AUDIT OF THE
KERN REGIONAL CENTER
FOR FISCAL YEARS 2018-19, 2019-20 AND 2020-21

Department of Developmental Services

February 10, 2023

This audit report was prepared by the
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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, 2018, through June 30, 2021, 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. KRC has been working with a consultant to address prior audit issues in addition to strengthening its administrative and operation controls. KRC must provide written updates every six months on the status of unresolved findings from prior audits until KRC's implementation of compliant controls and practices for those issues is complete.

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 Nemia Home, Vendor Number PK6662, Service Code 109, at a rate of $24.26 per hour while the median rate was $14.15 per hour. This resulted in overpayments totaling $70,577.91 from January 2021 through June 2021. In addition, the review of the sampled POS vendor files and the prior DDS audit report revealed KRC continued to reimburse one vendor, 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. This resulted in overpayments totaling $419,983.70 from July 2018 through December 2018. The total overpayment for both vendors is $490,561.61. This is not in compliance with W&I Code, Section 4691.9(a)(2).

KRC provided additional information with its response indicating the overpayment totaling $70,577.91 for Nemia Home, Vendor Number PK6662, Service Code 109, has been corrected. Therefore, the outstanding overpayment is $419,983.70.

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

The review of the 95 sampled POS vendor files and the prior DDS audit report revealed KRC continued to reimburse two vendors at rates higher than the rates that were in effect as of the July 1, 2008 rate freeze. It was noted KRC continued to reimburse Aimes Consulting, Vendor Number PK4168, Service Code 860, at the rate of $20 per hour rather than $19 per hour, resulting in overpayments totaling $30,302.70 from July 2018 through October 2020. In addition, KRC continued to reimburse Horrigan Cole Enterprise, Vendor Number, PK2713, Service Code 063, at the rate of $34.62 per hour rather than $29.42 per hour, resulting in overpayments totaling $144,237.05 from July 2018 through December 2019. This resulted in overpayments to the two vendors totaling $174,539.75 from July 2018 through October 2020. This is not in compliance with W&I Code, Section 4648.4(b). KRC has since reverted the rates for the two vendors to comply with the rate freeze.

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

The review of the 95 sampled POS vendor files and the prior DDS audit report revealed KRC continued to incorrectly apply the 30.44 proration factor for consumers with partial-month stays for eight vendors. This resulted in four instances of overpayments totaling $6,568.99, which includes $5,788.77 overstated to DDS and $780.22 overstated to a consumer’s trust account. Also, there were nine instances of underpayments to the vendors totaling $4,722.11. This is not in compliance with CCR, Title 17, Section 56917(i).

Finding 4: **<u>Overstated Claims</u>**

The review of the Operational Indicator reports revealed 89 instances where KRC overpaid vendors a total of $121,611.95 due to duplicate payments and overlapping authorizations. KRC subsequently provided documentation indicating $107,914.84 has been corrected. The overpayment still outstanding is $13,697.11. This is not in compliance with CCR, Title 17, Sections 54326(a)(10) and 57300(c).

Finding 5: **<u>Credit Card Expenses</u> (Repeat)**

The review of six months of credit card expenditures revealed KRC was unable to provide receipts to support 72 Operational (OPS) expenditures totaling $8,090.61. This issue was also identified in the prior audit report. This is not in compliance with State Contract, Article IV, Section 3(a) and KRC’s American Express Procedures.

Finding 6: Equipment Inventory (Repeat)

The review of KRC's 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 comprehensive physical inventory at least once within the last three years. The last time KRC completed its comprehensive physical inventory was in May 2015. In addition, KRC has not been utilizing the Equipment Acquired Under Contract (Form DS 2130) or the Property Survey Report (Form Std. 152) when equipment is purchased or surveyed. Furthermore, two of the 25 items selected for physical inspection could not be located. These issues were identified in the four prior DDS audits and continues to occur. This is not in compliance with State's Equipment Management System Guidelines, Sections III (F), (B) and (E); State Administrative Manual (SAM), Section 8652; and the State Contract, Article IV, Section 4(a).

Finding 7: Recordkeeping of State Property

The review of KRC's equipment listing revealed that KRC did not record the serial number or acquisition date of its equipment purchases. This is in not in compliance with State's Equipment Management System Guidelines, Section III (D).

