



**AUDIT OF THE  
INLAND REGIONAL CENTER  
FOR FISCAL YEARS 2012-13 AND 2013-14**

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**Department of Developmental Services**

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# EXECUTIVE SUMMARY

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

The audit period was July 1, 2012, through June 30, 2014, with follow-up, as needed, into prior and subsequent periods. This report identifies some areas where IRC'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 IRC's operations. A follow-up review was performed to ensure IRC has taken corrective action to resolve the findings identified in the prior DDS audit report.

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

### **Finding 1: Unsupported Transportation Assessment Contract Billing (Repeat)**

The two prior audit reports identified that IRC has not been able to provide records to support Southwestern Transportation (SWT) assessments for 3,024 consumers totaling \$949,566.18. This is not in compliance with CCR, Title 17, Sections 50602(k), 54326(a)(3), (4) and (10), and 50604(d)(1), (2), (3)(B), and (e).

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

### **Finding 2: Unsupported Contract Billing (Repeat)**

The two prior audit reports identified that IRC has not reimbursed DDS for overpayments made to one vendor, Pathway, Inc., Vendor Number PJ2311, Service Code 107. Pathway, Inc. was reimbursed at a rate of \$5,820 per month without any supporting documentation. This resulted in an overpayment totaling \$138,405 from November 2009 through

November 2011. This is not in compliance with CCR, Title 17, Sections 50602(k), 54326(a)(3), (4), and (10), and 50604(d)(4), (5), (6)(B), and (f). IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**Finding 3: Circumvention of the Regulations**

**A. Rate Freeze (Repeat)**

The review of the two prior audit reports identified that IRC paid SWT at a rate 40 percent higher than IRC paid its previous providers for transportation services. However, IRC appealed this finding to DDS and was granted a 10 percent Health and Safety Waiver, which reduced the unauthorized rate increase to 30 percent. As a result, the overpayment from both prior and current reviews is \$6,949,443.30 from July 2008 through December 2013. This is not in compliance with W&I Code, Sections 4648.4(b)(2) and 4648.1(e)(1).

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**B. Median Rate (Repeat)**

The prior audit report identified that IRC continued to reimburse one vendor, The Chicago Home, Vendor Number HJ0995, Service Code 113, at a rate of \$589.25 per day, when the Statewide Median Rate was \$474.68. This represents a difference of \$114.57 per day for Community Placement Program (CPP) consumers and a difference of \$292.88 per day for non-CPP consumers' services. As a result, the total overpayment from July 2012 through July 2015 is \$1,994,535.82. IRC also has \$694,834.57 still outstanding from November 2010 through June 2012 that was identified in the prior audit for both CPP and non-CPP consumers. This is not in compliance with W&I Code, Sections 4691.9(b) and 4648.1(e)(1).

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**Finding 4: Deleted**

After further analysis of the additional documentation provided by IRC in its response to the draft report, it has been determined that this was not an issue and the finding has been deleted.

**Finding 5: Transportation Services Provided Under Transportation Broker, Service Code 883 (Repeat)**

The two prior audit reports identified that IRC reimbursed SWT as a Transportation Broker for providing transportation services from April 2008, through December 2013. As of December 2013, IRC ceased utilizing SWT as a transportation provider, and re-vendorized the transportation service providers that were SWT sub-contractors. This is not in compliance with CCR, Title 17, Sections 58501(a)(11) and 54342(a)(83).

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**Finding 6: Whistleblower Policy Has Not Alleviated Employee Concerns (Repeat)**

The review of the Whistleblower Policy identified that IRC employees continue to express fear of being intimidated, reprimanded, or retaliated against by IRC management for reporting suspected improprieties. This issue was also noted in the two prior audit reports. This is not in compliance with IRC's Whistleblower policy Section 510(2).

**Finding 7: Purchase of Service (POS) Funds Inappropriately Used for Operations Expenses (Repeat)**

The two prior audit reports identified IRC has not taken action to reimburse DDS for POS funds paid to the Resource Library, Vendor

Number PJ2424, Service Code 112, for Communications Aide payments from August 2005, through December 2011. Services provided by the vendor included salaries, purchase of books, rental expenses, and other overhead costs. These services are considered administrative costs that should have been reimbursed through IRC's Operational funds. This resulted in an overpayment totaling \$1,406,565.88. This was not in compliance with the DDS description of Communications Aides, Service Code 112, and CCR, Title 17, Section 54340(c) and (d).

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**Finding 8: Policies and Procedures for Procurement (Repeat)**

The review of IRC's procurement policies and procedures revealed IRC has not included the provisions for fair and equitable recoupment of CPP funds should the vendor cease to provide services to consumers after a specified period of time. IRC stated that it has amended its procurement policies to include a provision for fair and equitable recoupment of CPP funds. However, the amended version of the policy has not been approved by IRC's Board. This is not in compliance with the State Contract, Article II, Section 2(c).

**Finding 9: Overstated Claims**

**A. Payments Above the Median Rate (Repeat)**

The two prior audit reports identified that IRC continued to reimburse three vendors above the Statewide/IRC Median Rate. This resulted in overpayments totaling \$34,294.74 from June 2010 through January 2015. IRC also has \$36,274.31 in outstanding overpayments from July 2008 through May 2010, resulting in overpayments totaling \$70,569.05. This is not in compliance with W&I Code, Section 4691.9(b).

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**B. Payments Above the Authorized Number of Units (Repeat)**

The two prior audit reports identified 20 instances where 13 vendors were paid above the authorized number of units. This resulted in overpayments totaling \$30,403.19. This is not in compliance with CCR, Title 17, Section 54326(a)(10).

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**C. Payments for Services Not Provided (Repeat)**

The prior audit report revealed that IRC continued to reimburse eight transportation vendors for services not provided to consumers. As a result, IRC reimbursed the vendors \$51,553.18 in overpayments from July 2012 through July 2014. This is not in compliance with CCR, Title 17, Section 54326(a)(10).

IRC also has \$8,968.15 in overpayments still outstanding from September 2010 through March 2012, resulting in overpayments totaling \$60,521.33.

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**D. Rate Increase After the Rate Freeze**

The sampled review of 20 Transportation vendor files revealed that IRC provided a rate increase to New Day Behavior, Vendor Number HP4042, Service Code 880. New Day Behavior's contract included a fuel stipend that was issued after the June 30, 2008 rate freeze was in effect. This resulted in overpayments totaling \$1,579.95. This is not in compliance with W&I Code, Section 4691.9(a)(1).



**Finding 10: Improper Expenditure of CPP and POS Funds (Repeat)**

The two prior audit reports identified that IRC granted the California Housing Foundation (CHF) a total of \$6,129,823 of CPP and POS funds to develop housing for consumers moving from the Developmental Centers (DC) into the community. However, IRC has not taken action to resolve the \$3,205,739 that was expensed to Service Code 999 without a DDS approved community placement plan for the acquisition of housing.

