

DEPARTMENT OF DEVELOPMENTAL SERVICES'
AUDIT OF
CREATIVE LIVING OPTIONS, INC.

Services:
Supported Living Services – PA0315

Audit Period: July 1, 2013, through June 30, 2014

Audit Section

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CREATIVE LIVING OPTIONS, INC.

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EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) has audited Creative Living Options, Inc. (CLO). The audit was performed upon the Supported Living Services (SLS) for the period of July 1, 2013, through June 30, 2014.

The audit disclosed the following issues of non-compliance:

Finding 1: Supported Living Services – Overbilled Other Service Costs

The review of CLO's SLS program, Vendor Number PA0315, revealed that CLO had a total of \$33,773 of overbilled other service costs to Alta California Regional Center (ACRC).

Finding 2: Supported Living Services – Overbillings Due to Non-Compliance with Contract Language

The review of CLO's SLS program, Vendor Number PA0315, revealed that CLO had a total of \$31,642 of incorrect billings to ACRC.

The total of the findings identified in this audit amounts to \$65,415 and 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 normal 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 CLO's SLS program was compliant with the W&I Code, California Code of Regulations (CCR), Title 17 and the regional center's contract with CLO for the period of July 1, 2013, through June 30, 2014.

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 CLO, nor was this audit intended to express an opinion on the financial statements. The auditors limited the review of CLO'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 CLO 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 program provided to ACRC that utilized CLO' services during the audit period. CLO provided one SLS program, which DDS audited. 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, CLO operated one SLS program. The audit included the review of CLO's SLS program, Vendor Number PA0315, Service Code 896 and testing was done for the sampled months of February and March 2014. However, within the two-sampled

months, the audit sample demonstrated a significant amount of overbillings. Therefore, the testing was expanded to include three additional months of April, May and June 2014.

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 the vendor's Chief Executive Officer, Finance Manager, Operations Manager, Field Manager, and staff for background information and an understanding of their accounting procedures, financial reporting processes, 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(s).
- Analyzed the vendor's payroll and attendance/service records to determine if the appropriate level of staffing was provided.
- Reviewed the vendor's general ledger, payroll records and trial balance to determine the vendor's costs.
- Reviewed the vendor's budget line items for other service costs that covered expenses for Community Skills Facilitators (CSF), Program Supervisors, and Generic Services Coordinators to determine if they were more than the regional center funds received for those costs.
- Obtained and reviewed the allocation methodology for the cost types. Ensured that costs were appropriately categorized as other service costs.

CONCLUSION

Based upon items identified in the Findings and Recommendations section, CLO 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 report on July 30, 2019. The findings in the report were discussed at an exit telephone conference with CLO on August 5, 2019. Subsequent to the exit conference, on September 16, 2019, CLO provided a response to the draft report. CLO accepts both Findings 1 and 2.

RESTRICTED USE

This report is solely for the information and use of DDS, Department of Health Care Services, ACRC and CLO. 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 – Overbilled Other Service Costs

The review of CLO's SLS program, Vendor Number PA0315, for the sampled months of February 2014 through June 2014, revealed that CLO had overbillings for other service costs, which were part of the consumer's budget for services billed to ACRC. Overbillings of other service costs occurred due to the design of the budget templates and CLO's lack of proper internal controls to verify that its actual expenses were paid at, or above, the budgeted amount.

Other service costs were fixed line item costs within the consumer's budget for CLO's Community Skills Facilitators, Program Supervisors, and Generic Service Coordinators. These costs remained the same throughout each consumer's budget authorized for SLS. However, the contract states that CLO agreed to pay its other service costs expenses at rates at, or above, those rates established in the budget and that ACRC may recover from CLO the overall difference between the actual and the budgeted amount.

CLO billed ACRC \$245,996 for other service costs from February 2014 to June 2014. However, CLO's actual other service costs amounted to only \$212,223, or \$33,773 less than the budgeted amount. This resulted in an overbillings of other service costs in the amount of \$33,773 and is due back to DDS. (See Attachment A)

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.”

The Contractual Agreement between ACRC and CLO for Supported Living Services, Vendor Number PA0315 (February 1, 2014 – January 31, 2016), Article 5, Section 5.06(B)(1) and (2) states:

- “(B) The PROVIDER agrees to pay its expenses at rates at or above those established in Exhibit F. If the PROVIDER's expenses are less than the rates established in Exhibit F, the REGIONAL CENTER
- (1) has the right to adjust Exhibit F 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.”

Recommendation:

CLO must reimburse to DDS \$33,773 for the overbillings of Other Service Costs. In addition, CLO should develop and implement policies and procedures to ensure billings for other service costs are actual expenses. CLO should notify ACRC to adjust the budgeted rates to reflect CLO’s actual expenses.

VENDOR’S Response:

CLO stated in the response dated September 16, 2019 that CLO accepted the Finding 1.

See Attachment C for the full text of CLO’s response to the draft audit report and Attachment D for DDS’ evaluation of CLO’s response.

Finding 2: Supported Living Services – Overbillings Due to Non-Compliance with Contract Language

The review of CLO’s SLS program, Vendor Number PA0315, for the sampled months of February and March 2014, revealed that CLO had overbillings for services billed to ACRC. Overbillings occurred when CLO did not prorate budgeted amounts billed to ACRC for consumers who were not provided SLS for 24 hours cumulatively, within a billable month.

CLO did not prorate budgeted amounts for services billed to ACRC for 31 consumers who were not provided SLS for 24 hours cumulatively, for the sampled months of February and March 2014. The failure to prorate budgeted amounts for billing resulted in overbillings to ACRC in the amount of \$31,642 and is due back to DDS. (See Attachment B)

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.”

CCR, Title 17, Section 54326(a)(3) and (10) states:

“(a) All vendors shall:

(3) Maintain records of services provided to consumers in sufficient detail to verify delivery of the units of service billed:

(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 50604(d) and (e) states:

“(d) All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program....

(e) All service providers’ records shall be supported by source documentation.”

The Contractual Agreement between ACRC and CLO for Supported Living Services, Vendor Number PA0315 (February 1, 2014 – January 31, 2016), Article 5, Section 5.10 states:

“PROVIDER understands that the REGIONAL CENTER shall pay a prorated monthly amount if ... 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.”

ACRC’s email to DDS, dated June 30, 2015, confirmed CLO’s agreement to change the 48-hour period to 24 cumulative hours for the requirement to adjust its billing.

“...The contract under section 5.10 requires that if the client is out of the home for more than 48 hours that the billing must be adjusted....It was agreed to change the hours to 24 hours....”

Recommendation:

CLO must reimburse to DDS \$31,642 for the overbillings. In addition, CLO should develop and implement policies and procedures to ensure that only the provided direct-care hours are billed to ACRC.

VENDOR’S Response:

CLO stated in the response dated September 16, 2019 that CLO accepted the Finding 2.

See Attachment C for the full text of CLO's response to the draft audit report and Attachment D for DDS' evaluation of CLO's response.

ATTACHMENTS A-B

CREATIVE LIVING OPTIONS, 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

CREATIVE LIVING OPTIONS, 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 CLO’S RESPONSE

CLO’s response, dated September 16, 2019, acknowledged both Findings 1 and 2 and accepted DDS’ recommendations.