Finding 8: Annual Family Program Fee (Repeat)

The sample review of 20 Annual Family Program Fee (AFPF) assessments revealed 10 instances where families were assessed a reduced AFPF fee but KRC could not provide support for the reduced amounts. This issue was also noted in the prior DDS audit report. This is not in compliance with DDS AFPF Program Procedures, Section II(C).

Finding 9: Family Cost Participation Program - Late Assessments

The sample review of 30 Family Cost Participation Program (FCPP) assessments revealed eight instances where KRC did not assess the parents' share of cost participation as part of the consumer's Individual Program Plan (IPP) or Individualized Family Service Plan (IFSP) review. This is not in compliance with W&I Code, Section 4783(g)(1)(A)(B)(C) and KRC's FCPP procedures.

Finding 10: Representative Payee Services

The review of KRC's contract with New Leaf Support Services (NLSS), Vendor Number PK6216, Service Code 034 revealed that KRC authorized eight hours of Money Management services for all consumers referred to

New Leaf Support Services. However, KRC could not provide justification to indicate that eight hours were needed to achieve the IPP goals and objectives of each of these consumers. This is not in compliance with W&I Code, Section 4512(b).

Finding 11: **Security Deposits Not Recorded**

The review of KRC's security deposits revealed that KRC incorrectly recorded the security deposits in the general ledger. KRC's security deposits per the lease agreements totaled $15,318.95, while the security deposits recorded in the general ledger was $17,329.74. This resulted in overstated security deposits totaling $2,010.79. This is not in compliance with the State Contract, Article IV, Section 3(a).

KRC provided supporting documentation with its response indicating that the general ledger has been corrected. Therefore, this issue is considered resolved

Finding that has been addressed and corrected.

Finding 12: **QuickBooks**

KRC utilized QuickBooks accounting software as of July 1, 2020 instead of the Uniform Fiscal System (UFS) authorized by DDS for all RCs. This resulted in KRC's accounting system not being able to interface with DDS; therefore, data needed for program monitoring was not correctly transmitted as prescribed by DDS. This is not in compliance with W&I Code, Section 4631(a).

KRC reverted its accounting records back to UFS commencing January 2022.

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, KRC 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 KRCs' fiscal, administrative, and program operations.

DDS and Kern Regional Center, Inc. entered into State Contracts HD 149009 and HD 199009, effective July 1, 2014, through June 30, 2021,and July 1, 2019, through June 20, 2026, respectively. These contracts specify 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 contracts are 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 remotely from October 4, 2021, through December 6, 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 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 Contracts between DDS and KRC, effective July 1, 2014, and July 1, 2019.

AUDIT PERIOD

The audit period was July 1, 2018, through June 30, 2021, 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) 2018-19 and 2019-20, issued on February 17, 2020, and March 10, 2021, 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 analyzed all 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 OPS 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 2019, May 2020 and May 2021 and traced the reported information to source documents.

- Reviewed KRC'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 4640.6I, 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 (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 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 parent

- 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 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 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:

- CalFresh;

- CPP;
- Foster Grandparents (FGP);

- Senior Companion (SCP);

- Part C – Early Start Program; 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, 2018, through June 30, 2021.

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

The review of the 10 prior audit findings, revealed that KRC has taken appropriate corrective action to resolve four findings but has not resolved six findings noted in prior audits. KRC has been working with a consultant to address prior audit issues. Therefore, KRC must provide written updates to DDS every six months on the status of these unresolved findings, until KRC’s implementation of compliant controls and practices for those issues are complete.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued the draft audit report on July 12, 2022. The findings in the draft audit report were discussed at a formal exit conference with KRC on July 22, 2022. 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 POS vendor files revealed KRC reimbursed Nemia Home, Vendor Number PK6662, Service Code 109, at a rate of $24.26 per hour while the median rate was $14.15 per hour. This resulted in overpayments totaling $70,577.91 from January 2021 through June 2021. This occurred due to Nemia Home incorporating a Health and Safety Waiver exemption for three consumers that it received from DDS during vendorization as its standard rate. In addition, the review of the sampled POS vendor files and the prior DDS audit report revealed KRC continued to reimburse Just Johnson, Vendor Number PK5330, Service Code 063, at a rate of $37.21 per hour when the median rate was $23.50 per hour. This resulted in overpayments totaling $419,983.70 from July 2018 through December 2018. The total overpayment for both vendors are $490,561.61.

