



**Department of Developmental Services**

1215 O Street, MS 9-90  
Sacramento, CA 95814  
TTY: 711  
(833) 421-0061

**AUDIT OF THE  
KERN REGIONAL CENTER  
FOR FISCAL YEAR 2021-22**

**January 8, 2024**

---

**DDS TEAM**

Pete Cervinka, Chief Deputy Director, Data Analytics and Strategy  
Ann Nakamura, Branch Chief, Research, Audit, and Evaluation Branch  
Edward Yan, Manager, Audit Section  
Luciah Ellen Nzima, Chief, Regional Center Audit Unit  
Oscar Perez, Supervisor, Regional Center Audit Unit  
Audit Staff: Carlos Whylesmenchaca, Chanta Ham and Gordon Ho

# TABLE OF CONTENTS

	Page
RESTRICTED USE .....	1
EXECUTIVE SUMMARY.....	1
BACKGROUND .....	2
AUTHORITY .....	2
CRITERIA .....	2
VIEWS OF RESPONSIBLE OFFICIALS .....	3
CONCLUSIONS.....	3
FINDINGS AND RECOMMENDATIONS .....	4
EVALUATION OF RESPONSE.....	7
ATTACHMENT A .....	8
APPENDIX A.....	9
APPENDIX B.....	18

## **RESTRICTED USE**

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

### **EXECUTIVE SUMMARY**

The Department of Developmental Services (DDS) conducted a fiscal compliance audit of Kern Regional Center (KRC) to assess compliance 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 the regional center maintains accounting records and supporting documentation for transactions in an organized manner.

The audit period was July 1, 2021, through June 30, 2022, with follow-up, as needed, into prior and subsequent periods. This report identifies some areas where the regional center'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 the regional center's operations.

A follow-up review was performed to determine whether the regional center has taken corrective action to resolve the findings identified in the prior DDS audit report. The results of the follow-up can be found in the Conclusions section.

#### **Findings that need to be addressed:**

- Finding 1: Overpayments Due to Health and Safety Waiver – KRC reimbursed a vendor at higher rate resulting in overpayments totaling \$4,094.06. However, this issue has since been resolved.
- Finding 2: Whistleblower Notification – KRC's new vendors were not notified of the Whistleblower policy.
- Finding 3: Vendor CPA Audits and Reviews – KRC did not follow-up with vendors that did not submit/conduct a CPA Audit/Review.
- Finding 4: Missing Documentation – KRC could not locate a Medicaid Waiver (DS 2200) form for one individual, Unique Consumer Identification (UCI) Number [REDACTED]

## **BACKGROUND**

DDS and Kern Regional Center, Inc. entered into State Contract HD 199009, effective July 1, 2019, through June 20, 2026. This contract specifies that Kern Regional Center, Inc. will operate an agency known as the Kern Regional Center to provide services to individuals with DD and their families. The contract is funded by state and federal funds that are dependent upon the regional center performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted from April 24, 2023, through May 25, 2023, by the Audit Section of DDS.

## **AUTHORITY**

The audit was conducted under the authority of the W&I Code, Section 4780.5 and the State Contract between DDS and the regional center.

## **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 the regional center, effective July 1, 2019.

## **VIEWS OF RESPONSIBLE OFFICIALS**

DDS issued the draft audit report on October 31, 2023. The findings in the draft audit report were discussed at a formal exit conference on November 2, 2023. The views of responsible officials are included in this final audit report.

## **CONCLUSIONS**

Based upon the audit procedures performed, DDS has determined that except for the items identified in the Findings and Recommendations section, the regional center was in compliance with applicable audit criteria.

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

From our review of the 12 prior DDS audit findings, it has been determined that the regional center has taken appropriate corrective action to resolve all prior findings.

## FINDINGS AND RECOMMENDATIONS

### Findings that need to be addressed:

#### Finding 1: Overpayments Due to Health and Safety Waiver

A review of the DDS approved Health and Safety (H&S) waiver exemptions listing was reviewed to ensure only DDS approved consumers utilized the H&S waiver rate. However, the review revealed KRC reimbursed Inyo-Mono Association for the Handicapped (IMAH), Vendor No. PK3377, Service Code 063 for one consumer, UCI Number [REDACTED] that was not included in the DDS approved H&S waiver rate letter. This resulted in the vendor being reimbursed at the H&S waiver rate of \$42.15 instead of DDS-approved rates of \$31.53 and \$38.87, respectively. This resulted in overpayments totaling \$4,094.06, from September 2022 through July 2023. KRC indicated it was an oversight on its part as it applied the rate for a consumer that was not covered by the H&S waiver rate letter issued to IMAH. (See Attachment A)

KRC provided additional information with its response indicating DDS retroactively approved the H&S waiver rate for the consumers. This issue therefore is considered resolved.