Also, IRC has not reimbursed DDS \$1,222,678 for POS funds that were improperly allocated to CHF and expensed under Service Code 101 for consumer move-in costs and the purchase of household items. The expenses incurred were not tied to any consumer Unique Client Identification number (UCI) as required by the DDS service code definition. The total overstated claim is \$4,428,417. This was not in compliance with W&I Code, Section 4418.25(c), and (d), CCR, Title 17, Section 54326(a)(3), State Contract, Exhibit E (1), and (2), and Guidelines for Regional Center Community Placement Plan (I)(4).

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**Finding 11: Policies and Procedures for Vendor Audits and Reviews**

The review of IRC's listing of 180 vendors who were required to contract with an independent accounting firm for an audit or review of its financial statements, revealed that 156 vendors did not submit an audit or review. It was found that IRC does not have procedures in place to follow up with vendors who have not submitted the required audit reports or reviews. This is not in compliance with W&I Code, Sections 4652.5(a)(1)(A)(B), and (b).

**Finding 12: Parental Fee Program (PFP)**

IRC is not performing its duties and responsibilities for the PFP. Specifically, IRC is not identifying children who are required to participate in the PFP and not informing parents about the PFP. This is not in compliance with CCR, Title 17, Section 50225.

**Finding 13: Service Coordinator Caseload Ratio**

The review of the Service Coordinator Caseload Survey revealed IRC incorrectly reported its caseload ratio for the DC Movers. IRC reported its DC Movers' ratios on a calendar year basis rather than reporting the survey using the March 1st caseload data. This is not in compliance with the State Contract, Article IX, Section 3.

**Finding 14: Employee Conducting Fundraising Activities**

The review of IRC's donations revealed that one employee's job duties included coordinating IRC's annual golf tournament. Fundraising should not be part of an employee's job duties as it is not essential in the delivery of IRC direct consumer or administration services. This is not in compliance with Article I, Sections 11(f), (g) and (h).

**Finding 15: Ineligible Employee Receiving Medical Benefits**

The review of the IRC's Retiree Medical Reimbursement Plan revealed one retired employee is receiving medical benefits without meeting the eligibility requirements to qualify for the plan. The plan requires that each retiree attain the age of 55 and 25 years of service, or the age of 65 and 20 years of service to be eligible to participate in the Plan. However, IRC granted eligibility to this retiree after 11.5 years of service. This is not in compliance with IRC's Retiree Medical Reimbursement Plan.

**Finding 16: Retirement Bonus Policy Not Signed by the Board**

The sample review of 23 employee files revealed that IRC's Human Resources Director amended IRC's Services Award Payment Policy and awarded one employee a bonus of \$200 for each year of service, totaling \$7,400. However, the amended policy was not approved by IRC's Executive Director or IRC's Board. This is not in compliance with Article III, Section 1(c) of IRC's bylaws.

**Finding 17: Overstated General Ledger Account**

The review of the lease agreements revealed IRC's general ledger account is overstated by \$31,725. This occurred when IRC did not adjust its general ledger after forfeiting its security deposit totaling \$31,725 for breaking its lease agreement with its landlord, Rancon Reality. This is not in compliance with the State Contract, Article X, Section 3.

**Finding 18: Bank Signature Cards Not Updated**

The review of the bank signature cards revealed IRC has not updated its signature cards since 2012. The signature cards are still in the names of prior or retired IRC and DDS Directors. This is not in compliance with the State Contract, Article III, Sections 3(f), and (g).

**Finding 19: IRC Not Vendorizing Providers in its Catchment Area**

The sampled review of IRC's Out-of-Area vendor listing revealed that 15 vendors are providing services to IRC consumers, when the vendors have locations within the IRC's catchment area. These vendors are required to be vendorized by IRC but are refusing to be vendorized by IRC in order, according to IRC, to utilize higher rates established by other regional centers. This is not in compliance with CCR, Title 17, Section 50603(s).

**Finding 20: Conflict of Interest**

The review of the IRC bylaws amended in April 2015 revealed that IRC's Board President serves as IRC's Chief Executive Officer (CEO), and is tasked with the day-to-day operations of IRC. This authority gives the Board President total control of IRC's operational functions.

For good business practices, the Board President's responsibilities should not include managing the day-to-day operations of IRC.

**Findings that have been addressed and corrected.**

**Finding 21: Multiple Dates of Death**

The review of the Uniform Fiscal System (UFS) Deceased Consumer's Report identified 20 consumers with multiple dates of death. This is not in compliance the State Contract, Article IV, Section 1(c)(1).

IRC has taken corrective action to resolve the multiple dates of death by researching and updating all 20 consumers' date of death in UFS.

**Finding 22: Payments After the Date of Death**

The sampled review of the accounts of 24 deceased consumer revealed that IRC reimbursed one vendor for services after a consumer's death. This resulted in overpayments totaling \$579.84. This is not in compliance CCR, Title 17, Section 54326(a)(10).

IRC has taken corrective action to resolve this issue by collecting the overpayments from the vendor.

## BACKGROUND

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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, each RC 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 RCs' fiscal, administrative, and program operations.

DDS and Inland Counties Regional Center, Inc. entered into State Contract HD099008, effective July 1, 2009, through June 30, 2016. This contract specifies that Inland Counties Regional Center, Inc., will operate an agency known as the Inland Regional Center (IRC) to provide services to individuals with DD and their families in Riverside and San Bernardino Counties. The contract is funded by state and federal funds that are dependent upon IRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at IRC from April 20, 2015, through May 29, 2015, 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 IRC.

## **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 IRC, effective July 1, 2009.

## **AUDIT PERIOD**

The audit period was July 1, 2012, through June 30, 2014, with follow-up, as needed, into prior and subsequent periods.

## OBJECTIVES, SCOPE, AND METHODOLOGY

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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 IRC.

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 IRC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that IRC was in compliance with the objectives identified above.

Accordingly, DDS examined transactions on a test basis to determine whether IRC 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 IRC.

DDS' review of IRC'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) 2012-13 and 2013-14, issued on June 9, 2014, and February 9, 2015, respectively. It was noted that a management letter was issued for IRC for FY 2012-13. 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 IRC. 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 IRC.
- DDS selected a sample of individual Consumer Trust Accounts to determine if there were any unusual activities and whether any account balances exceeded \$2,000, as prohibited by the Social Security Administration. In addition, DDS determined if any retroactive Social Security benefit payments received exceeded the \$2,000 resource limit for longer than nine months. DDS also reviewed these accounts to ensure that the interest earnings were distributed quarterly, personal and incidental funds were paid before the 10th of each month, and proper documentation for expenditures was maintained.
- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, was tested to determine whether funds received were properly identified to a consumer or returned to the Social Security Administration in a timely manner. An interview with IRC staff revealed that IRC has procedures in place to determine the correct recipient of unidentified consumer trust funds. If the correct recipient cannot be determined, the funds are returned to the Social Security Administration or other sources in a timely manner.
- DDS selected a sample of Uniform Fiscal Systems (UFS) reconciliations to determine if any accounts were out of balance or if there were any outstanding items that were not reconciled.
- DDS analyzed all of IRC's bank accounts to determine whether DDS had signatory authority, as required by the State Contract with DDS.

