assessments</u> (Repeat)

The sampled review of 20 FCPP files revealed SDRC did not assess the parent's share of cost participation as part of the consumer's IPP or IFSP for two of its consumers. The assessments were completed more than 30 days after the signing of the IPP or IFSP. This issue was also noted in the prior

DDS audit report. As part of its response to the prior report, SDRC indicated it would amend its process to ensure FCPP assessments are completed as part of the IPP or IFSP review; however, there were still two assessments that were late. SDRC stated that it is working on assigning the duties to another employee to ensure all assessments are completed as part of the IPP or IFSP. (See Attachment D)

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

> "(g) Family cost participation assessments or reassessments shall be conducted as follows:
>
> (1)(A) A regional center shall assess the cost participation for all parents of current consumers who meet the criteria specified in this section. A regional center shall use the most recent individual program plan or individualized family service plan for this purpose.
>
> (B) A regional center shall assess the cost participation for parents of newly identified consumers at the time of the initial individual program plan or the individualized family service plan.
>
> (C) Reassessments for cost participation shall be conducted as part of the individual program plan or individual family service plan review pursuant to subdivision (b) of Section 4646 of this code or subdivision (f) of Section 95020 of the Government Code."

Recommendation:

SDRC must amend its procedures to ensure FCPP assessments are completed as part of the consumer's IPP or IFSP.

Finding 6: <u>Bank Signature Cards - Lack of Signature Authority</u> (Repeat)

The review of bank signature cards revealed SDRC has not given current DDS management signatory authority to its bank accounts. The names of the representatives to receive signature authority were sent by DDS to SDRC on December 29, 2016; however, SDRC has yet to update the bank signature cards. This issue was also noted in the prior DDS audit report. As part of its response to the prior report, SDRC indicated it was in the process of amending its bank signature cards.

State Contract, Article III, Section 3 (f) and (g) states:

"f. All bank accounts and any investment vehicle containing funds from this contract and used for regional center operations, employee salaries and benefits or for consumers' services and supports, shall be in the name of the State and Contractor….

g. For the bank account(s) above referenced, there shall be prepared three (3) alternative signature cards with riders attached to each indicating their use. In addition to the preparation of signature cards and riders, Contractor and the bank(s) shall enter into a written agreement specifying the bank(s)' responsibilities relative to said bank account(s). The signature cards, riders and agreement specified herein shall be prepared and administered in accordance with the format and procedure specified by the State."

Recommendation:

Within 60 days of receipt of the final FY 16/17 – 17/18 audit report, SDRC must ensure that signatory authorization is given to all appropriate DDS staff for all bank accounts that are identified as having State funds, as required by the contract with DDS. In addition, SDRC should implement procedures for securing new signatories as personnel changes occur.

Finding 7: **Follow-Up for Vendor Reports Not Conducted**

SDRC did not conduct a follow-up for vendors that did not submit a required independent audit report or review in 2018. SDRC indicated this occurred because the FY 2016-17 audit-tracking list sent by DDS in January 2018 was lost, therefore, SDRC was not aware of the vendors that were required to submit the reports or reviews.

San Diego Regional Center Vendor Audit Process Tracking Procedure states in part:

> "If a vendor does not obtain the required audit or review, SDRC will note this on its tracking spreadsheet and send the vendor a reminder letter."

Recommendation:

SDRC must follow up with vendors who are required to submit, but have not yet submitted, audit reports or reviews. In addition, SDRC should request the audit-tracking list from DDS if it does not receive it. This will ensure SDRC is aware of the vendors that are required to submit audit reports or reviews.

EVALUATION OF RESPONSE

As part of the audit report process, SDRC was provided with a draft audit report and requested to provide a response to the findings. SDRC's response dated January 10, 2020, is provided as Appendix A.

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

Finding 1: Overstated Claims

SDRC agreed with the overstated amount totaling $49,405.58. SDRC provided additional documentation with its response indicating $21,057.93 in overpayments have been corrected. In addition, SDRC provided a copy of a check with its response indicating that it collected $26,246.52 from Coolwater Adult Services 2, Vendor Number HQ0896, Service Code 915 with $2,101.13 still outstanding. However, since the amount collected from Coolwater Adult Services 2 has not been remitted to DDS, the overstated amount due to DDS is $28,347.65. Additionally, SDRC has indicated it has revised its procedures to ensure vendor rates are properly established and maintained and service providers are paid correctly.

Finding 2: Overpayment Due to Incorrect Rate

SDRC agreed with the finding and stated that it will reimburse to DDS $259.46 for the overpayments due to an incorrect rate. In addition, SDRC stated that it amended the vendor's rate in UFS to reflect the correct rate.

Finding 3: Expenses Did Not Match to the Year-End General Ledger (Repeat)

SDRC stated that it agreed with the recommendation.

Finding 4: Equipment Inventory

A. Physical Inventory

SDRC agreed with the finding and stated that it has re-assigned to other staff the responsibility of conducting a comprehensive physical inventory every three years.

B. Missing Equipment

SDRC agreed with the finding and stated that it revised its physical inventory procedures. In addition, SDRC indicated that a complete physical inventory was performed and reconciled to the general ledger and inventory listing. SDRC stated items removed from the listing will be surveyed.

Finding 5: **<u>Family Cost Participation Program - Late Assessments</u> (Repeat)**

SDRC agreed with the recommendation to amend the process and to complete FCPP assessments as part of the IPP or IFSP review. In addition, SDRC states it has re-assigned some FCPP responsibilities to other staff.

Finding 6: **<u>Bank Signature Cards - Lack of Signature Authority</u> (Repeat)**

SDRC agreed with the finding and indicated it will provide appropriate DDS staff with signature authority.

Finding 7: **<u>Follow-Up for Vendor Reports Not Conducted</u>**

SDRC agreed with the recommendation to follow up with vendors that have not submitted audit reports or reviews.

ATTACHMENTS A - D

SAN DIEGO 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 DIEGO 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.