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

Department of Developmental Services

July 7, 2021

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EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) conducted a fiscal compliance audit of Kern Regional Center (KRC) to ensure KRC is compliant with the requirements set forth in the 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 KRC 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 KRC's administrative and operational controls could be strengthened, and also identifies several operational areas in which repeat findings remain uncorrected. None of the findings were of a nature that would indicate systemic issues or constitute major concerns regarding KRC's operations. A follow-up review was performed to determine whether KRC has taken corrective action to resolve the findings identified in the prior DDS audit report.

Findings that need to be addressed.

Finding 1: <u>Negotiated Rates Above the Median Rate</u> (Repeat)

The review of 95 sampled Purchase of Service (POS) vendor files revealed KRC reimbursed two vendors at a rate higher than the median rate. KRC reimbursed Just Johnson's, Vendor Number PK5330, Service Code 063, at a rate of $37.21 per hour when the median rate was $23.50 per hour and [redacted], Vendor Number PK5374, Service Code 674, at a rate of $85.00 per hour when the median rate was $50.87 per hour. This resulted in overpayments totaling $2,090,213.43 for both vendors from July 2016 through June 2018. This is not in compliance with W&I Code, Section 4691.9(a)(1)&(2).

Finding 2: <u>Rate Increase After the Rate Freeze</u> (Repeat)

The review of the 95 sampled POS vendor files revealed KRC reimbursed three vendors at rates that were higher than the rates in effect as of July 1, 2008. The review noted KRC reimbursed Horrigan Cole Enterprise, Vendor Number. PK2713, Service Code 063, at the rate of $34.62 per hour rather than $29.42 per hour; Employment Through Adaptation of Tehachapi, Vendor Number PK3742, Service Code 063, at the rate of $37.21 per hour rather than $34.24 per hour; and Aimes Consulting, Vendor Number. PK4168, Service Code 860, at the rate of $20 per hour rather than $19 per hour. This resulted in overpayments totaling $338,195.43 for all three vendors from July 2016 through June 2018. This is not in compliance with W&I Code, Section 4648.4(b).

Finding 3: **Partial Month Stays (Repeat)**

The review of 95 sampled Purchase of Service (POS) vendor files revealed 35 instances where KRC incorrectly applied the 30.44 proration factor for partial month stays. This resulted in 13 instances of overpayments totaling $6,457.02 and 22 instances of underpayments totaling $11,621.65 to 11 vendors. This is not in compliance with CCR, Title 17, Section 56917(h)&(i).

Finding 4: **Credit Card Expenses**

The review of KRC's credit card expenditures revealed KRC was unable to provide receipts to justify purchases totaling $36,329.10 from July 2017 through December 2018 for a former employee. In addition, it was noted that the credit card remained in the former employee's name. This is not in compliance with the State Contract, Article IV, Section 3(a) and KRC's American Express Procedures.

Finding 5: **Equipment Inventory (Repeat)**

The review of the inventory process revealed that KRC has not followed the State's Equipment Management System Guidelines issued by DDS. It was found that KRC has not performed the required physical inventory in the last three years. In addition, KRC has not been utilizing the Acquisition Form or the Property Survey Report when equipment was purchased or surveyed. Furthermore, 16 out of the 35 items selected for physical inspection could not be located. Due to the unreliability of the physical inventory listing, the amount recorded on KRC's general ledger for capitalized equipment over $5,000 could not be validated. These issues have been identified in the three prior audits and continue to persist. This is not in compliance with the State Contract, Article IV, Section 4(a); the State Equipment Management System Guidelines, section III (D), (E) and (F); and the State Administrative Manual (SAM), Section 8652.

Finding 6: **Security Deposit**

The review of KRC's lease agreements noted the $5,000 security deposit for the 3121 Sillect Avenue office was not returned to KRC when the lease ended in July 2016.