- DDS selected a sample of bank reconciliations for Operations (OPS) accounts and Consumer Trust bank accounts to determine if the reconciliations were properly completed on a monthly basis.

## **II. Regional Center Operations**

DDS selected a sample of OPS claims billed to DDS to determine compliance with the State Contract. The sample included various expenditures claimed for administration that were reviewed to ensure IRC'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 IRC'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 IRC's Rate Study. DDS examined the month of March 2004 and traced the reported information to source documents.
- Reviewed IRC'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 W&I Code, Section 4640.6(e), RCs are required to provide service coordinator caseload data to DDS. The following average service coordinator-to-consumer ratios apply per W&I Code Section 4640.6(c):

- “(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 services 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 sub paragraph (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 IRC was in compliance with CCR, Title 17, and the W&I Code, 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 IRC 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 IRC 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 a 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 IRC 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 that are receiving the following services:
  - (a) All 24-hour out-of-home community care received through an RC for children under the age of 18 years;
  - (b) 24-hour care for such minor children in state hospitals. Provided, however, that no ability to pay determination shall be made for services required by state or federal law, or both, to be provided to children without charge to their parents.
- Provided DDS with a listing of new placements, terminated cases, and client deaths for those clients. Such listings shall be provided not later than the 20th day of the month following the month of such occurrence.
- Informed parents of children who will be receiving services that DDS is required to determine parents' ability to pay and to assess, bill, and collect parental fees.
- Provided parents a package containing an informational letter, a Family Financial Statement (FFS), and a return envelope within 10 working days after placement of a minor child.
- Provided DDS a copy of each informational letter given or sent to parents, indicating the addressee and the date given or mailed.

### **IX. Procurement**

The Request for Proposal (RFP) process was implemented to ensure RCs outline the vendor selection process when using the RFP process to address consumer service needs. As of January 1, 2011, DDS requires RCs to document their contracting practices, as well as how particular vendors are selected to provide consumer services. By implementing a procurement process, RCs will

ensure that the most cost-effective service providers, amongst comparable service providers, are selected, as required by the Lanterman Act and the State Contract, as amended. To determine whether IRC implemented the required RFP process, DDS performed the following procedures during the audit review:

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

- Reviewed sample vendor files to determine whether IRC is using appropriately vendorized service providers and correct service codes, and that IRC 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 IRC 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 IRC 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 IRC'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:

- Start-Up Funds.
- CPP.
- Denti-Cal.
- Part C – Early Start Program.
- First Five.
- Family Resource Center.

**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 IRC and reviewed supporting documentation to determine the degree of completeness of IRC's implementation of corrective actions.

## CONCLUSIONS

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Based upon the audit procedures performed, DDS has determined that except for the items identified in the Findings and Recommendations section, IRC 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 IRC for the audit period, July 1, 2013, through June 30, 2015.

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

From the review of prior audit findings, it has been determined that IRC has not taken appropriate corrective action to resolve three findings.

## **VIEWS OF RESPONSIBLE OFFICIALS**

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DDS issued the draft audit report on June 15, 2017. The findings in the draft audit report were discussed at a formal exit conference with IRC on June 19, 2017. The views of IRC's responsible officials are included in this final audit report.



## **RESTRICTED USE**

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

## FINDINGS AND RECOMMENDATIONS

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### Findings that need to be addressed.

#### **Finding 1: Unsupported Transportation Assessment Contract Billing (Repeat)**

The review of the two prior audit reports identified that IRC has not provided records to support SWT assessments for 3,024 consumers totaling \$949,566.18.

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

CCR, Title 17, Section 50602(k) states:

“(k) ‘Record’ means any book or document evidencing operational, financial, and service activities of a service provider or regional center pertaining to the service program and/or the provision of services to persons with developmental disabilities. Examples include books of account, general ledgers, subsidiary ledgers, check registers, canceled checks, contracts, correspondence, financial statements, internal reports, bank statements, standard cost statements, consumer files, purchase of service authorizations, and documents evidencing consumer services. All consumer records shall be treated as confidential.”

CCR, Title 17, Sections 54326(a)(3), (4) and (10) states in part:

“(a) All vendors shall:

- (3) Maintain records of service provided to consumers in sufficient detail to verify delivery of the units of service billed . . .
- (4) Make available any books and records pertaining to the vendored service, including those of the management organization and disclosure information required in Section 54311, if applicable, for audit, inspection or authorized agency representatives . . . .

- (10) Bill only for services which are actually provided to consumers and which have been authorized by the referring regional center.”

CCR, Title 17, Sections 50604(d)(1), (2), (3)(B), and (e) states in part:

“(d) All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program. Service records used to support service providers’ billing/invoicing shall include but not be limited to:

- (1) Information identifying each regional center consumer including the Unique Client Identifier and consumer name;
- (2) Documentation for each consumer reflecting the dates for program entrance and exit, if applicable, as authorized by a regional center.

(3) A record of services provided to each consumer. The record should include:

- (B) For transportation services, the dates of service, city or county where service was provided, and the number of miles driven or trips provided . . .

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

**Recommendation:**

IRC is responsible for operating its business in a manner consistent with the law and must remit to DDS the overpayment totaling \$949,566.18. IRC shall ensure that its contracts are adequate and in compliance with CCR, Title 17 requirements. In addition, IRC must ensure that proper documentation is maintained and on file to support payments for the services performed by its vendors.

**Finding 2: Unsupported Contract Billing (Repeat)**

The review of the two prior audit reports identified that IRC has not reimbursed DDS for overpayments made to one vendor, Pathway, Inc., Vendor Number PJ2311, Service Code 107. Pathway, Inc. was reimbursed at a rate of \$5,820 per month without any supporting

documentation. This resulted in an overpayment totaling \$138,405 from November 2009 through November 2011. As of November 2011, IRC has ceased utilizing this vendor.

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

CCR, Title 17, Section 50602(k) states:

“(k) ‘Record’ means any book or document evidencing operational, financial, and service activities of a service provider or regional center pertaining to the service program and/or the provision of services to persons with developmental disabilities. Examples include books of account, general ledgers, subsidiary ledgers, check registers, canceled checks, contracts, correspondence, financial statements, internal reports, bank statements, standard cost statements, consumer files, purchase of service authorizations, and documents evidencing consumer services. All consumer records shall be treated as confidential.”

CCR, Title 17, Section 54326(a)(3), (4), and (10) states in part:

“(a) All vendors shall:

- (3) Maintain records of service provided to consumers in sufficient detail to verify delivery of the units of service billed...
- (4) Make any books and records pertaining to the vendored service, including those of the management organization, if applicable for audit, inspection or authorized agency representatives...
- (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)(4), (5), and (6)(B), and (f) states in part:

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

consumer in the program. Service records used to support service providers' billing/invoicing shall include but not be limited to:

- (4) Information identifying each regional center consumer including the Unique Client Identifier and Consumer name;
- (5) Documentation for each consumer reflecting the dates for program entrance and exit, if applicable, as authorized by a regional center.
- (6) A record of services provided to each consumer. The record should include:
  - (B) For transportation services, the dates of service, city or county where service was provided, and the number of miles driven or trips provided . . .
- (f) All service providers' records shall be supported by source documentation."