KRC provided additional information with its response indicating the overpayment totaling $70,577.91 for Nemia Home, Vendor Number PK6662, Service Code 109, has been corrected. Therefore, the outstanding overpayment is $419,983.70. (See Attachment A)

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

> "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 the $419,983.70 in 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 within the Statewide/KRC Median Rates.

Finding 2: **Rate Increase After the Rate Freeze (Repeat)**

The review of the 95 sampled vendor files and the prior DDS audit report revealed KRC continued to reimburse two vendors at rates higher than the rates that were in effect as of the July 1, 2008, rate freeze. The review noted KRC continued to reimburse Aimes Consulting, Vendor Number PK4168, Service Code 860, at the rate of $20 per hour rather than $19 per hour, resulting in overpayments totaling $30,302.70 from July 2018 through October 2020.

Also, KRC continued to reimburse Horrigan Cole Enterprise, Vendor Number, PK2713, Service Code 063, at the rate of $34.62 per hour rather than $29.42 per hour, resulting in $144,237.05 from July 2018 through December 2019. This resulted in overpayments to the two vendors totaling $174,539.75 from July 2018 through October 2020. However, KRC has since reverted the rates for the two vendors to comply with the rate freeze. (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 $174,539.75 overpayments that resulted from rate increases to vendors after the rate freeze effective July 1, 2008.

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

The review of the 95 sampled vendor files and the prior DDS audit report revealed KRC continued to incorrectly apply the 30.44 proration factor for consumers with partial month stays for eight vendors. This resulted in five instances of overpayments to the vendors totaling $6,568.99, which includes $5,688.77 overclaimed to DDS and $780.22 overclaimed to the consumers' client trust account.

In addition, there were nine instances of underpayments to vendors totaling $4,722.11. KRC indicated this occurred due to an error on its part as the prorations were not calculated correctly. (See Attachment C)

CCR, Title 17, Section 56917(i).

> “(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 consumer resided in the facility.”

Recommendation:

KRC must reimburse DDS $5,788.77 and the consumer $780.22 for the overpayments due to incorrect prorations. Also, KRC must reimburse six vendors $4,722.11 due to underpayments. In addition, KRC must ensure that partial month stays are calculated correctly utilizing the 30.44 proration factor.

Finding 4: **<u>Overstated Claims</u>**

The review of Operational Indicator reports revealed 89 instances where KRC overpaid vendors a total of $121,611.95 due to duplicate payments and overlapping authorizations. KRC indicated this was an error on its part, as KRC was not aware how to run the Operational Indicator reports for review. KRC subsequently provided documentation indicating $107,914.84 has been corrected; therefore, the overpayment still outstanding is $13,697.11. (See Attachment D)

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

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

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

> (c) 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:

KRC must reimburse to DDS the overpayment still outstanding totaling $13,697.11. In addition, KRC should review its Operational Indicator reports regularly to ensure it only reimburses vendors for services provided.

Finding 5: Credit Card Expenses (Repeat)

The review of six months of credit card expenditures revealed KRC was unable to provide receipts to support 72 OPS expenditures totaling $8,090.61. This issue was also identified in the prior audit report. KRC appeared to have corrected this situation beginning in FY 2019-20 and stated that the person responsible for most unsupported expenditures is no longer with KRC. KRC also indicated that it has tried to correct the problem by reinforcing its credit card procedures to its staff.
(See Attachment E)

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 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.

Recommendation:

KRC must reimburse to DDS a total of $8,090.61 due to the unsupported credit card expenditures. In addition, KRC must continue to monitor its credit card expenditures to ensure employees adhere to its policy.

Finding 6: <u>Equipment Inventory</u> (Repeat)

The review of KRC's inventory process revealed KRC has not followed the State's Equipment Management System Guidelines issued by DDS. It was found that KRC has not performed the comprehensive physical inventory which is required at least once every three years. KRC's last comprehensive physical inventory was completed in May 2015. In addition, KRC has not been utilizing the Form DS 2130 or the Form Std. 152 when equipment was purchased or surveyed. Furthermore, two of the 25 items selected for physical inspection could not be located. These issues were identified in the four prior audit reports. KRC indicated it began its comprehensive physical inventory; however, because of COVID-19 it was not able to complete the inventory due to a staffing shortage. Also, KRC stated that its Property Custodian position is vacant and that it will assign the duties to another employee in order to comply with the state guidelines. (See Attachment F).

