



**AUDIT OF THE
VALLEY MOUNTAIN REGIONAL CENTER
FOR FISCAL YEARS 2018-19 AND 2019-20**

Department of Developmental Services

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EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) conducted a fiscal compliance audit of Valley Mountain Regional Center (VMRC) to ensure VMRC 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 VMRC maintains accounting records and supporting documentation for transactions in an organized manner.

The audit period was July 1, 2018, through June 30, 2020, with follow-up, as needed, into prior and subsequent periods. This report identifies some areas where VMRC'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 VMRC's operations. A follow-up review was performed to ensure VMRC has taken corrective action to resolve the findings identified in the prior DDS audit report.

Findings that need to be addressed.

Finding 1: Over-Stated and Under-Stated Claims

The sample review of 107 POS vendor files revealed three vendors were reimbursed for services provided at an incorrect rate. This resulted in over-stated claims of \$18,068.96 and under-stated claims of \$4,359.42. This is not in compliance with W&I Code, Section 4648.4(b) and CCR, Title 17, Section 57300(c)(1) and (2).

VMRC provided documents with its response indicating the under-stated claim totaling \$4,359.42 was paid to a vendor. In addition, VMRC recovered \$1,167.36 in over-stated claims from two vendors, and \$8,806.29 was mis-identified as an over-stated claim; therefore, the total over-stated claim still remaining is \$8,095.31.

Finding 2: CalFresh Program

The review of the CalFresh Program revealed VMRC double-claimed a portion of their 192 service coordinators' salaries. This occurred when VMRC claimed a portion of the salaries under both Operational Claims and CalFresh Program. This resulted in \$49,992 in overstated claims for FY 2019-20. This is not in compliance with the State Contract, Article IV, Section 3(a).

VMRC provided documents with its response indicating an operational claim for \$49,992 was submitted to DDS to reduce VMRC's operational expenses for FY 2019-20; therefore, this issue is considered resolved.

Finding 3: Credit Card Expenditures

The review of VMRC's credit card expenditures revealed three transactions from one employee totaling \$191.28 were not supported by source documentation. In addition, the review revealed five credit card transactions totaling \$292.74 from two employees were missing the detailed receipt. This is not in compliance with VMRC's Administrative Procedures Manual - Credit Card Procedures.

Finding 4: Missing Equipment (Repeat)

The sampled review of 40 items selected from VMRC's inventory listing revealed two tablets (state tag numbers 396342 and 396378) are missing. This issue was also identified in the three prior audit reports. (VMRC addressed the missing items noted in previous audits.) This is not in compliance with the State Contract, Article IV, Section 4(a) and the State's Equipment Management Guidelines Section III, (E).

VMRC provided additional documents with its response indicating the two tablets were properly disposed of; therefore, this issue is considered resolved.

Finding 5: Vendor Independent Audit Reports

The sampled review of the vendor independent audit reports revealed five of the 10 sampled vendor independent audit reports received by VMRC were not forwarded to DDS. This is not in compliance with WIC, 4652.5(d)(2).

Finding 6: Operational Rent Survey Expenses

The review of the Operational Rent Surveys for FYs 2018-19 and 2019-20 revealed the allowable utilities and maintenance expenses reported on the rent surveys did not reconcile with the documentation provided by VMRC. VMRC over-reported their allowable utilities by \$30,991.41 and \$33,465.01 for FYs 2018-19 and 2019-20, respectively, and under-reported their allowable maintenance expenses by \$345,778.14 and \$97,901.22 for FYs 2018-19 and 2019-20, respectively. This is not in compliance with the DDS' Regional Center Requests for Increased Rent Funding Guidelines, Section 1.

VMRC provided documents with its response indicating \$150,053.37 in expenses was not allowed to be included on the Operational Rent Survey; therefore, the allowable maintenance expenses were under-reported by \$195,724.77 for FY 2018-19.

Finding that has been addressed and corrected.

Finding 7: Targeted Case Management (TCM) Rate Study

The review of the Targeted Case Management (TCM) Rate Study worksheets for April 2019 and May 2020 revealed the expenses included in the Administrative Survey - Computation of Applicable Operating Expenses (Attachment B) did not reconcile to the Year-End General Ledgers. VMRC over-reported operating expenses on the rate study totaling \$168,197.68 in April 2019 and under-reported operating expenses totaling \$1,197,944.47 in May 2020. In addition, VMRC under-reported its income on the rate studies, by totals of \$63,332.26 and \$50,179.50 in April 2019 and May 2020, respectively. This is not in compliance with DDS' Instructions for the TCM Rate Study.

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, VMRC 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 VMRC's fiscal, administrative, and program operations.