**Recommendation:**

IRC is responsible for operating its business in a manner consistent with the law and must remit to DDS the overpayment totaling \$138,405. IRC shall closely monitor its vendors to ensure it has received the agreed upon services as stated in the contract. IRC shall ensure that its contracts are adequate and in compliance with CCR, Title 17 requirements. In addition, IRC must ensure that proper documentation is maintained and on file to support payments for the services performed by its vendors.

**Finding 3: Circumvention of the Regulations**

**A. Rate Freeze (Repeat)**

The two prior audit reports identified that IRC paid SWT at a rate 40 percent higher than IRC paid its previous providers for transportation services. However, IRC appealed this finding with DDS and was granted a 10 percent Health and Safety Waiver, which reduced the unauthorized rate increase to 30 percent. This resulted in an overpayment totaling \$4,669,562.72 from October 2008 through June 2012, which is still outstanding.

The current audit identified that IRC continued to pay transportation services through December 2013, when IRC ceased utilizing SWT as a transportation provider. As a result, the overpayment totaled \$2,279,880.58 from July 2012 through December 2013, and overpayments from October 2008 through December 2013 totaled \$6,949,443.30. (See Attachment A)

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

W&I Code, Section 4648.4(b)(2) states, in part:

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

(2) Transportation, including travel reimbursement.”

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

“(e) A regional center or the department may recover from 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:**

IRC must reimburse DDS a total of \$6,949,443.30, pursuant to W&I Code, Section 4648.1, Subdivision (e), for the overpayment due to

the 30 percent rate increase it granted SWT. In addition, IRC must ensure that all rates to vendors comply with W&I Code, Section 4648.4(b)(2).

**B. Median Rate (Repeat)**

The review of the prior audit report revealed IRC continues to reimburse Chicago Home, Vendor Number HJ0995, Service Code 113, at a rate of \$589.25 per day when the Statewide Median Rate is \$474.68 per day for CPP consumers and \$296.37 per day for non-CPP consumer services. As a result, the total overpayment from July 2012 through July 2015 is \$1,994,535.82. IRC also has overpayments totaling \$694,834.57 still outstanding from November 2010 through June 2012 identified in the prior audit report.

The total overpayment from current and prior audits is \$2,689,370.39. (See Attachment B)

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

W&I Code, Section 4691.9(b) states:

“(b) No regional center may 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...”

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

“(e) A regional center or the department may recover from 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:**

IRC must reimburse DDS the \$2,689,370.39 pursuant to W&I Code, Section 4648.1(e). In addition, IRC must renegotiate the contract to ensure compliance with the Statewide Median Rates. IRC must also ensure that all rates negotiated after June 30, 2008, are either equal to or below the Statewide Median Rates.

**Finding 4: Deleted**

After further analysis of the additional documentation provided by IRC in its response to the draft report, it has been determined that this was not an issue and the finding has been deleted.

**Finding 5: Transportation Services Provided Under Transportation Broker, Service Code 883 (Repeat)**

The two prior audit reports identified that IRC reimbursed SWT as a Transportation Broker for providing transportation services from April 2008 through December 2013. As of December 2013, IRC ceased utilizing SWT as a transportation provider, and re-vendorized the transportation service providers that were SWT sub-contractors.

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

CCR, Title 17, Section 58501(a)(11) states, in part:

- “(a) The following definitions shall apply to the regulations contained in this subchapter:
  - (11) ‘Transportation Service’ means the conveyance of a consumer including boarding and exiting the vehicle.”

CCR, Title 17, Section 54342(a)(83) states, in part:

- “(a) The following service codes shall be assigned to the following types of services:



- (83) Transportation Broker – Service Code 883. A regional center shall classify a vendor as a transportation broker if the vendor:
- (A) Is not the transportation service provider; and
  - (B) Develops routing and time schedules for the transport of consumers to and from their day program;
  - (C) In addition to performing the duties specified in (A) and (B) above, a transportation broker may:
    - 1. Conduct monitoring and quality assurance activities; and/or
    - 2. Perform safety reviews; and/or
    - 3. Assist the regional center in implementing contracted transportation services.”

**Recommendation:**

IRC must ensure that its transportation broker agreements with its vendors are in compliance with the responsibilities and duties of a Transportation Broker pursuant to CCR, Title 17.

**Finding 6: Whistleblower Policy Has Not Alleviated Employee Concerns  
(Repeat)**

The review of IRC’s Whistleblower Policy revealed that employees continue to express fear of being intimidated, reprimanded, or retaliated against by management for reporting suspected improprieties. IRC stated that it has taken steps to alleviate employee concerns by notifying its employees of the Whistleblower Policy on the intranet and internet sites for easy access. In addition, IRC stated that it has communicated to its employees that the Whistleblower Policy allows individuals to report any issues directly to DDS or the Board; and will ensure any employees who report improprieties are not retaliated against. Also, IRC’s Board has established a separate email account where its employees can directly report any issues to the board members.

IRC’s Whistleblower Policy, Section 510(2) states in part:

“Inland Regional Center's (IRC) Code of Ethics ("Code") requires directors, officers and employees to observe high standards of business and personal ethics in the conduct of their duties and responsibilities. This Policy is established to ensure that IRC's Board members, officers, employees, consumers, families, service providers, agencies, community members, and regional center staff report good faith suspicions, concerns, or evidence of illegal, unethical or other inappropriate activity without fear of retaliation.

- (2) No Retaliation. No director, officer, or employee who in good faith reports a violation of the IRC Code of Ethics (*Operations Manual, Chapter 2, 2.0(a)*) shall suffer harassment, retaliation or adverse employment consequence. An employee who retaliates against someone who has reported a violation in good faith is subject to discipline up to and including immediate termination of employment. This Whistleblower Policy is intended to encourage and enable employees and others to raise serious concerns within IRC prior to seeking resolution outside Inland Regional Center.”

**Recommendation:**

IRC shall follow its implemented Whistleblower policy to ensure that all employees who participate in reporting improprieties are not intimidated, reprimanded, or retaliated against. IRC should also continue to communicate to its employees that the current Whistleblower policy in place allows individuals to report any issues directly to DDS and to the Board.

**Finding 7: POS Funds Inappropriately Used for Operations Expenses (Repeat)**

The two prior audit reports identified that IRC has not taken action to reimburse DDS for POS funds paid to the Resource Library, Vendor Number PJ2424, Service Code 112, for Communications Aide payments from August 2005 through December 2011. The total overpayment to the Resource Library from August 2005 through December 2011 was \$1,406,565.88. IRC reimbursed the Resource Library as a Communications Aide vendor using POS funds for the operation of the Resource Library. Services reimbursed included salaries, purchase of books, rental expenses, and other overhead costs. These services are considered administrative costs that should have been reimbursed through IRC's Operational funds. The services provided by this vendor were not specific to the service code's definition of a Communications Aide, to a consumer's IPP, nor tied to a specific consumer UCI number and authorization. As of December 2011, IRC has since ceased utilizing this vendor. (See Attachment C)

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

DDS description of Services Codes states:

“112, Communications Aides:

A regional center shall only classify a vendor as Communications Aide vendor if they provide those human services necessary to facilitate and assist persons with hearing, speech, or vision impairment to be able to effectively communicate with service provider, family, friends, co-workers, and general public. The following are allowable communication aides, as specified in the consumer’s IPP:

1. Facilitators
2. Interpreters and interpreter services
3. Translators and translator services
4. Readers and reading services

Communication aide services include evaluation for communication aides and training in use of communication aides, as specified in consumer IPP.”

