

DEPARTMENT OF DEVELOPMENTAL SERVICES'
AUDIT OF
STRATEGIES TO EMPOWER PEOPLE, INC.

Programs and Services:

Supported Living Services – P63898

Community Integration Training Program – PA0080

Behavior Management Program – H63899

Independent Living Program – H49325

Audit Period: July 1, 2014, through June 30, 2015

Audit Section

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STRATEGIES TO EMPOWER PEOPLE, INC.

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EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) audited Strategies to Empower People, Inc. (STEP). The audit was performed upon the Supported Living Services (SLS), Community Integration Training Program, Behavior Management Program, and Independent Living Program for the period of July 1, 2014, through June 30, 2015.

The audit disclosed the following issues of non-compliance:

Finding 1: Supported Living Services – Overbillings Due to Noncompliance with Contract Language

The review of STEP's SLS program, Vendor Number P63898, revealed that STEP had a total of \$62,349 of overbillings due to noncompliance with the contract with Alta California Regional Center (ACRC).

Finding 2: Supported Living Service – Overbilled Other Service Costs

The review of STEP's SLS program, Vendor Number P63898, revealed that STEP had overbilled Other Service Costs to ACRC which were part of the consumer's budget for services billed to ACRC. STEP overbilled a total of \$24,063 for Other Service Costs.

The total of the findings identified in this audit amounts to \$86,412, which is due back to DDS. A detailed discussion of these findings is contained in the Findings and Recommendations section of this report.

BACKGROUND

DDS is responsible, under the Lanterman Developmental Disabilities Services Act, for ensuring that persons with developmental disabilities receive the services and supports they need to lead more independent, productive and integrated lives. DDS contracts with 21 private, nonprofit regional centers that provide fixed points of contact in the community for serving eligible individuals with developmental disabilities and their families in California. In order for regional centers to fulfill their objectives, they secure services and supports from qualified service providers and/or contractors. Pursuant to the Welfare and Institutions (W&I) Code, Section 4648.1, DDS has the authority to audit those service providers and/or contractors that provide services and supports to persons with developmental disabilities.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

The audit was conducted to determine whether STEP's SLS, Community Integration Training Program, Behavior Management Program, and Independent Living program were compliant with the W&I Code, California Code of Regulations (CCR), Title 17, and the regional center's contract with STEP for the period of July 1, 2014, through June 30, 2015.

Scope

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. The auditors did not review the financial statements of STEP, nor was this audit intended to express an opinion on the financial statements. The auditors limited the review of STEP's internal controls to gain an understanding of the transaction flow and invoice preparation process, as necessary, to develop appropriate auditing procedures. The audit scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that STEP complied with W&I Code and CCR, Title 17. Also, any complaints that DDS' Audit Section was aware of regarding non-compliance with laws and regulations were reviewed and addressed during the course of the audit.

The audit scope was determined by reviewing the programs and services provided to ACRC that utilized STEP's services during the audit period. STEP provided six different types of services, of which DDS audited four. Services chosen by DDS were based on the amount of purchase of services (POS) expenditures invoiced by STEP. By analyzing the information received during a pre-audit meeting with the vendor, an internal control questionnaire and a risk analysis, it was determined that a two-month sample period would be sufficient to fulfill the audit objectives.

Supported Living Services

During the audit period, STEP operated one SLS programs. The audit included the review of STEP's SLS programs, Vendor Numbers P63898, Service Code (SC) 896, and testing was done for the sampled months of March 2015 and April 2015.

Day Program

During the audit period, STEP operated three day programs. The audit included the review of STEP's day programs and testing was done for the months of March 2015 and April 2015. The program vendor numbers and service codes audited are listed below:

- Community Integration Training Program, PA0080, SC 055
- Behavior Management Program, H63899, SC 515
- Independent Living Program, H49325, SC 520

Methodology

The following methodology was used by DDS to ensure the audit objectives were met. The methodology was designed to obtain a reasonable assurance that the evidence provided was sufficient and appropriate to support the findings and conclusions in relation to the audit objectives. The procedures performed included, but were not limited to, the following:

- Reviewed vendor files for contracts, rate letters, program designs, POS authorizations, and correspondence pertinent to the review.
- Interviewed regional center staff for vendor background information and to obtain insight into the vendor's operations.
- Interviewed vendor staff and management to gain an understanding of the vendor's accounting procedures and processes for regional center billing.
- Obtained and reviewed the vendor's internal control questionnaire.
- Reviewed vendor service/attendance records to determine if the vendor had sufficient and appropriate evidence to support the direct care services billed to the regional center.
- Analyzed the vendor's payroll and attendance/service records to determine if the appropriate level of staffing was provided.
- Interviewed the vendor's Chief Executive Director, Chief Financial Officer, Finance Manager, and Program Managers for vendor background information and to gain and understanding of accounting procedures and financial reporting process.