Finding 7: **UFS Reconciliation**

The review of six UFS reconciliation worksheets revealed three worksheets did not reconcile with the Uniform Fiscal Systems (UFS) Reports. Due to an input error, the Client Receivable Account for the April 2017 UFS reconciliation worksheet was underreported by $30,000. In addition, the Committed Funds for UFS reconciliation worksheets for August 2017 and February 2018 did not reconcile with the UFS Committed Funds Report. The variances between the worksheets and the reports are $2,687.16 and $3.00, respectively. This is not in compliance with UFS Instructions and Guidelines for Calendar Month-End Reconciliations.

Finding 8: **Bank Reconciliation**

A. Bank Signature Cards Not Updated (Repeat)

The review of KRC's bank signature cards revealed that KRC does not have updated signature cards on file. The signature cards included a KRC-authorized signer who is no longer the Board of Directors President. This finding was noted in the prior DDS audit report. This is not in compliance with State Contract, Article III, Sections 3(f) and (g).

B. Stale Dated Checks (Repeat)

The review of KRC bank accounts revealed, as of April 30, 2018, 317 checks totaling $117,688.56 remained outstanding for more than six months, with the oldest checks dating back to January 2017. This issue was identified in the prior audit. KRC stated that this occurred due to excessive workload of the Accounting Manager and his subsequent separation of employment from KRC. This is not in compliance with KRC's Bank Reconciliation Policy, which is to void and reissue checks outstanding for more than six months.

C. Reconciliations Not Signed and Dated

The review of KRC's bank reconciliations noted 13 instances where the preparer did not sign and date the bank reconciliations and 20 instances where the reviewer did not sign and date the bank reconciliations. This is not in compliance with KRC's Bank Reconciliation Policy.

D. **Reconciling Items Not Traceable to Support**

KRC could not provide documentation for any of the reconciling items noted in its current bank reconciliation for April 2019. This is not in compliance with State Contract, Article IV, Section 3(a).

Finding 9: Annual Family Program Fee (Repeat)

The review of 18 sampled Annual Family Program Fee (AFPF) assessments revealed 10 instances where families were assessed reduced AFPF. KRC could not provide the families' income documentation to justify the reduced assessed fee. This is not in compliance with DDS Annual Family Fee Program Procedures.

Finding 10: Parental Fee Program

The review of KRC's Parental Fee Program (PFP) noted that KRC is not providing the DDS with a listing of new placements, terminated cases, and client deaths for clients under the age of 18 who received 24-hour out-of-home community care received through KRC. This is not in compliance with CCR, Title 17, Section 50225(a)(b).

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 Kern Regional Center, Inc. entered into State Contract HD 149009, effective July 1, 2014, through June 30, 2021. This contract specifies that Kern Regional Center, Inc. will operate an agency known as the Kern Regional Center (KRC) to provide services to individuals with DD and their families in Inyo, Kern, and Mono Counties. The contract is funded by state and federal funds that are dependent upon KRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at KRC from May 28, 2019, through June 27, 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 KRC.

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 KRC, effective July 1, 2021.

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 KRC.

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. However, the procedures do not constitute an audit of KRC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that KRC was in compliance with the objectives identified above. Accordingly, DDS examined transactions on a test basis to determine whether KRC was in compliance with the 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 KRC.

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

DDS reviewed the annual audit reports that were conducted by an independent CPA firm for Fiscal Years (FYs) 2016-17 and 2017-18, issued on January 24, 2018 and January 28, 2019, respectively. It was noted that no management letter was issued for KRC. This review was performed to determine the impact, if any, upon the DDS audit and, as necessary, develop appropriate audit procedures.

The audit procedures performed included the following:

I. Purchase of Service

DDS selected a sample of POS claims billed to DDS. The sample included consumer services and vendor rates. The sample also included consumers who were eligible for the HCBS Waiver Program. For POS claims, the following procedures were performed:

- DDS tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.

- DDS selected a sample of invoices for service providers with daily and hourly rates, standard monthly rates, and mileage rates to determine if supporting attendance documentation was maintained by KRC. The rates charged for the services provided to individual consumers were reviewed to ensure 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 KRC.