CCR, Title 17, Sections 54340(c) and (d) states, in part:

- “(c) The vendoring regional center shall assign a service code to a vendor based upon the program design and/or the service provided.
- (d) All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program. Service records used to support service providers’ billing/invoicing shall include but not be limited to:
- (1) Information identifying each regional center consumer including the Unique Client Identifier and Consumer name;

- (2) Documentation for each consumer reflecting the dates for program entrance and exit, if applicable, as authorized by a regional center.”

**Recommendation:**

IRC must reimburse DDS a total of \$1,406,565.88 for using POS funds for the operation of the IRC Resource Library.

**Finding 8: Policies and Procedures for Procurement (Repeat)**

The review of IRC’s procurement policies and procedures revealed that IRC had not included the provisions for fair and equitable recoupment of CPP funds should the vendor cease to provide services to consumers after a specified period of time. IRC indicated that it has amended its procurement policies to include a provision for fair and equitable recoupment of CPP funds; however, the amended version of the policy has not been approved by IRC’s Board.

Article II, Section 2(c) of the State Contract states:

“(c) Such policies shall include provisions for fair and equitable recoupment of start-up funds should the vendor and/or fund recipient cease to provide services to consumers after a specified period of time. This includes start-up funds to purchase real property.”

**Recommendation:**

IRC must ensure that its amended policy has been approved by IRC’s Board.

**Finding 9: Overstated Claims**

**A. Payments Above the Median Rate (Repeat)**

The two prior audit reports identified that IRC continued to reimburse two vendors, above the Statewide Median Rate, resulting in overpayments totaling \$34,294.74 from June 2010 through January 2015. IRC also has \$36,274.31 in overpayments outstanding from the two prior audits. This resulted in overpayments totaling \$70,569.05 from July 2008 through

January 2015, for payments above the Statewide Median Rate. (See Attachment D)

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

W&I Code, Section 4691.9(b) states:

“(b) No regional center may 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:**

IRC must reimburse DDS the \$70,569.05 in total overpayments made to the vendors. IRC shall immediately renegotiate the rates for the vendors in order to comply with the W&I Code, Section 4691.9. In addition, IRC must ensure that all rates negotiated after June 30, 2008, are at, or below, the Statewide/IRC Median Rates.

**B. Payments Above the Authorized Number of Units (Repeat)**

The prior audit report identified that IRC overpaid 13 vendors for services that were above the authorized number of units. This resulted in overpayments totaling \$30,403.19 from April 2009 through November 2012, which remains outstanding. (See Attachment E)

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

CCR, Title 17, Section 54326(a)(10) states, in 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.”

**Recommendation:**

IRC must reimburse to DDS the \$30,403.19 in total overpayments made to the 13 vendors.

**C. Payments for Services Not Provided (Repeat)**

The two prior audit reports identified that IRC continued to reimburse eight transportation vendors for services that were not provided to consumers. This resulted in overpayments from July 2012 through July 2014 totaling \$51,553.18. Since these are individual authorizations for consumer services, IRC must reimburse transportation vendors only when the consumer utilizes these services. IRC stated that it did not want to penalize the transportation vendors if it was not known beforehand that the consumer would not utilize the transportation services. The outstanding overpayment from the prior audit is \$8,968.15, resulting in total overpayments of \$60,521.33. (See Attachment F)

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

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

“(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.”

**Recommendation:**

IRC must reimburse DDS \$60,521.33 in total overpayments made to the eight vendors. In addition, IRC must comply with CCR, Title 17, Section 54326(a) and ensure that vendors are paid only for services provided.

**D. Rate Increase After the Rate Freeze**

The sampled review of 20 POS Transportation vendor files revealed IRC provided a rate increase to one vendor, New Day Behavior, Vendor Number HP4042, Service Code 880. The contract for New Day Behavior included a fuel stipend of \$0.12 per mile that was issued after the June 30, 2008 rate freeze was in effect. IRC indicated it is using New Day Behavior as a courtesy vendor and that the fuel stipend was issued by the vendoring regional center. IRC was not aware that this rate was issued after the rate freeze was in effect. This resulted in overpayments totaling \$1,579.95. (See Attachment G)

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

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

“(1) 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.

**Recommendation:**

IRC must reimburse DDS \$1,579.95 in total overpayments made to New Day Behavior. In addition, IRC should contact the vendoring RC to ensure the vendor rate is reverted to the payment rate in effect as of June 30, 2008.

**Finding 10: Improper Expenditure of CPP and POS Funds (Repeat)**

The two prior audit reports identified that \$3,205,739 in CPP and POS funds were expensed to Service Codes 999 without a DDS-approved community placement plan for the acquisition of housing.

Also, IRC improperly allocated \$1,222,678 in POS funds to CHF which was expensed under Service Code 101, for move-in costs and the purchasing of household items. However, the expenses incurred were not tied to any consumer UCI numbers as required by the DDS service code definition. The total overstated claim amount expensed under Service Codes 999 and 101 is \$4,428,417. (See Attachment H)

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

W&I Code, Sections 4418.25(c) and (d) states, in part:

- “(c) The department shall review, negotiate, and approve regional center community placement plans for feasibility and reasonableness, including recognition of each regional centers' current developmental center population and their corresponding placement level, as well as each regional centers' need to develop new and innovative service models. The department shall hold regional centers accountable for the development and implementation of their approved plans. The regional centers shall report, as required by the department, on the outcomes of their plans. The department shall make aggregate performance data for each regional center available, upon request, as well as data on admissions to, and placements from, each developmental center.
- (d) Funds allocated by the department to a regional center for a community placement plan developed under this section shall be controlled through the regional center contract to ensure that the funds are expended for the purposes allocated. Funds allocated for community placement plans that are not used for that purpose may be transferred to Item 4300-003-0001 for expenditure in the state developmental centers if their population exceeds the budgeted level. Any unspent funds shall revert to the General Fund.”



CCR, Title 17, Section 54326(a)(3) states, in part:

“(a) All vendors shall:

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

The State Contract, Exhibit E states, in part:

“(1) Community Placement Plan

Contractor shall develop and submit an approved Community Placement Plan in accordance with Welfare & Institution Code [Sections] 4418.25, 4418.3, and 4418.7 for approval by the State.

Contractor’s Community Placement Plan shall, where appropriate, include budget requests for regional center operations, consumer assessments, resource development, deflections and ongoing placements.