W&I Code, Section 4691.9 (A)(1) states:

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

KRC’s H&S Waiver for IMHO dated August 9, 2022, states in part:

“The approved rate applies only to the identified consumers. H&S rates shall not be applied to additional consumers without the Department’s written authorization. It is the responsibility of KRC to monitor and inform the Department annually of the necessity for the rate increase, based on the services and supports required by the consumers.”

**Recommendation:**

KRC must ensure that the H&S waiver rates are applied only to authorized consumers approved by DDS.

**Finding 2: New Vendors not Notified of Whistleblower Procedures**

The review of KRC's Whistleblower procedures revealed that KRC is not notifying new vendors of its Whistleblower policy. KRC indicated this occurred due to a change in personnel who was not made aware of the requirement.

KRC provided additional information with its response indicating it has drafted new procedures to ensure new vendors are notified of the Whistleblower policy.

State Contract, Article I, Section 18(b)(6) states:

“Include a process for annually notifying employees and board members of both the regional centers and the State’s Whistleblower policies and for posting and maintaining the regional center’s whistleblower policy prominently on its website. As part of their eligibility determination and vendorization processes, regional center shall also inform all new clients/families and new vendors of the regional centers’ and the State’s Whistleblower policies.”

KRC's Whistleblower Policy also states:

“The vendor community will receive notification upon vendorization and annually thereafter how they can access the policy.”

**Recommendation:**

KRC must ensure its new staff is made aware of the requirement to notify new vendors of the regional center's Whistleblower policy. Also, KRC must ensure all new vendors are notified of the of the Whistleblower policy upon vendorization and annually thereafter.

**Finding 3: Vendor CPA Audit Reports/Reviews - Follow-up not Conducted**

The sampled review of the vendors required to submit a CPA audit report/review revealed four vendors (HK6333, HK6591, MK6124, and HK5104) did not submit them. In addition, KRC did not conduct follow-up nor request the vendors submit the required reports. Failure to receive these reports limits KRC's ability to detect vendor issues that may adversely affect consumer services. KRC indicated it did not follow-up

with vendors, as its understanding was that the initial letter sent to vendors would suffice as a reminder that a CPA audit report/review was required.

KRC provided additional information with its response indicating it has drafted new procedures to ensure a follow-up is conducted for vendors that have not submitted the required audit reports.

W&I Code, Section 4652.5(b) states:

“An entity subject to subdivision (a) shall provide copies of the independent audit or independent review report required by subdivision (a), and accompanying management letters, to the vendoring regional center within nine months of the end of the entity’s fiscal year.”

**Recommendation:**

KRC must follow its newly implemented procedures and ensure it follows up with vendors who are required to submit, but have not submitted, audit reports or reviews.

**Finding 4: Missing Documentation**

The sample review of five Individual files revealed one Medicaid Waiver (DS 2200) form for an individual, UCI Number [REDACTED], was not retained. KRC indicated it was an oversight on its part that the form was not retained.

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

"Contractor shall retain records which pertain to consumer eligibility determinations and redeterminations for the Medicaid Waiver Program for a minimum of five years from the date of an eligibility determination or redetermination."

**Recommendation:**

KRC must ensure it retains copies of all DS 2200 forms.

## EVALUATION OF RESPONSE

---

As part of the audit report process, the regional center was provided with a draft audit report and requested to provide a response to the findings. Its response is provided as Appendix B. DDS' Audit Section has evaluated the response and will confirm appropriate corrective actions have been taken during the next scheduled audit.

**Finding 1: Overpayments Due to Health and Safety Waiver**

KRC agrees it reimbursed one consumer at the H&S waiver rate that was not included in the DDS approved H&S waiver rate letter. KRC provided subsequent documentation with its response indicating that DDS retroactively approved the consumer's H&S waiver rate. Therefore, this issue is considered resolved.

**Finding 2: Whistleblower Notification - New Vendors not Notified**

KRC agrees it did not notify new vendors of the Whistleblower policy. KRC indicated it will notify all new vendors of the Whistleblower policy, by including the policy in all of its new vendor contracts.