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."

State's Equipment Management System Guidelines, Section III (B), states in part:

> "RCs will also provide the Department of Developmental Services' (DDS) Customer Support Section (CSS) with a list of all state-owned, nonexpendable and sensitive equipment received during each calendar quarter. This information is to be provided to CSS quarterly, utilizing the Equipment Acquired Under Contract form (DS 2130), or suitable electronic alternative."

State's Equipment Management System Guidelines, Section II(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."

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."

Recommendation:

KRC must ensure it follows the State Equipment Management Guidelines and performs a comprehensive physical inventory at least once every three years. In addition, KRC must utilize the Form DS 2130 or Form Std. 152 when equipment is purchased or surveyed. Also, if KRC is unable to locate the missing property, KRC must submit Form Std.152 to the DGS to report the missing items and adjust its property accounting records. Furthermore, KRC should ensure the staff tasked with the responsibility of Property Custodian receive proper training as these findings have been noted in previous audits. This will ensure compliance with the State Equipment Management Guidelines and the State contract requirements regarding State property.

Finding 7: Recordkeeping of State Property

The review of KRC's equipment listing revealed that KRC did not record the serial number or acquisition date of its equipment purchases. KRC indicated it was an error on its part as it was unaware the required information was missing from its listing.

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."

Recommendation:

KRC must ensure all items listed on its equipment listing have the required information, including the serial number and item description. This will ensure compliance with State Equipment Management Guidelines.

Finding 8: Annual Family Program Fee (Repeat)

The sample review of 20 AFPF assessments revealed 10 instances where families were assessed a reduced AFPF but KRC could not provide support documentation for the reduced amount. KRC indicated that it could not locate the income documentation due to COVID-19 related staffing issues. This issue was also noted in the prior DDS audit report. (See Attachment G)

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 must ensure it retains families' income documentation to justify reduced assessed fees.

Finding 9: <u>Family Cost Participation–Program - Late Assessments</u>

The sample review of 30 FCPP assessments revealed eight instances where KRC did not assess the parents' share of cost participation as part of the consumer's IPP or IFSP review. The assessments were completed more than 30 days after signing the IPP/IFSP. KRC indicated this occurred due to its Service Coordinators (SC) not following the FCPP procedures which required the SC to notify the FCPP Coordinator that an FCPP assessment is required. (See Attachment H)

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

"(g) Family cost participation assessments or reassessments shall be conducted as follows:

(1)(A) A regional center shall assess the cost participation for all parents of current consumers who meet the criteria specified in this section. A regional center shall use the most recent individual program plan or individualized family service plan for this purpose.

(B) A regional center shall assess the cost participation for parents of newly identified consumers at the time of the initial individual program plan or the individualized family service plan.

(D) Reassessments for cost participation shall be conducted as part of the individual program plan or individual family service plan review pursuant to subdivision (b) of Section 4646 of this code or subdivision (f) of Section 95020 of the Government Code."

KRC's Family Cost Participation Program Procedure states in part:

"The Service Coordinator will take the packet to the clients IPP/AR meeting. It will contain the FCPP pamphlet, a letter to the family and the (yellow) Information Receipt. The Service Coordinator must have the parent sign and date the Information Receipt. There are a few sections the S.C. will need to fill out (Client name, DOB, IPP meeting date and how many live in the home). SC also has a signature line. The family keeps the FCPP pamphlet and letter that explain about the program.

The (yellow) Information Receipt must be returned to FCPP Coordinator ASAP after the Annual Review meeting of Initial IPP.*"

Recommendation:

KRC must ensure that all FCPP assessments are completed as part of the consumers' IPP or IFSP review. In addition, KRC should reinforce its procedures with staff to help ensure compliance with W&I Code and KRC's FCPP procedures.

Finding 10: **<u>Representative Payee Services</u>**

The review of KRC's contract with NLSS, Vendor Number PK6216, Service Code 034, revealed that KRC authorized eight hours for Representative Payee, Money Management and other services for all consumers referred to the vendor. KRC indicated that it authorized eight hours of service since NLSS was the Representative Payee and provided Money Management and other services for its consumers. However, KRC could not provide justification that all of its consumers needed eight hours of services to accomplish their individual goals and objectives.