DDS and Valley Mountain Regional Center, Inc., entered into State Contract HD149021, effective July 1, 2014, through June 30, 2021. This contract specifies that Valley Mountain Regional Center, Inc., will operate an agency known as the VMRC to provide services to individuals with DD and their families in Amador, Calaveras, San Joaquin, Stanislaus, and Tuolumne Counties. The contract is funded by state and federal funds that are dependent upon VMRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted remotely from November 30, 2020, through February 26, 2021, 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 VMRC.

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 VMRC, effective July 1, 20XX.

AUDIT PERIOD

The audit period was July 1, 2018, through June 30, 2020, 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 VMRC.

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

DDS' review of VMRC'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) 2018-19, issued on March 31, 2020. It was noted that no management letter was issued for VMRC. This review was performed to determine the impact, if any, upon the DDS audit and, as necessary, to develop appropriate audit procedures.

The audit procedures performed included the following:

I. Purchase of Service

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

- DDS tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.
- DDS selected a sample of invoices for service providers with daily and hourly rates, standard monthly rates, and mileage rates to determine if supporting attendance documentation was maintained by VMRC. 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 VMRC.
- DDS analyzed all of VMRC'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 VMRC'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 the requirements of the State Contract.
- DDS reviewed VMRC'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 VMRC's Rate Study. DDS examined the months of April 2019 and April 2020 and traced the reported information to source documents.
- Reviewed VMRC's TCM Time Study. DDS selected a sample of payroll timesheets for this review and compared timesheets to the Case Management Time Study Forms (DS 1916) to ensure that the forms were properly completed and supported.

IV. Service Coordinator Caseload Survey

Under the W&I Code, Section 4640.6(e), RCs are required to provide service coordinator caseload data to DDS. The following average service coordinator-to-consumer ratios apply per W&I Code Section 4640.6(c)(1)(2)(3)(A)(B)(C):

- “(c) Contracts between the department and regional centers shall require regional centers to have service coordinator-to-consumer ratios, as follows:
- (1) An average service coordinator-to-consumer ratio of 1 to 62 for all consumers who have not moved from the developmental centers to the community since April 14, 1993. In no case shall a service coordinator for these consumers have an assigned caseload in excess of 79 consumers for more than 60 days.
 - (2) An average service coordinator-to-consumer ratio of 1 to 45 for all consumers who have moved from a developmental center to the community since April 14, 1993. In no case shall a service coordinator for these consumers have an assigned caseload in excess of 59 consumers for more than 60 days.
 - (3) Commencing January 1, 2004, the following coordinator-to-consumer ratios shall apply:
 - (A) All consumers three years of age and younger and for

consumers enrolled in the Home and Community-based Services Waiver program for persons with developmental disabilities, an average service coordinator-to-consumer ratio of 1 to 62.

- (B) All consumers who have moved from a developmental center to the community since April 14, 1993, and have lived continuously in the community for at least 12 months, an average service coordinator-to-consumer ratio of 1 to 62.
- (C) All consumers who have not moved from the developmental centers to the community since April 14, 1993, and who are not described in subparagraph (A), an average service coordinator-to-consumer ratio of 1 to 66.”

DDS also reviewed the Service Coordinator Caseload Survey methodology used in calculating the caseload ratios to determine reasonableness and that supporting documentation is maintained to support the survey and the ratios as required by W&I Code, Section 4640.6(e).

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

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

VI. Family Cost Participation Program (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 VMRC 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 VMRC 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 VMRC 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 VMRC 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 VMRC implemented the required RFP process, DDS performed the following procedures during the audit review:

- Reviewed VMRC'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 VMRC. 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 VMRC notified the vendor community and the public of contracting opportunities available.
- Reviewed the contracts to ensure that VMRC 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 VMRC 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 VMRC 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 VMRC'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 VMRC'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, 2016, 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 VMRC was in compliance with the Lanterman Act, DDS performed the following procedures during the audit review:

- Reviewed sample vendor files to determine whether VMRC is using appropriately vendorized service providers and correct service codes, and that VMRC 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 VMRC 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 VMRC did not negotiate rates with new service providers for services that 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 VMRC'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);
- Self Determination;
- Mental Health Services Act;
- Cal Fresh.

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 VMRC and reviewed supporting documentation to determine the degree of completeness of VMRC'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, VMRC 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 VMRC for the audit period, July 1, 2018, through June 30, 2020.

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

From the review of the two prior audit findings, it has been determined that VMRC has taken appropriate corrective action to resolve one finding.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued the draft audit report on December 23, 2021. The findings in the draft audit report were discussed at a formal exit conference with VMRC on January 4, 2022. The views of VMRC'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 VMRC. 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: Over-Stated and Under-Stated Claims

The sample review of 107 POS vendor files revealed three vendors were reimbursed for services provided at an incorrect rate. The rates paid to the three vendors differed from the rates listed on the health and safety waiver approval letters. This resulted in over-stated and under-stated claims totaling \$18,068.96 and \$4,359.42, respectively. (See Attachment A)

VMRC provided documents with its response indicating the under-stated claim totaling \$4,359.42 was paid to a vendor. In addition, VMRC recovered \$1,167.36 in over-stated claims from two vendors, and \$8,806.29 was mis-identified as an over-stated claim; therefore, the total over-stated claim remaining is \$8,095.31.