**Finding 3: Vendor CPA Audit Reports/Reviews - Follow-up not Conducted**

KRC agrees with the finding and indicates it has implemented new procedures to ensure follow-up is conducted for vendors that did not submit the required reports.

**Finding 4: Missing Documentation**

KRC agrees with the finding and indicates it was not able to resolve the issue as the consumer passed away before the DS 2200 form was due to be signed. KRC should retain these forms for all individuals that have them.

# **ATTACHMENT A**

## **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**

### **SCOPE, OBJECTIVES, AND METHODOLOGY**

DDS is responsible, under the W&I Code, for ensuring that persons with intellectual and developmental disabilities receive the services and supports they need to lead more independent, productive, and integrated lives. To secure these services and supports, DDS contracts with 21 private, nonprofit community agencies/corporations that provide fixed points of contact in the community for serving eligible individuals and their families in California. These fixed points of contact are referred to as regional centers. The regional centers 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 also is responsible for providing assurance to the federal 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 providing this assurance, the Audit Section conducts fiscal compliance audits of each regional center no less than every two years and completes follow-up reviews in alternate years.

In addition to the fiscal compliance audit, each regional center also is 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 the regional centers' fiscal, administrative, and program operations.

This audit was conducted as part of the overall DDS monitoring system that provides information on the regional centers' 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 the regional center.

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 the regional center's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain

reasonable assurance that the regional center was in compliance with the objectives identified above.

DDS' review of the regional center'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 available annual audit report(s) that were conducted by an independent CPA firm. 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 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 the regional center. 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 the regional center.
- DDS analyzed all 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 assure that 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 the regional center'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:

- DDS examined the two TCM Rate Studies submitted to DDS during the audit period and traced the reported information to source documents.
- A review of the recent Case Management Time Study was conducted. DDS selected a sample of the Case Management Time Study Forms (DS 1916) for examination and reconciled them to the corresponding payroll timesheets to ensure that the forms were properly completed and supported.

### **IV. Service Coordinator Caseload Survey**

Under the W&I Code, Section 4640.6(e), regional centers 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 the regional center 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 the regional center 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 regional center. The AFPF fee shall not be assessed or collected if the child receives only respite, day care, or camping services from the regional center and a cost for participation was assessed to the parents under FCPP. To determine 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 regional center 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 a regional center 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 compliance with the W&I Code Section 4784, 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 a regional center for children under the age of 18 years;
  - (b) 24-hour care for such minor children in state hospitals;
  - (c) provided, however, that no ability to pay determination may 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 must 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 so that regional centers outline the vendor selection process when using the RFP process to address consumer service needs. As of January 1, 2011, DDS requires regional centers to document their contracting practices, as well as how particular vendors are selected to provide consumer services. By implementing a procurement process, regional centers 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 the regional center implemented the required RFP process, DDS performed the following procedures during the audit review:

- Reviewed the regional center'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 the regional center. 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 the State Contract:

- Selected a sample of Operations, Community Placement Plan (CPP), and negotiated POS contracts subject to competitive bidding to ensure the regional center notified the vendor community and the public of contracting opportunities available.
- Reviewed the contracts to ensure that the regional center 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: Reviewed to verify that the regional center 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 the regional center Board-approved Operations, Start-Up, and POS vendor contracts of \$250,000 or more, to verify that 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 the 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 State Contract requirements.

#### **X. Statewide/Regional Center Median Rates**

The Statewide and Regional Center Median Rates were implemented on July 1, 2008, and amended on December 15, 2011, July 1, 2016, and April 1, 2022. Regional centers may not negotiate rates higher than the set median rates for services. Despite the median rate requirement, rate increases can be obtained from DDS under health and safety exemptions where regional centers demonstrate the exemption is necessary for the health and safety of the consumers.

To determine compliance with the Lanterman Act, DDS performed the following procedures during the audit review:

- Reviewed sample vendor files to determine whether the regional center is using appropriately vendorized service providers and correct service codes, and is paying authorized contract rates and complying with the median rate requirements of W&I Code Section 4691.9.
- Reviewed vendor contracts to verify that the regional center is reimbursing vendors using authorized contract median rates and verified that rates paid represented the lower of the statewide or regional center 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 verify that the regional center did not negotiate rates with new service providers for services which are 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. DDS also verified that units of service designations conformed with existing regional center designations or, if

none exists, checked that units of service conformed to a designation used to calculate the statewide median rate for the same service code.

## **APPENDIX B**

### **KRC'S RESPONSE TO THE AUDIT**

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