W&I Code, Section 4512(b) states in part:

> "The determination of which services and supports are necessary for each consumer shall be made through the individual program plan process. The determination shall be made on the basis of the needs and preferences of the consumer or, when appropriate, the consumer's family, and shall include consideration of a range of service options proposed by individual program plan participants, the effectiveness of each option in meeting the goals stated in the individual program plan, and the cost–effectiveness of each option."

Recommendation:

KRC should review its consumer authorization for NLSS to ensure the hours authorized are based on each individual consumer's need.

Finding 11: **<u>Security Deposits Not Recorded</u>**

The review of KRC's lease agreement revealed that KRC's general ledger account for security deposits is misstated. KRC's security deposits per its lease agreements totaled $15,318.95, while the security deposits recorded in the general ledger were $17,329.74. Therefore, KRC's general ledger for security deposits is overstated by $2,010.79. KRC indicated it was unable to determine the extra amount included in the Security Deposit account.

KRC provided supporting documentation with its response indicating that the general ledger has been corrected. Therefore, this issue is considered resolved

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."

Recommendation:

KRC should review its security deposit general ledger account and ensure only current security deposits are included. This will ensure KRC's Security Deposit account is correctly stated.

Finding that has been addressed and corrected.

Finding 12: <u>QuickBooks</u>

KRC utilized QuickBooks accounting software as of July 1, 2020, instead of the UFS authorized by DDS for all RCs. This resulted in KRC's accounting system not being able to interface with DDS; therefore, administrative costs needed for program monitoring were not correctly transmitted as prescribed by DDS. KRC provided summarized expenditures rather than detailed expenses submitted to DDS by the other RCs. KRC indicated it utilized QuickBooks since it considered it a more secure software than UFS.

KRC has reverted its accounting records back to UFS commencing January 2022.

W&I Code, Section 4631(a) states in part:

> "In order to provide to the greatest extent practicable a larger degree of uniformity and consistency in the services, funding, and administrative practices of regional centers throughout the state, the State Department of Developmental Services shall, in consultation with the regional centers, adopt regulations prescribing a uniform accounting system, a uniform budgeting and encumbrancing system, a systematic approach to administrative practices and procedures, and a uniform reporting system which shall include:
>
> (1) Number and costs of diagnostic services provided by each regional center.
>
> (2) Number and costs of services by service category purchased by each regional center.
>
> (3) All other administrative costs of each regional center."

Recommendation:

KRC must utilize UFS for its accounting software. KRC should also reach out to DDS for any questions regarding UFS capabilities.

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 September 20, 2022, is provided as Appendix A.

DDS' Audit Section has evaluated KRC's response and therefore, requires KRC to provide written updates every six months to DDS on the status of these unresolved findings, until KRC's implementation of compliant controls and practices for these issues are complete.

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

KRC agreed with the finding and stated that for Nemia Home, Vendor Number PK6662, Service Code 109, the consumers needed a high level of care. KRC provided documentation with its response indicating that on March 22, 2022, DDS retroactively approved a H&S rate increase allowing it to reimburse the vendor at a higher rate. Therefore, the overpaid amount totaling $70,577.91 is resolved.

For Just Johnson, Vendor Number PK5330, Service Code 063, KRC stated that the vendor closed as of December 2018 but did not address the overpayment. KRC must reimburse DDS the overpayments totaling $419,983.70 that is still outstanding.

KRC also stated that it has established a new process to identify rates approved under the Health and Safety Wavier and is using a unique subcode ("H&S") on the rate table to differentiate the enhanced rate from median rate.

KRC must provide written updates every six months to DDS on the status of this unresolved finding, until KRC's implementation of compliant controls and practices for this issue is complete.

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

KRC agreed with the overpayment totaling $30,302.70 to Aimes Consulting, Vendor Number PK4168, Service Code 860. In addition, KRC agreed with the overpayment to Horrigan Coles Enterprises, Vendor Number, PK2713, Service Code 063 totaling $144,237.05 after the rate freeze was in effect. KRC stated that it is in the process of collecting the overpayments from the two vendors and reimburse to DDS the total overpayment of $174,539.75.