(2) Dedicated Funding

Contractor shall use funds allocated to the regional center’s approved Community Placement Plan only for the purposes allocated. The State shall reduce the contract in the amount of any unspent funds allocated for the Community Placement Plan that are not used for that purpose. Any unspent funds shall revert to the General Fund or be transferred to another regional center for Community Placement Plan activities.”

Guidelines for Regional Center Community Placement Plan (I)(4) states:

“For Deflection POS, the RC will be reimbursed only for placement costs of individuals projected to be placed in CPP-funded deflection living arrangements during the facilities’ initial fiscal year of service provision.”

**Recommendation:**

IRC must reimburse DDS the \$4,428,417 that was improperly expensed. In addition, IRC must ensure that all CPP projects comply with W&I Code, Section 4418.25; the State Contract, Exhibit E; CCR, Title 17, Section 54326(a)(3); and the Guidelines for Regional Center Community Placement Plan (I)(4).

## **Finding 11: Policies and Procedures for Vendor Audits and Reviews**

The review of IRC's listing of 180 vendors who were required to contract with an independent accounting firm for an audit or review of its financial statements revealed that 156 vendors did not submit an audit or review. It was found that IRC does not have procedures in place to follow up with vendors who have not submitted the required audit reports or reviews.

W&I Code, Sections 4652.5(a)(1)(A)(B), and (b) states in part:

- “(a)(1) An entity receiving payments from one or more regional centers shall contract with an independent accounting firm for an audit or review of its financial statements subject to all of the following:
  - (A) When the amount received from the regional center or regional centers during the entity's fiscal year is more than or equal to two hundred fifty thousand dollars (\$250,000) but less than five hundred thousand dollars (\$500,000), the entity shall obtain an independent audit or independent review report of its financial statements for the period.
  - (B) When the amount received from the regional center or regional centers during the entity's fiscal year is equal to or more than five hundred thousand dollars (\$500,000), the entity shall obtain an independent audit of its financial statements for the period.
- (b) 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 30 days after completion of the audit or review.”

### **Recommendation:**

IRC must develop policies and procedures to ensure it is properly tracking and following-up with vendors who are required to, but have not yet, submitted audit reports or reviews. Failure to receive these reports limits IRC's ability to detect issues that may have an impact on regional center services.

## **Finding 12: Parental Fee Program (PFP)**

The review of the PFP revealed that IRC is not complying with the PFP regulations. IRC is not identifying children with developmental disabilities who are required to participate in the PFP program, or providing DDS with a listing of new placements and terminated cases. Also, IRC is not informing parents of children receiving services eligible for PFP, which DDS requires to determine and assess parents' ability to pay, bill, and collect parental fees. Further, IRC is not providing the parents an PFP package containing a return envelope, informational letter, and the FFS that needs to be completed and mailed to DDS. IRC indicated it was not aware of the PFP requirements and had no procedures in place for PFP.

CCR, Title 17, Sections 50225(a), (b), (c), (d), and (e) states in part:

“Regional centers shall have the following duties and responsibilities:

- (a) Identify all children with developmental disabilities who are receiving services as specified in Section 50223.
- (b) Provide the Department of Developmental Services with a listing of new placements, terminated cases, and client deaths for those clients identified in paragraph (a) of this section. Such listing shall be provided not later than the 20th day of the month following the month of such occurrence and shall be provided in the format as determined by the Department of Developmental Services.
- (c) Inform parents of children who will be receiving services as identified in Section 50223 that the Department of Developmental Services is required to determine parents' ability to pay, and to assess, bill, and collect parental fees pursuant to Chapter 9 of Division 4.5 of the Welfare and Institutions Code.
- (d) Within 10 working days after placement of a minor child, provide the parent(s) a package containing an informational letter, a Family Financial Statement (FFS), and a return envelope. The informational letter, FFS, and envelope shall be provided to the centers by the Department of Developmental Services.
- (e) A copy of each informational letter given or sent to parent(s), indicating the addressee and the date given or

mailed, shall be attached to and submitted with the report identified in paragraph (b) of this section.”

**Recommendation:**

IRC must implement policies and procedures to ensure that it complies with the PFP requirements set forth in CCR, Title 17, Section 50225.

**Finding 13: Service Coordinator Caseload Ratio**

The review of the Service Coordinator Caseload Survey revealed IRC incorrectly reported its caseload ratio for the DC Movers. IRC reported its DC Mover ratios on a calendar year basis rather than reporting the caseload information starting on March 1st. IRC indicated it was not aware reporting its caseload for DC Movers on a calendar year was incorrect.

Article II, Section 2(c) of the State Contract states:

“Contractor shall provide service coordinator caseload data, as of March 1st, to the State annually by March 10th. The data shall be submitted in a format prescribed by the State that shall meet, but not exceed, the data collection requirements imposed by Welf. & Inst. Code Section 4640.6(e).”

**Recommendation:**

IRC must ensure that the Service Coordinator Caseload Survey data reported reflects the caseload information as of March 1st, as required by the DDS instructions.

**Finding 14: Employee Conducting Fundraising Activities**

The review of IRC’s donations revealed that one employee’s job duties include coordinating IRC’s annual golf tournament. Fundraising should not be part of an employee’s job duties, as it is not essential in the delivery of direct consumer or administration services that support activities of IRC’s operations.

Article I, Sections 11(f), (g) and (h) of the State Contract states:

“(f) Operations Budget means that portion of a Contractor’s budget allocation set forth in Exhibit A, that is intended for the delivery of regional center “direct consumer services” and administration.”

- (g) Direct Consumer Services means those direct services to persons with developmental disabilities delivered by Contractor. These services include but are not limited to case management, funds management for persons with developmental disabilities, rights assurance, diagnosis and assessment, intake, prevention, quality assurance, program development, and other services under the Lanterman Act provided directly by Contractor.
- (h) Administration means those support activities required of Contractor that are essential to the efficient conduct of business.”

**Recommendation:**

IRC must ensure that the job duties of personnel are essential to the delivery of RC services and should not include fundraising activities.

**Finding 15: Ineligible Employee Receiving Medical Benefits**

The review of IRC’s Retiree Medical Reimbursement Plan revealed one retired employee is receiving medical benefits without meeting the eligibility requirements to qualify for the plan. The plan requires that each retiree attain the age of 55 and 25 years of service, or the age of 65 and 20 years of service to be eligible to participate in the plan. However, IRC granted eligibility to this retiree after 11.5 years of service. IRC calculated the employee years of service as of 1993 when the employee was a consultant of IRC instead of the actual hire date as an IRC employee in 2001.

IRC’s Retiree Medical Reimbursement Plan Policy, IRCP 800/017, Participant Section states:

“Participant-A participant of the Retiree Medical Reimbursement Plan is defined as a qualifying employee, who has voluntarily separated after reaching a qualifying retirement age defined in at least one of the below categories:

- a. An employee who was hired before January 1, 1997 and separates from service with Corporation on or after attainment of age 55 and completion of 15 years (31,320 hrs.) of service or age 65 and 10 years of service (20,880 hrs), or
- b. An employee who was hired after January 1, 1997 and separates from service with Corporation on or after

attainment of age 55 and completion of 25 years (52,200 hours) or age 65 and 20 years of service (41,760 hours) of service.”