- Reviewed the vendor's Other Service Costs for the sample months of March 2015 and April 2015 to determine if the vendor's actual Other Service Costs were more than budgeted Other Service Costs.
- Obtained costs associated with Other Service Costs for the sample months in review.
- Obtained and reviewed allocation methodology for the types of costs. Ensured costs were appropriately categorized as Other Service Costs.
- Compared the actual Other Service Costs to the budgeted Other Service Costs.

CONCLUSION

Based upon items identified in the Findings and Recommendations section, STEP had findings of non-compliance with the requirements of CCR, Title 17, and the regional center's contract.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued a draft audit report on January 31, 2018. The findings in the report were discussed at an exit telephone conference with STEP on February 7, 2018. Subsequent to the exit conference, on March 19, 2018, STEP provided a response to the draft report. STEP agreed with Finding 1, but disputed Finding 2.

RESTRICTED USE

This report is solely for the information and use of DDS, Department of Health Care Services, ACRC and STEP. This restriction is not intended to limit distribution of this report, which is a matter of public record.

FINDINGS AND RECOMMENDATIONS

Finding 1: Supported Living Services – Overbillings Due to Noncompliance with Contract

The review of STEP's SLS Program, Vendor Number P63898, for the sample months of March 2015 and April 2015 revealed that STEP had overbillings to ACRC due to noncompliance with the contract.

Overbillings occurred when STEP failed to prorate budgeted amounts billed to ACRC for consumers who were not provided SLS for more than a 48-hour period during a calendar month. DDS reviewed and prorated 36 of the consumers' budgets for the month March 2015 and 41 of the consumers' budgets for the month of April 2015. This resulted in overbillings of \$30,650 and \$31,699 for the months of March 2015 and April 2015, respectively, for a total of \$62,349 due back to DDS. (See Attachment A)

The Contract Agreement between ACRC and STEP for Supported Living Services, Vendor Number P63898 (November 1, 2014 – October 31, 2016), states:

Article 5. FISCAL MATTERS

5.10 Pro-rating Monthly Payment states:

“PROVIDER understands that the REGIONAL CENTER shall pay a prorated monthly amount ... for any time the consumer is away from their residence and not receiving care and support from the PROVIDER for more than a 48-hour period during a calendar month.”

W&I Code, section 4648.1(e)(1), states:

“(e) A regional center or the department may recover from the provider funds paid for services when the department or the regional center determines that either of the following has occurred:

- (1) The services were not provided in accordance with the regional center's contract or authorization with the provider, or with applicable state laws or regulations.”

Recommendation:

STEP must reimburse to DDS \$62,349 for the overbillings to ACRC due to noncompliance with the contract. In addition, STEP should develop and implement policies and procedures to ensure that it prorates budgeted

amounts for consumers who are not provided SLS for more than a 48-hour period during a calendar month.

VENDOR'S Response:

STEP stated in the response dated March 19, 2018 that STEP does not dispute Finding 1 and agreed to reimburse the audit finding amount. Further, STEP stated that the overbillings occurred due to the confusion of the contract language and lack of training provided by ACRC. (See Attachment C)

Finding 2: Supported Living Services – Overbilled Other Service Costs

The review of STEP's SLS Program, Vendor Number P63898, for the sample months of March 2015 and April 2015 revealed that STEP overbilled Other Service Costs, which were part of the consumer's budget for services billed to ACRC. Overbilling of Other Service Costs occurred due to the design of ACRC's budget templates and STEP's lack of proper internal controls to verify its actual expenses were paid at rates at, or above, the budgeted amount.

Other Service Costs were fixed line-item costs within the consumer's budget for STEP's Community Skills Facilitators, Program Supervisors, and Generic Service Coordinators. These costs remain the same throughout each consumer's budget authorized for SLS. However, the contract states that STEP agreed to pay its Other Service Costs expenses at rates at, or above, the rates established in the budget. Therefore, STEP must refund the difference between the actual costs and the budgeted amount.

For the month of March 2015, the budgeted amount billed was \$198,767 and the actual cost was \$191,704. For the month of April 2015, the budgeted amount billed was \$203,671 and the actual cost was \$186,671. The difference between the budgeted amount billed and the actual costs were \$7,063 for March 2015 and \$17,000 for April 2015; therefore, the net amount of \$24,063 is due back to DDS for the overbilled amount. (See Attachment B)

The Contract Agreement between ACRC and STEP for Supported Living Services, Vendor Number P63898 (November 1, 2014 – October 31, 2016), Section 5.06 (B), states:

“B. The PROVIDER agrees to pay its expenses at rates at or above those established in Exhibit E. If the PROVIDER's expenses are less than the rates established in Exhibit E, the REGIONAL CENTER (1) has the right to adjust Exhibit E to the actual expenses paid by the PROVIDER and (2) may recover from the PROVIDER the overall difference between the rate the PROVIDER was paid by the REGIONAL CENTER and the actual expenses incurred by the PROVIDER from the inception date of this Agreement.”