- 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.

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

III. Targeted Case Management (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 KRC's Rate Study. DDS examined the months of May 2017 and May 2018 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 FYs 2014-15 & 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 (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 KRC 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 KRC 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 KRC 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

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

- Reviewed KRC'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 KRC. 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 KRC notified the vendor community and the public of contracting opportunities available.

- Reviewed the contracts to ensure that KRC has adequate and detailed documentation for the selection and evaluation process of vendor proposals 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 KRC has a written policy requiring the Board to review and approve any of its contracts of two hundred fifty thousand dollars ($250,000) or more before entering into a contract with the vendor.

- Reviewed KRC Board-approved 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 KRC'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 KRC'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 KRC was in compliance with the Lanterman Act, DDS performed the following procedures during the audit review:

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

- Reviewed vendor contracts to ensure that KRC is reimbursing vendors using authorized contract median rates and verified that rates paid represented the lower of the statewide or RC median rate set after June 30, 2008. Additionally, DDS verified that providers vendorized before June 30, 2008, did not receive any unauthorized rate increases, except in situations where required by regulation, or health and safety exemptions were granted by DDS.

- Reviewed vendor contracts to ensure that KRC 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 KRC's accounting staff were inputting data properly, and that transactions were properly recorded and claimed. In addition, tests were performed to determine if the expenditures were reasonable and supported by documentation. The sources of funding from DDS identified in this audit are:

- CPP;
- Part C – Early Start Program;
- Foster Grandparent (FGP);
- Senior Companion (SC); and
- Self Determination.

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 KRC and reviewed supporting documentation to determine the degree of completeness of KRC'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, KRC 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 KRC 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 KRC has taken appropriate corrective action to resolve five findings.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued the draft audit report on April 21, 2020. The findings in the draft audit report were discussed at a formal exit conference with KRC on August 17, 2020. The views of KRC's responsible officials are included in this final audit report.

RESTRICTED USE

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

FINDINGS AND RECOMMENDATIONS

Findings that need to be addressed.

Finding 1: **Negotiated Rates Above the Median Rate (Repeat)**

The review of 95 sampled vendors revealed KRC reimbursed two vendors at a rate higher than the median rate. Just Johnson's, Vendor Number PK5330, Service Code 063, was reimbursed at a rate of $37.21 per hour when the median rate was $23.50 per hour. This resulted in overpayments totaling $2,082,431.79. In addition, KRC reimbursed [redacted], Vendor Number PK5374, Service Code 674, at a rate of $85 per hour when the median rate was $50.87 per hour, resulting in overpayments totaling $7,781.64. The total of the overpayments due to negotiating a rate above the median for both vendors from July 2016 through June 2018 was $2,090,213.43. (See Attachment A)

W&I Code, Section 4691.9 (a) (1) & (2) states in part:

> "(1) A regional center shall not pay an existing service provider, for services where rates are determined through a negotiation between the regional center and the provider, a rate higher than the rate in effect on June 30, 2008, unless the increase is required by a contract between the regional center and the vendor that is in effect on June 30, 2008, or the regional center demonstrates that the approval is necessary to protect the consumer's health or safety and the department has granted prior written authorization.
>
> (2) A regional center shall not negotiate a rate with a new service provider, for services where rates are determined through a negotiation between the regional center and the provider, that is higher than the regional center'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."

Recommendation:

KRC must reimburse to DDS $2,090,213.43 for the overpayments. In addition, KRC must comply with W&I Code, Section 4691.9 and ensure that all vendor rates negotiated after June 30, 2008, are below the Statewide/KRC Median Rates.