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

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

CCR, Title 17, Section 57300(c)(1) and (2) also 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:

VMRC must reimburse to DDS the overpayments totaling \$8,095.31. In addition, VMRC should ensure that the units of service and rates paid to vendors match the rates specified in the health and safety waiver approval letters.

Finding 2: CalFresh Program

The review of the CalFresh Program revealed VMRC double-claimed a portion of their 192 service coordinators' salaries. This occurred when VMRC claimed a portion of the salaries under both Operational Claims and CalFresh Program.

VMRC provided additional documents with its response indicating an operational claim for \$49,992 was submitted to DDS to reduce VMRC's operational expenses for FY 2019-20; therefore, this issue is considered resolved.

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

“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, reimbursement is claimed under the provisions of this contract in accordance with mutually agreed to procedures and generally accepted accounting principles.”

Recommendation:

VMRC must ensure expenses are claimed correctly to ensure funds are reimbursed from the proper funding source.

Finding 3: Credit Card Expenditures

The review of VMRC's credit card expenditures revealed three transactions from one employee totaling \$191.28 did not have documentation to support the expenses claimed to the State. In addition, the review revealed five credit card transactions from two employees were missing the detailed receipt totaling \$292.74. VMRC did not explain why the itemized receipts were missing. (See Attachment B)

VMRC's Administrative Procedures Manual - Credit Card Procedures states in part:

"2. STATEMENT OF RESPONSIBILITY: All managers and card holders have a responsibility to insure that only DDS approved or appropriate purchases are made, and the purchases are backed up with detailed-itemized receipts.

2.1 Responsibilities of Credit Card Holders:

2.1.1. Obtain original receipts indicating the detail of the purchase in order to submit them with credit card statement for payment.

2.1.2. Review the receipt when received to ensure it is an itemized receipt that includes a detailed description of items purchased.

2.1.7. Include copies of the itemized receipts for each transaction listed on the credit card statement."

Recommendation:

VMRC must reimburse DDS \$191.28 for the unsupported expenditures. In addition, VMRC must reinforce its procedures to ensure cardholders submit detailed receipts.

Finding 4: Missing Equipment (Repeat)

The sampled review of 40 items selected from VMRC's inventory listing revealed two tablets (state tag numbers 396342 and 396378) were missing. VMRC stated the tablets were assigned to employees that work offsite and that it was unable to obtain pictures of the tablets and tags. This issue was also identified in the three prior audit reports. (VMRC addressed the missing items noted in previous audits.)

VMRC provided additional documents with its response indicating the two tablets were properly disposed of; therefore, this issue is considered resolved.

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 Guidelines Section III (E) states:

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

Recommendation:

VMRC must follow the State Equipment Management Guidelines and SAM to ensure all state-owned equipment is properly accounted for.

Finding 5: Vendor Independent Audit Reports

The sampled review of the vendor independent audit reports revealed five of the 10 sampled vendor independent audit reports received by VMRC were not forwarded to DDS. VMRC is aware of the requirement and stated that this was an oversight on its part.

Welfare and Institutions Code, Section 4652.5 (d)(2), states:

“A regional center shall submit copies of all independent audit reports that it receives to the department for review. The department shall compile data, by regional center, on vendor compliance with audit requirements and opinions resulting from audit reports and shall annually publish the data in the performance dashboard developed pursuant to Section 4572.”

Recommendation:

VMRC must forward the vendor independent audit reports to DDS for review.

Finding 6: Operational Rent Survey Expenditures

The review of the Operational Rent Surveys for FYs 2018-19 and 2019-20 revealed the allowable utilities and maintenance costs reported on the rent surveys did not reconcile with the documentation provided by VMRC. VMRC over-reported their allowable utilities by \$30,991.41 and \$33,465.01 for FYs 2018-19 and 2019-20, respectively, and under-reported their allowable maintenance expenses by \$345,778.14 and \$97,901.22 for FYs 2018-19 and 2019-20, respectively. This occurred when VMRC did not properly enter its allowable utilities and maintenance costs on the Operational Rent Surveys.

VMRC provided additional documents with its response indicating \$150,053.37 in expenses was not allowed to be included on the Operational Rent Survey; therefore, the allowable maintenance expenses were under-reported by \$195,724.77 for FY 2018-19.