W&I Code, section 4648.1(e)(1), states:

“(e) A regional center or the department may recover from the provider funds paid for services when the department or the regional center determines that either of the following has occurred:

- (1) The services were not provided in accordance with the regional center’s contract or authorization with the provider, or with applicable state laws or regulations.”

Recommendation:

STEP must reimburse DDS \$24,063 for the overbillings of Other Service Costs. In addition, STEP should develop policies and procedures to ensure that billings for Other Service Costs are actual expenses. STEP should notify ACRC to adjust the budgeted rates to reflect STEP’s actual expenses.

VENDOR’S Response:

STEP stated in the response dated March 19, 2018 that STEP disagreed with the finding. STEP is required to use this budget template and has no ability to edit or adjust the fixed Other Service Cost portion of the budget. STEP further states that ACRC has the right to adjust fixed costs or recover the difference, but has never exercised those rights since 2005. STEP argues that it provided services in accordance with the contract. (See Attachment C)

ATTACHMENTS A-B

STRATEGIES TO EMPOWER POWER, INC.

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

ATTACHMENT C – VENDOR’S RESPONSE

STRATEGIES TO EMPOWER PEOPLE, INC.

To request a copy of the vendor’s response to the audit findings, please contact the DDS Audit Section at (916) 654-3695.

ATTACHMENT D – DDS’ EVALUATION OF STEP’S RESPONSE

DDS evaluated Strategies to Empower People, Inc.’s (STEP) written response to the draft audit report and determined that STEP agreed with Finding 1 but disagreed with Finding 2. Below is a summary of STEP’s response as well as DDS’ evaluation of the STEP’s response.

Finding 1: Supported Living Services – Overbillings Due to Noncompliance with Contract Language

STEP’s response, dated March 19, 2018, acknowledged Finding 1 and accepted DDS’ recommendations.

Finding 2: Supported Living Services – Overbilled Other Service Costs

STEP’s response, dated March 19, 2018, disputes Finding 2.

STEP states that part of the development of the budget template by ACRC for SLS included a criteria of Shared Risk, a flat average monthly rate that is not expected to be recouped or compensated for periodic fluctuations in the number or hours provided. STEP also states that the Other Service Costs portion of the monthly budget template provided by ACRC to STEP is locked and therefore STEP cannot change or prorate the amount even if they wanted to and that they are required by contract to use this monthly budget template. In addition, STEP contends that even though the contract states that ACRC has the right to both adjust the budget and recover the overall difference, ACRC has not done so since the development of the budget template in 2005. STEP further states that they believe that the parties to the contract, ACRC and STEP, had sufficiently agreed on an interpretation of the contract, training and other guidance provided by ACRC, and the design of the budget spreadsheet provided to STEP by ACRC.

Excerpt from STEP’s Response:

“We believe that the audit findings are a result of a different interpretation, by a party unrelated to the contract, of ambiguous sections of the contract.”

DDS’ Evaluation:

DDS’s review of STEP’s expenses associated with Other Service Costs determined that STEP did not pay its expenses at rates at or above those established in the budget. The contract between ACRC and STEP clearly states that regional center “may recover from the PROVIDER the overall difference between the rate the PROVIDER was paid by the REGIONAL CENTER and the actual expenses incurred by the PROVIDER...”

ATTACHMENT D – DDS' EVALUATION OF STEP'S RESPONSE

STEPS's argument that the Other Service Costs portion of the monthly budget template provided by ACRC to STEP are locked does not prohibit STEP from computing the actual expenses and to remit a check for the difference or at least to notify ACRC.

Furthermore, stating that ACRC has not adjusted or recovered the overall difference since the development of the budget template in 2005 does not exclude STEP from the contract language. ACRC was not aware that STEP's expenses associated with Other Service Costs were not at or above those established in the budget. DDS obtained ACRC's procedures which state that ACRC's practice has included recovering funds overpaid along with assessing the vendor's program if a provider is noted to have not incurred costs as stated per their negotiated cost budget sheet. (See Attachment E)

Conclusion:

STEP did not provide any additional evidence to adjust the draft audit report. Therefore, the draft audit report will be issued as final and the total findings amount of \$86,412 identified in this audit is due to DDS.

ATTACHMENT E

STRATEGIES TO EMPOWER POWER, INC.

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