Finding 2: <u>Rate Increase After the Rate Freeze</u> (Repeat)

The sample review of 95 POS vendor files revealed KRC increased the rates for three vendors after the rate freeze became effective on July 1, 2008. The review noted KRC reimbursed Horrigan Cole Enterprise, Vendor Number PK2713, Service Code 063, at a rate of $34.62 per hour rather than $29.42 per hour resulting in overpayments of $177,012.58 from July 2016 through June 2018. In addition, the review noted KRC reimbursed Employment Through Adaptation of Tehachapi, Vendor Number PK3742, Service Code 063, at a rate of $37.21 per hour rather than $34.24 per hour resulting in overpayments of $136,953.39 from July 2016 through December 2017. In addition, the review noted KRC reimbursed Aimes Consulting, Vendor Number. PK4168, Service Code 860, at a rate of $20 per hour rather than $19 per hour resulting in overpayments of $24,229.46. The total overpayments due to the rate increases after the rate freeze is $338,195.43 for all three vendors from July 2016 through June 2018. (See Attachment B)

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

> "Notwithstanding any other provision of law or regulation, except for subdivision (a), no regional center may pay any provider of the following services or supports a rate that is greater than the rate that is in effect on or after June 30, 2008, unless the increase is required by a contract between the regional center and the vendor that is in effect on June 30, 2008, or the regional center demonstrates that the approval is necessary to protect the consumer's health or safety and the department has granted prior written authorization."

Recommendation:

KRC must reimburse to DDS $338,195.43 in overpayments that resulted from rate increases to vendors after the rate freeze effective July 1, 2008. In addition, KRC must revert to the original payment terms of the contracts in place prior to the implementation of the rate freeze.

Finding 3: <u>Partial Month Stays</u> (Repeat)

The review of 95 sampled vendor files revealed 37 instances where KRC incorrectly applied the 30.44 proration factor of partial month stays to 11 vendors. This resulted in 13 instances of overpayments totaling $6,457.02 and 22 instances of underpayments totaling $11,621.65.
(See Attachment C)

This is not in compliance with CCR, Title 17, Section 56917(h)&(i).

> "(h) The established rate shall be paid for the full month when the consumer is temporarily absent from the facility 14 days or less per month.
>
> (i) The established rate shall be prorated for a partial month of service in all other cases by dividing the established rate by 30.44, then multiplying by the number of days the consu1ner resided in the facility."

Recommendation:

KRC must reimburse to DDS a total of $6,457.02 for the overstated claims and issue payments totaling $11,621.65 to the underpaid vendors identified in the prior and current audit reports. In addition, KRC must ensure that prorations for partial month stays are calculated correctly.

Finding 4: **<u>Credit Card Expenses</u>**

The review of KRC's credit card statements revealed KRC was unable to provide receipts to justify purchases for nonrecurring monthly charges totaling $36,329.10, from July 2017 through December 2018, made by the former Information Technology (IT) Manager. KRC indicated that the former IT Manager consistently failed to provide receipts for credit card purchases. This occurred because the credit card procedures were not being enforced. Furthermore, KRC's credit card procedures do not address situations in which cardholders fail to submit receipts to the accounting department. (See Attachment D)

In addition, the credit card remains under the former IT Manager's name. KRC stated that it did not know what some of the monthly recurring charges were for and did not want to cancel the credit card until it could determine the potential impact of cancelling the card. Lastly, KRC stated that it did not have access to some of the service and subscription accounts that are billed to the credit card because they were set up by the former IT Manager.

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

> "The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures, and consumers served under this contract (hereinafter collectively called the "records") to the extent and in such detail as will properly reflect net costs (direct and indirect) of labor, materials, equipment, supplies and services, overhead and

other costs and expenses of whatever nature for which reimbursement is claimed under the provisions of this contract in accordance with mutually agreed to procedures and generally accepted accounting principles."

KRC's American Express Procedures state in part:

"The following individuals (AMEX Cardholders) who have KRC Amex Cards and their general purposes for using them:

3) [IT Manager] – Used for general purposes such as IT related items that may include computers, computer parts and supplies, travel related purposes, software, etc.