**Recommendation:**

IRC must adhere to its policies and procedures to ensure all employees meet the eligibility criteria for participation in its retiree plan. IRC must use the actual date the employee was hired as an IRC employee and not the date this person started as a consultant for participation into the retiree plan.

**Finding 16: Retirement Bonus Policy Not Signed by the Board**

The sample review of 23 employee files revealed that IRC’s Director of Employee Relations and Administrative Services amended IRC’s Service Award Payment Policy to award one employee who retired in October 2014, a bonus of \$200 for each year of service. This employee was given a bonus totaling \$7,400, even though the amended policy was not approved by IRC’s Executive Director or its Board.

Article III, Section 1(c) of IRC’s bylaws states:

“To conduct, manage and control the business and affairs of the Corporation, and to make such rules, and regulations therefore, including all policies and procedures;”

**Recommendation:**

IRC must reimburse DDS a total of \$7,400 for a service award that was issued to an employee without Board approval. In addition, IRC must adhere to its bylaws and ensure any policy changes are approved by its Board.

**Finding 17: Overstated General Ledger Account**

The review of the lease agreements revealed IRC’s general ledger account number [REDACTED] is overstated by \$31,725. This occurred when IRC did not adjust its general ledger after it forfeited its \$31,725 security deposit for breaking its lease agreement with its landlord, Rancon Reality, located at 735 E. Carnegie Drive, San Bernadino, Ca. in September 2009. IRC indicated that it was an oversight on its part that it did not remove the security deposit from its records.

Article X, Section 3, of the State Contract states in part:

“Contractor is responsible for ensuring the integrity of the financial operations of the regional center including accountability and reporting of all revenues, expenditures, and effectiveness in carrying out its programs and fiscal responsibility. This responsibility includes the primary role of maintaining accurate financial records in accordance with generally accepted accounting principles.”

**Recommendation:**

IRC must adjust the general ledger account number [REDACTED] to ensure security deposits are correctly reflected.

**Finding 18: Bank Signature Cards Not Updated**

The review of the bank signature cards revealed IRC has not updated its signature cards since 2012. The signature cards were still in the names of prior IRC and DDS Directors. As a result, current authorized signatories for IRC and DDS Directors are not on the bank signature cards. IRC indicated this occurred due to an oversight.

State Contract, Article III, Sections 3(f) and (g) states in part:

“(f) All bank accounts and any investment vehicles containing funds from this contract and used for regional center operations, employee salaries and benefits or for consumers’ services and supports, shall be in the name of the State and Contractor.

(g) For the bank account(s) above referenced, there shall be prepared three (3) alternative signature cards with riders attached to each indicating their use.”

**Recommendation:**

IRC must update the bank signature cards when authorized signatories retire or leave their positions. In addition, IRC should send the updated signature cards to DDS to comply with the State Contract provisions Article III, Section 3.

**Finding 19: IRC Not Vendorizing Providers in its Catchment Area**

The sampled review of IRC’s Out-of-Area vendor listing revealed 15 vendors are providing services to IRC consumers when they have locations within IRC’s catchment area. IRC must have these vendors go through IRC’s vendorization process to ensure they meet all legal and

regulatory requirements to provide services to its consumers. IRC stated that these vendors are refusing to be vendorized by IRC in order to utilize higher rates from other regional centers. (See Attachment I)

CCR, Title 17, Sections 50603(s) states in part:

“Vendoring Regional Center” means the regional center in the service catchment area in which the service provider is located, and to which a potential service provider must submit an application for vendorization.”

**Recommendation:**

IRC must ensure that vendors located within its catchment area are properly vendorized through IRC. This will ensure rates paid to these vendors fall within the IRC median rate schedule.

**Finding 20: Conflict of Interest**

The review of the IRC’s bylaws amended in April 2015 revealed that the Board President serves as the CEO of IRC and is tasked with the day-to-day operations of IRC. This authority gives the Board President total control of IRC’s operational functions. As the President of the Board and CEO, a conflict is created as the Board President has authority to select, remove, and reinstate employees at his/her sole discretion.

For good business practices, the Board’s responsibility should not include managing day-to-day operations of the regional center. The Board President may not have the core experiences and skills necessary to effectively manage a regional center.

**Recommendation:**

IRC must amend its bylaws to ensure the Board President is no longer IRC’s CEO. This will ensure that the conflict of interest is removed and the Board President’s duties do not extend to running the day-to-day operations of IRC.

**Findings that have been addressed and corrected.**

**Finding 21: Multiple Dates of Death**

The review of the UFS Deceased Consumers Report identified 20 consumers with multiple dates of death. Further review found that no payments were made beyond the actual date of death.



IRC has taken corrective action to resolve the issue of multiple dates of death by researching and updating all 20 consumers' date of death in UFS.

State Contract, Article IV, Section 1(c)(1) states in part:

“Contractor shall make available accurate and complete UFS and/or SANDIS information to the State. Accordingly Contractor shall:

- (1) Update changes to all mandatory items of the Client Master File at least annually except for the following elements, which must be updated within thirty (30) days of Contractor being aware of any of the following events:
  - (a) The death of a consumer;
  - (b) The change of address of a consumer; or
  - (c) The change of residence type of a consumer.”

For good internal controls and accounting practices, IRC should ensure the actual date of death is accurately recorded in UFS to avoid any potential payments after the date of death.

**Recommendation:**

IRC must ensure staff accurately records the consumer's date of death in UFS by utilizing the date stated on the consumer's certificate of death. In addition, IRC should review all current, deceased consumer files to ensure that only one date of death is recorded in UFS.

**Finding 22: Payment After the Date of Death**

The sampled review of 24 deceased consumer accounts revealed that IRC reimbursed one vendor for services after a consumer's death. This resulted in an overpayment totaling \$579.84.

IRC has taken corrective action to resolve this issue by collecting the overpayment from the vendor.

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

“(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.”

**Recommendation:**

IRC must continue to review all current, deceased consumer files to ensure that vendors are reimbursed only for services rendered.

## EVALUATION OF RESPONSE

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As part of the audit report process, IRC was provided with a draft audit report and requested to provide a response to the findings. IRC's response dated November 15, 2017, is provided as Appendix A.

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

**Finding 1: Unsupported Transportation Assessment Contract Billing (Repeat)**

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**Finding 2: Unsupported Contract Billing (Repeat)**

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**Finding 3: Circumvention of the Regulations**

**A. Rate Freeze (Repeat)**

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**B. Median Rate (Repeat)**

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in

exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**Finding 4: Deleted**

After further analysis of the additional documentation provided by IRC in its response to the draft report, it has been determined that this was not an issue and the finding has been deleted.

**Finding 5: Transportation Services Provided Under Transportation Broker, Service Code 883 (Repeat)**

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**Finding 6: Whistleblower Policy Has Not Alleviated Employee Concerns (Repeat)**

IRC disagrees with the finding that its Whistleblower policy does not alleviate its employees' fear against retaliation by management. IRC stated that the Whistleblower policy is posted on its website and has also implemented corrective actions which led to a dramatic decline in anonymous complaints by employees. In addition, IRC submits on a monthly basis, a complaint log to DDS. Based on the review of IRC's response, and the additional follow-up conducted during the subsequent audit, DDS agrees and considers this issue resolved.