DDS' Regional Center Requests for Increased Rent Funding Guidelines, Section 1 states in part:

“Lease expenses include base rent, utilities expenses, and facility maintenance expenses as detailed in the “Guidelines for Allowable Rent Expenditures...Information collected via the survey tool will include:

- Allowable maintenance and utility costs if not included in lease.”

Recommendation:

VMRC should revise the Operational Rent Survey Reports to ensure its allowable utilities and maintenance costs are accurately reported. VMRC should ensure that the reported amounts are supported to prevent the possibility of overstating and/or understating its utilities and maintenance costs.

Finding that has been addressed and corrected.

Finding 7: Targeted Case Management (TCM) Rate Study

The review of the TCM Rate Study worksheets for April 2019 and May 2020 revealed the expenses included in the Administrative Survey - Computation of Applicable Operating Expenses (Attachment B) did not reconcile to the Year-End General Ledgers. VMRC over-reported operating expenses on the rate study totaling \$168,197.68 in April 2019 and under-reported operating expenses totaling \$1,197,944.47 in May 2020. In addition, VMRC under-reported its income on the rate study totaling \$63,332.26 in April 2019 and \$50,179.50 in May 2020. VMRC did not verify that its TCM Rate Study worksheets reconciled to the General Ledgers prior to sending the TCM Rate Study worksheets to DDS. TCM Rate Study amounts recorded incorrectly affect the reimbursement rate billed to the federal government, since the rate is established based on VMRC's actual costs.

VMRC revised the TCM Rate Study worksheets and provided them to DDS.

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 2017-18 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:

VMRC must follow the instructions for the TCM Rate Study and ensure that the expenses reported on the TCM Rate Study reconcile to VMRC's actual expenses reported on the Year-End General Ledger before forwarding the TCM Rate Study to the DDS Federal Program Operations Section.

EVALUATION OF RESPONSE

As part of the audit report process, VMRC was provided with a draft audit report and requested to provide a response to the findings. VMRC's response dated February 4, 2022, is provided as Appendix A.

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

Findings that need to be addressed.

Finding 1: Over-Stated and Under-Stated Claims

VMRC provided documents with its response indicating the underpayment totaling \$4,359.42 had been resolved and it had recovered an overpayment totaling \$1,167.36, but disagreed with the overpayments totaling \$16,901.60 to Bright Futures 2. VMRC explained that this amount was for services provided to the consumers by two employees and provided additional worksheets and payroll detail documents for the months of November 2019, December 2019, and January 2020 as support for services provided to the consumers. DDS reviewed documentation provided and agreed that \$8,806.29 of the \$16,901.60 was not an overpayment; therefore, \$8,095.31 in overpayments remain.

Finding 2: CalFresh Program

VMRC provided documentation indicating an operational claim for \$49,992 was submitted to DDS to reduce VMRC's operational expenses for FY 2019-20; therefore, this issue is considered resolved.

Finding 3: Credit Card Expenditures

VMRC stated it is partially in agreement with the finding that the credit procedures were not being followed and explained that the expenses were appropriate charges, but due to the pandemic and changes to their working conditions the supporting documents were misplaced. DDS stands by its finding that the procedures were not followed since there were multiple instances where the detailed receipts were not maintained or missing. VMRC's procedures implicitly state, "Include copies of the itemized receipts for each transaction listed on the credit card statement." VMRC must reimburse DDS \$191.28 for the expenditures that lack supporting documentation.

Finding 4: Missing Equipment (Repeat)

VMRC provided journal entries and an approved Std.152 form indicating the two tablets were properly disposed of; therefore, this issue is considered resolved.

Finding 5: Vendor Independent Audit Reports

VMRC agrees to forward the vendor independent audit reports to DDS.

Finding 6: Operational Rent Survey Expenditures

VMRC agreed it over-reported the allowable utilities by \$30,991.41 and \$33,465.01 for FYs 2018-19 and 2019-20, respectively, and under-reported by \$97,901.22 for FY 2019-20 but disagreed that it under-reported \$345,778.14 for FY 2018-19. VMRC provided DDS documentation with its response indicating that \$150,053.37 out of \$345,778.14 allowable maintenance expenses should not have been included on the Operational Rent Survey; therefore, the allowable maintenance expenses were under-reported by \$195,724.77 for FY 2018-19. VMRC stated that the Operational Rent Survey is an estimate of future utilities and maintenance costs and that a variance is expected. DDS agrees there may be variances in calculating the rent survey costs; however, VMRC should ensure the amounts estimated are reflective of the actual costs for the DDS Budget Section to accurately allocate VMRC's budgets for subsequent years.

Finding that has been addressed and corrected.

Finding 7: Targeted Case Management (TCM) Rate Study

VMRC revised the TCM Rate Study worksheets and stated it will ensure correct information is reported going forward.

ATTACHMENTS A - B

VALLEY MOUNTAIN 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

VMRC'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.