The following is the workflow regarding charges and payment for Amex Cardholders and Accounting:

1) Amex cardholders will be responsible for their charges within the general purpose guidelines for each cardholder set above.
2) Amex Cardholders will retain their receipts and any backup when the charge has occurred.
3) Accounting will submit the American Express Bill to the Amex Cardholder when it arrives.
4) The Amex Cardholder will review the American Express Bill, match up charges and any backup, and turn into accounting for payment.
5) Questionable items on the American Express Bill are the responsibility of the Amex Cardholder to research and resolve.
6) Accounting will pay in full the American Express Bill of the Amex Cardholder.
7) The CFO and/or the Manager of Accounting Services will review all American Express Bills of the Amex Cardholders for budgetary and accounting purposes and will follow up with any questions to the Amex Cardholders.

Other Items Related to Amex Cardholders

1) [redacted] shall be the default Amex Card for those charges that do not fit within any general guidelines of use listed above.
2) Please clarify the Amex Card receipts and any backup as necessary, such as a consumer related purchase, a branch office facility purchase, or what kind of meeting, etc.
3) Please consult with the CEO and/or the CFO prior to any charges that you determine may be questionable."

Recommendation:

KRC must reimburse to DDS a total of $36,329.10 for the unsupported expenditures. In addition, KRC must strengthen its credit card procedures to require cardholders to submit receipts to the accounting department to verify the purchases were appropriate. KRC must also address situations in which cardholders fail to provide itemized receipts for purchases made using credit cards to the accounting department. Furthermore, KRC must cancel the credit card under the former employee's name and determine if the recurring monthly charges are legitimate.

Finding 5: <u>Equipment Inventory</u> (Repeat)

The review of the inventory process revealed that KRC has not followed the State's Equipment Management System Guidelines issued by DDS. It was found that KRC has not performed the required physical inventory in the last three years. In addition, KRC has not been utilizing the Acquisition Form or the Property Survey Report when equipment was purchased or surveyed. Furthermore, 16 out of the 35 items selected for physical inspection could not be located. Due to the unreliability of the physical inventory listing, the amount recorded on KRC's general ledger for capitalized equipment over $5,000 could not be validated. These issues have been identified in the three prior audits and continue to persist. (See Attachment E)

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

> "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 (D), states in part:

> "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. The RC will also maintain files of all

paperwork related to the purchase, disposition, or transfer of all state-owned equipment subject to these guidelines."

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

> "RCs will conform to the following guidelines for any state-owned equipment that is junked, recycled, lost, stolen, donated, destroyed, traded-in, transferred to, or otherwise removed from the control of the RC.
>
> RCs shall work directly with their regional Department of General Services' (DGS) office to properly dispose of State-owned equipment. RCs will complete a Property Survey Report (Std. 152) for all State-owned equipment subject to disposal."

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

> "The inventory will be conducted per State Administrative Manual (SAM), Section 8652."

State Administrative Manual (SAM), section 8652 states in part:

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

Recommendation:

KRC should ensure the staff who are responsible for monitoring and maintaining the equipment inventory receive appropriate training. KRC must also follow the State's Equipment Management Guidelines for safeguarding State property. In addition, KRC must submit a Property Survey Report Form 152 to the Department of General Services (DGS) to report the missing items and adjust its property accounting records. This would bring KRC into compliance with the State contract requirements regarding State property.

Finding 6: **<u>Security Deposit</u>**

The review of KRC's Prepaid Lease Account revealed that KRC did not recover the $5,000 security deposit from [redacted] when its lease agreement ended in July 2016 for the 3121 Sillect Avenue office.

For good accounting and internal control practices, all security deposits recorded in the General Ledger should be returned at the end of the contract period. This will ensure the proper accounting and claiming of all security deposits.

Recommendation:

KRC should request a refund of its security deposit from [redacted] and ensure that any future security deposits are recovered at the end of the contract or lease period.

Finding 7: **UFS Reconciliation**

The review of six UFS reconciliation worksheets revealed three worksheets did not reconcile with the Uniform Fiscal Systems (UFS) Reports. Due to an input error, the Client Receivable Account for the April 2017 UFS reconciliation worksheet was underreported by $30,000. In addition, the Committed Funds for UFS reconciliation worksheets for August 2017 and February 2018 did not reconcile with the UFS Committed Funds Report. The variances between the worksheets and the reports are $2,687.16 and $3, respectively.