**Finding 7: POS Funds Inappropriately Used for Operations Expenses (Repeat)**

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**Finding 8: Policies and Procedures for Procurement (Repeat)**

IRC indicated that it has corrected this issue and has developed a Board approved procurement policy that complies with the State contract. However, upon review of IRC's website, its current procurement policy

dated March 2011, still does not include the provisions for fair and equitable recoupment of CPP funds should the vendor cease to provide services. Therefore, this finding remains unresolved.

**Finding 9: Overstated Claims**

**A. Payments Above the Median Rate (Repeat)**

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**B. Payments Above the Authorized Number of Units (Repeat)**

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**C. Payments for Services Not Provided (Repeat)**

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**D. Rate Increase After the Rate Freeze**

IRC does not agree with the finding. IRC stated that it reimbursed the vendor based on a contract negotiated by the vendoring regional center and the vendor. IRC stated it assumed the vendoring regional center complied with the rate freeze, and the rate negotiated was appropriate. In addition, IRC stated that it would put an undue burden on its staff to confirm the rates negotiated by the vendoring regional centers are in compliance with the W&I Code. Based on the review of IRC's response, DDS does

not agree. W&I Code explicitly states that RCs cannot pay service providers a rate higher than the rate in effect on June 30, 2008. Since the W&I Code does distinguish between vendoring RC's or user RC's; DDS does not agree with IRC, and considers this finding unresolved.

**Finding 10: Improper Expenditure of CPP and POS Funds (Repeat)**

IRC entered into a settlement agreement with DDS on February 8, 2017, to resolve the disputed audit findings identified in the three prior audit reports from FYs 2008-09 through 2013-14. As part of the agreement, IRC agrees to reimburse DDS \$6,588,703 in exchange for the release of any liabilities noted in the appeal. Therefore, based on the terms set forth in the settlement agreement, this finding is considered resolved.

**Finding 11: Policies and Procedures for Vendor Audits and Reviews**

IRC does not agree with the finding and stated that it sends follow-up letters to vendors reminding them to submit an audit or review of their financial statements. Also, IRC indicated that it is in the process of developing a new tracking methodology to better track and follow up with vendors who do not submit the required reports. Based on IRC's response, DDS will conduct further follow-up during the next scheduled audit to ensure the new process has been implemented.

**Finding 12: Parental Fee Program (PFP)**

IRC agrees with this finding and provided additional documentation indicating it has developed policies and procedures to comply with the PFP requirements. Therefore, this finding is considered resolved.

**Finding 13: Service Coordinator Caseload Ratio**

IRC agrees with the finding and now reports the DC Movers in the Service Coordinator Caseload Survey as of March 1st, as required by the State Contract. This finding is considered resolved.

**Finding 14: Employee Conducting Fundraising Activities**

IRC agrees with the finding and indicated that the compensation paid to the employee which relates to fundraising is now reimbursed to IRC. DDS will conduct a follow-up during the next scheduled audit to ensure IRC is offsetting their fundraising expenditures.

**Finding 15: Ineligible Employee Receiving Medical Benefits**

IRC does not agree with the finding that it provided medical benefits to an ineligible employee. IRC stated that this person met the criteria to be considered a common-law employee when she began working as a Medical Consultant on July 1, 1993, making her eligible for the Retiree Medical Reimbursement Plan. In addition, IRC stated that as part of her employment agreement, the consultant negotiated her participation in the plan with IRC's Executive Director, who agreed to use July 1, 1993, as her start date.

DDS does not agree with IRC that this person should be considered a common-law employee, as she was paid as a consultant, rather than an employee from July 1, 1993, through September 1, 2000. DDS acknowledges that the consultant's participation in the Retiree Medical Reimbursement Plan violates the eligibility requirements stipulated in IRC's Retiree Medical Reimbursement Plan Policy. Nonetheless, IRC must ensure it follows the Retiree Medical Reimbursements Plan's policies and use the employee's years of service to determine eligibility.

**Finding 16: Retirement Bonus Policy Not Signed by the Board**

IRC does not agree with the finding and cites the court case, *Association for Retarded Citizens v. California Department of Developmental Services* (1985) 38 Cal. 3d 384, 389-395, which held that DDS is not allowed to control how IRC uses its operations funds. IRC also states that it did not require Board approval to make the payment, and considers the \$7,400 immaterial. DDS does not agree, as the same court case also states "...the responsibility of DDS, as the Attorney General has concluded on other occasions, is basically limited to promoting the cost-effectiveness of the operations of the regional centers, and does not extend to the control of the manner in which they provide services or in general [38 Cal. 3d 390] operate their programs (64 Ops.Cal.Atty.Gen., supra, 910, 916; 62 Ops.Cal.Atty.Gen. 229, 230-231 (1979); see §§ 4629, 4631, 4751-4753)." Therefore, DDS is still responsible for overseeing the cost-effectiveness of IRC's operations.

IRC had a process in place where employees would receive \$10 per year of service upon retiring. However, due to management override, the Director of Employee Relations and Administrative Services amended its Service Award Payment policy, approving an increase from \$10 per year to \$200 per year. IRC's bylaws require all policies and procedures to be approved by the Board; however, the amendment did not go to the Board prior to payment. It was noted during the follow-up conducted in the subsequent audit that the policy reverted back to \$10 per year. In addition, IRC stated it would ask its Board to ratify the payment to resolve the finding. However,

IRC must ensure that all staff including management abide by the policies that have been established. Any changes to the policies must be approved by the Board in accordance to IRC's bylaws to prevent management override.

**Finding 17: Overstated General Ledger Account**

IRC agrees with the finding and provided additional documentation with its response that show the security deposits are accurately reflected in the general ledger. This finding is considered resolved.

**Finding 18: Bank Signature Cards Not Updated**

IRC agrees with the finding and sent updated signature cards to DDS. Therefore, this finding is considered resolved.

**Finding 19: IRC Not Vendorizing Providers in its Catchment Area**

IRC agrees with the finding and stated it has implemented a corrective action plan to resolve this issue. IRC stated five vendors have been closed and IRC is in the process of contacting the other vendors to initiate the vendorization process. IRC stated if the vendors refuse, it will inform vendors that they will discontinue further referrals as they are not in IRC's catchment area. DDS will conduct further follow-up during the next scheduled audit to ensure this process has been corrected.

**Finding 20: Conflict of Interest**

IRC agrees with the finding and provided supporting documentation with its response showing it amended its bylaws effective March 30, 2016, eliminating the position of President of the Board, and creating the position of Chairperson of the Board, and designating IRC's Executive Director as Chief Executive Officer. Therefore, based on the review of the IRC's response, DDS considers this finding resolved.



## **ATTACHMENTS A - I**

### **INLAND REGIONAL CENTER**

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

## **Appendix A**

### **IRC'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.**