KRC must provide written updates every six months to DDS on the status of this unresolved finding, until KRC's implementation of compliant controls and practices for this issue is complete.

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

KRC agreed that not all partial months stays were calculated correctly. In addition, KRC stated that it is in the process of collecting the $5,688.77 overclaimed to DDS and $780.22 overclaimed to the consumers. KRC also acknowledged that vendors were underpaid a total of $6,568.99; however, it has not taken action to reimburse these vendors. KRC indicated effective immediately it will calculate partial months stays using the 30.44 proration factor; however, KRC did not provide any newly established policies or procedures for partial month stays prorations.

KRC must provide written updates every six months to DDS on the status of this unresolved finding, indicating that procedures have been developed and implemented and that the 30.44 proration factor is being used.

Finding 4: **<u>Overstated Claims</u>**

KRC agreed with the overpayments totaling $121,611.95 and took corrective action by providing documentation indicating $107,914.84 had been resolved prior to the issuance of the draft report. In addition, KRC stated it will collect the outstanding overpayments totaling $13,697.11 and start reviewing the Operational Indicator reports monthly to ensure all reimbursements are for services provided.

Finding 5: **<u>Credit Card Expenses</u> (Repeat)**

KRC acknowledged its lack of oversight of the credit card expenses and stated that it will reimburse DDS for the unsupported credit card expenses totaling $8,090.61. In addition, KRC provided their newly established credit card procedures with its response to ensure stricter and more thorough management and administration of agency credit card expenses.

KRC must provide written updates every six months to DDS on the status of this unresolved finding indicating that credit card procedures are followed.

Finding 6: **<u>Equipment Inventory</u> (Repeat)**

KRC stated it has hired a new employee whose responsibilities include taking the lead for conducting the tri-annual inventory. In addition, KRC indicated that it will complete the physical inventory by November 2022.

Further, KRC provided a Property Survey Report form STD 152, indicating that the two missing items were surveyed.

KRC must provide written updates every six months to DDS on the status of this unresolved finding indicating that inventory is conducted tri-annually.

Finding 7: **Recordkeeping of State Property**

KRC stated that effective immediately it will use the Property Survey Report for acquisition and disposition of all equipment/fixed assets in accordance with State regulations. In addition, KRC indicated it has established new procedures to ensure consistent, timely and improved processes to track equipment and fixed assets.

KRC must provide written updates every six months to DDS on the status of this finding indicating that acquisition and disposition reports are completed in accordance with state regulations.

Finding 8: **Annual Family Program Fee (Repeat)**

KRC stated that the lack of staffing impeded the timely and consistent performance of the AFPF requirement. KRC has hired new staff whose responsibilities will include ensuring the State program functions are carried out. KRC indicated that it is committed to full and timely compliance with the AFPF program requirements going forward.

KRC must provide written updates every six months to DDS on the status of this unresolved finding indicating its implementation of compliant controls and practices for AFPF.

Finding 9: **Family Cost Participation Program - Late Assessments**

KRC concurred that it did not maintain the required FCPP documentation and complete some assessments in a timely manner. KRC provided new procedures that will ensure FCPP assessments are completed within 10 working days of signing the IPP and documentation related to FCPP are maintained and safeguarded. In addition, KRC indicated it has hired a new employee whose responsibilities will include oversight of the FCPP and parental fee program.

KRC must provide written updates every six months to DDS on the status of this finding indicating the FCPP assessments are completed timely.

Finding 10: Representative Payee Services

KRC stated that it authorized eight hours per client per month in accordance with the contact with New Leaf. KRC indicated that it based its contracts on how other regional centers authorized service hours with this vendor. However, KRC stated that it met with New Leaf and agreed to amend the contract so that going forward service hours will be authorized in accordance with a client's individualized needs and based on client's residential status, rather than a flat contract amount. KRC anticipates this new method will lower the overall fiscal impact of the billings for New Leaf.

KRC must provide written updates every six months to DDS on the status of this finding indicating that service hours are authorized in accordance with individualized needs of the consumer.

Finding 11: Security Deposits Not Recorded

KRC agreed that the security deposit general ledger account was overstated and provided supporting documentation with its response indicating that the general ledger has been corrected. Therefore, this issue is considered resolved.

ATTACHMENTS A-H

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.