Instructions and Guidelines for Calendar Month-End Reconciliations states in part:

> "RECONCILIATION
>
> 1) The Trust Reconciliation form is located at www.dds.ca.gov/AST/FileAdjForms.cfm. When you open the workbook, make sure to enable macros. Complete the worksheet and identify any differences.
> 2) Determine consumer(s) affected and reason(s) for the difference.
> 3) Take appropriate action to resolve difference."

Recommendation:

KRC must identify the consumers affected and the cause of the variances in the UFS Reconciliation Worksheets. In addition, KRC should request assistance from DDS' Application Support Team (AST) to make adjustments to the UFS reports that are the result of system errors.

Finding 8: **Bank Reconciliation**

A. Bank Signature Cards Not Updated (Repeat)

The review of KRC's bank signature cards revealed that KRC does not have updated signature cards on file. The signature cards included a KRC-authorized signer who no longer is President of the Board of Directors. This finding was noted in the prior DDS audit report.

State Contract, Article III, Sections 3(g) states in part:

> "For the bank accounts above referenced, there shall be prepared three (3) alternative signature cards with riders attached to each indicating their use."

Recommendation:

KRC must ensure that current signatory authorizations are maintained for all State-funded bank accounts as required by the contract with the State.

B. <u>Stale Dated Checks</u> (Repeat)

The review of KRC bank accounts revealed 317 checks totaling $117,688.56 remained outstanding as of April 30, 2018. KRC had stale-dated checks dating back to January 2017. This issue was identified in the prior audit. KRC stated that this occurred due to excessive workload of the Accounting Manager and his subsequent separation of employment from KRC. (See Attachment F)

KRC's Bank Reconciliation Policy states, in part:

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

Recommendation:

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

C. <u>Reconciliations Not Signed and Dated</u>

The sample review of 21 bank reconciliations noted 13 instances where the preparer did not sign and date the bank reconciliations and 20 instances where the reviewer did not sign and date the bank reconciliations.

KRC Bank Reconciliations Procedure states in part:

> "At the time of completion, the Controller shall initial and date the printed copy of the bank reconciliation and submit it along with the bank statement to the Chief Financial Officer for review. The Chief Financial Officer shall approve the bank recons after the review by initial and date, then return to the Controller for filing."

Recommendation:

KRC must ensure its staff follow the bank reconciliation procedure. Each monthly completed bank reconciliation must be reviewed and signed by both the person completing and person reviewing the reconciliation.

D. <u>Reconciling Items Not Traceable to Support</u>

The review of KRC's most current Bank Reconciliation available at the time of the audit, for the month of April 2019, revealed 74 reconciling items that were more than six months old, totaling $58,650.27. These items could not be traced to supporting documentation. The review also found that KRC continued to carry reconciling items dating back to July 2015. KRC's Controller indicated that many of the reconciling items have been carried forward from previous years, before he was employed at KRC, and that the original transactions that generated the reconciling items could not be determined.

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

> "In accordance with Welf. & Inst. Code Section 4631 (b), Contractor shall be held strictly accountable for reporting all revenues and expenditures, and the effectiveness of the Contractor in carrying out of its programs and fiscal responsibilities. 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 (hereinafter collectively called the "records") to the extent and in such detail as will properly reflect net costs (direct and indirect) of labor, materials, equipment, supplies and services, overhead and other costs and expenses of whatever nature for which reimbursement is claimed under the provisions of this contract in accordance with mutually agreed to procedures and generally accepted accounting principles."

Recommendation:

KRC must research and take appropriate steps to resolve the outstanding reconciling items. In addition, KRC must establish and enforce procedures to ensure staff handle reconciling items in an appropriate and timely manner.

Finding 9: Annual Family Program Fee (Repeat)

The review of 18 sampled Annual Family Program Fee (AFPF) assessments revealed 10 instances where families were assessed a reduced AFPF; however, KRC could not provide the families' income documentation to justify the reduced assessed fee. KRC stated that it did not have the income documentation to support the reduced AFPF because service coordinators did not retain the income documentation during the assessment process.

DDS Annual Family Fee Program Procedures Section II (C) states:

> "Upon request from the parents, regional centers shall review, and when applicable, adjust the family's assessment if it is demonstrated that the adjusted gross family income is less than 800 percent of the federal poverty level (FPL). Families shall provide the regional center with records to show their total adjusted gross family income as defined in WIC Section 4785 (j)(1)…If parents' income is determined to be below 800 percent of the current year FPL, the regional center shall adjust the annual family fee to $150.00. If parents' income is determined to be below 400 percent of current year FPL, the family shall not be assessed the AFPF."

Recommendation:

KRC should retain families' income documentation to justify the reduced assessed fees.

Finding 10: Parental Fee Program

The review of KRC's PFP noted that it was not tracking nor providing DDS with a listing of new placements, terminated cases, and client deaths for clients under the age of 18 who received 24-hour out-of-home community care through KRC. KRC stated that due to personnel changes, no staff was assigned to monitor the PFP.

Title 17 Section 50225 (a)(b) states in part:

> "Regional centers shall have the following duties and responsibilities:
>
> (a) Identify all children with developmental disabilities who are receiving services as specified in Section 50223….
>
> (c) 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:

KRC must ensure that it has designated staff to monitor the PFP and to provide DDS a listing of new placements, terminated cases, and client deaths by the 20th day of the month following the month of such occurrence, as required by Title 17.

EVALUATION OF RESPONSE

As part of the audit report process, KRC was provided with a draft audit report and requested to provide a response to the findings. KRC's response dated December 4, 2020, is provided as Appendix A.

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

Finding 1: **<u>Negotiated Rates Above the Median Rate</u> (Repeat)**

KRC agreed with the finding, but when it requested to renegotiate the providers' rates, both [redacted] and Just Johnson gave notice and closed their business in May 2017 and December 2018, respectively. KRC stated in its response that the Lanterman Act does not address a regional center as a guarantor of its vendors' legal obligations and, therefore, DDS should not hold KRC legally liable for the reimbursements of funds that are owed by its former vendors. KRC is requesting DDS to reconsider its recommendation to reimburse the overpayment, since it does not believe it is cost effective to pursue such claims.

DDS does not agree that KRC should not be held legally liable for the reimbursements of funds, since it was KRC's actions that caused the overpayment when it negotiated rates above the median rate with the vendors. DDS stands by its recommendation that KRC reimburse the overpayment totaling $2,090,213.43, since it did not comply with W&I Code, Section 4691.9, which requires it to ensure that all vendor rates negotiated after June 30, 2008 are below the Statewide/KRC Median Rates.

Finding 2: **<u>Rate Increase After the Rate Freeze</u> (Repeat)**

KRC agreed with the finding and overpayment to AIMES but disagreed with the overpayments to Horrigan Cole and ETA Tehachapi.

KRC stated that it failed to collect or change the Horrigan Cole rate because the provider appealed its collection request to DDS and KRC is waiting for DDS's feedback on the appeal. KRC also does not believe that it should reimburse DDS the ETA Tehachapi overpayment since DDS audited the vendor and sent a collection letter for the overpayment.

DDS disagrees with KRC's response regarding the overpayments to Horrigan, since this was an audit of KRC, not an audit of Horrigan Cole, and since it was KRC that created the overpayment when it negotiated the rate increase with Horrigan Cole after the rate freeze became effective on

July 1, 2008; therefore, KRC has the responsibility to reimburse DDS the overpayments made to the vendor. Of note, DDS will be informing Horrigan Cole that the appropriate appellant is KRC, not Horrigan Cole.

In addition, DDS disagrees with KRC's response that DDS audited ETA Tehachapi and sent the provider a collection letter for the overpayment. The vendor audited by DDS and sent a collection letter totaling $3,986,385.59 was ETA Bakersfield, Vendor Number PK3268, Service Code 063 and not ETA Tehachapi, Vendor Number PK3742, Service Code 063.

Therefore, KRC must reimburse DDS the overpayment totaling $338,195.43 paid to the three vendors from July 2016 through June 2018, due to noncompliance with W&I Code, Section 4648.4(b).

Finding 3: **<u>Partial Month Stays</u> (Repeat)**

KRC agreed with the finding and stated that it will reimburse DDS the overpayment totaling $7,617.23 instead of the 6,457.02 noted in the report, but did not address the underpayments to the vendors totaling $11,621.65. In addition, KRC indicated that going forward it will review partial month payments to ensure prorations are calculated correctly. DDS will conduct a follow-up during the next scheduled audit to determine if over/underpayments to the vendors have been resolved.

Finding 4: **<u>Credit Card Expenses</u>**

KRC agreed with the finding and stated that it reviewed and traced some documentation to support past credit card charges; however, this documentation was not provided to DDS for review. Therefore, KRC must reimburse DDS a total of $36,329.10 for the unsupported expenditures.

Finding 5: **<u>Equipment Inventory</u> (Repeat)**

KRC agreed with the finding and provided DDS with its newly implemented guidelines for fixed assets. In addition, it stated that it was in the process of conducting a full physical inventory of all equipment, though the process had been delayed due to COVID-19. KRC stated that all current purchases are being tagged and recorded according to the guidelines. DDS will conduct a follow-up during the next scheduled audit to determine if these guidelines are followed and this issue has been resolved.

Finding 6: **<u>Security Deposit</u>**

KRC agreed with the finding and stated that it reached out to its former landlord numerous times with no response, but will continue to attempt to secure the deposit. Once secured, KRC must ensure the security deposit totaling $5,000 is used to offset the State claim.

Finding 7: UFS Reconciliation

KRC provided additional documentation indicating that this issue has been resolved. DDS will conduct a follow-up during the next scheduled audit to ensure that procedures are in place to avoid this issue in the future.

Finding 8: Bank Reconciliation

A. Bank Signature Cards not Updated (Repeat)
KRC agreed with the finding and stated that bank signature cards were updated. However, there were no copies provided to DDS for review. DDS will conduct a follow-up during the next scheduled audit to determine if the bank signature cards are updated.

B. Stale Dated Checks (Repeat)
KRC agreed with the finding and provided procedures it implemented in late 2018 to ensure stale dated check issues are resolved. DDS will conduct a follow-up during the next scheduled audit to ensure implemented procedures are being followed.

C. Reconciliations Not Signed and Dated
KRC agreed with the finding and stated that since late 2018, its Controller initials, dates and submits the printed copy of the reconciliation and bank statements to the Chief Financial Officer for review. The Chief Financial Officer reviews, signs and dates the reconciliation and returns it to the Controller for filing. DDS will conduct a follow-up during the next scheduled audit to ensure bank reconciliations are signed and dated by responsible officials.

D. Reconciling Items Not Traceable to Support
KRC agreed with the finding and stated that it now takes appropriate steps to identify outstanding reconciling items. In addition, KRC stated that items which could not be traced back to documentation have been offset through Operations. DDS will conduct a follow-up during the next scheduled audit to understand how the unreconciled items were resolved.

Finding 9: **<u>Annual Family Program Fee</u> (Repeat)**

KRC agreed with the finding and provided procedures it will follow to resolve AFPF issues. DDS will conduct a follow-up during the next scheduled audit to validate that procedures put in place are followed.

Finding 10: **<u>Parental Fee Program</u>**

KRC agreed with the finding and stated that it started tracking PFP placements since July 2019. KRC indicated that this information is gathered and submitted to DDS monthly. DDS will conduct a follow-up during the next scheduled audit to validate that procedures put in place to track PFP placements are followed.

ATTACHMENTS A - F

KERN REGIONAL CENTER

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

Appendix A

KRC'S 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.