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AUDIT OF THE NORTH LOS ANGELES COUNTY REGIONAL CENTER FOR FISCAL YEARS 2021-22 AND 2022-23

December 3, 2024

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RESTRICTED USE

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

EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) conducted a fiscal compliance audit of North Los Angeles County Regional Center (NLACRC) to assess compliance with the requirements set forth in the Lanterman Developmental Disabilities Services Act and Related Laws/Welfare and Institutions (W&I) Code; the Home and Community-based Services (HCBS) Waiver for the Developmentally Disabled; California Code of Regulations (CCR), Title 17; Federal Office of Management and Budget (OMB) Circulars A-122 and A-133; and the contract with DDS. Overall, the audit indicated that the regional center maintains accounting records and supporting documentation for transactions in an organized manner.

The audit period was July 1, 2021, through June 30, 2023, with follow-up, as needed, into prior and subsequent periods. This report identifies some areas where the regional center's administrative and operational controls could be strengthened, but none of the findings were of a nature that would indicate systemic issues or constitute major concerns regarding the regional center's operations.

Findings that need to be addressed.

Finding 1: Incorrect Rate Reform Model Implementation – NLACRC overpaid eight vendors due to incorrect rate increases, resulting in overpayments totaling \$1,025,153.09.

NLACRC recovered overpayments totaling \$16,441.18 from one vendor. Therefore, the remaining overpayment amount is \$1,008,711.91.

Finding 2: Over/Underpayments Due to Incorrect Rates – NLACRC over/underpaid seven vendors due to incorrect application of the newly implemented reform rates. This resulted in overpayments totaling \$873,763 and underpayments totaling \$335,268.38.

NLACRC recovered overpayments from vendors totaling \$396,021.65 and reimbursed vendors totaling \$263,405.34. Therefore, the over/underpayments still outstanding are \$477,741.35 and \$71,863.04 respectively.

Finding 3: Overstated Claims – NLACRC overstated claims totaling \$124,670.23 for 53 vendors. NLACRC has taken corrective action and recovered the overpayments totaling \$117,667.19, with \$7,003.04 still outstanding.

NLACRC provided documentation with its response to the draft audit report indicating it resolved the remaining overpayments totaling \$7,003.04.

Finding 4: Bank Reconciliations – NLACRC’s bank reconciliation process revealed weaknesses with the timeliness of the reconciliations, review process, documentation, and a lack of written policies and procedures.

Finding 5: Service Coordinator Caseload Ratio – NLACRC included positions that were vacant for more than 60 days of the reporting month in its caseload surveys.

Finding 6: Board of Directors (BOD) Conflict of Interest (COI) Statements – NLACRC did not have all governing board members’ COI statements completed by August 1st.

Finding 7: Individual Trust Accounts:

- A. Individual Trust Balances Over the Resource Limit – NLACRC has three individual trust accounts that exceed the \$2,000 resource limit.
- B. Remaining Individual Trust Balances – NLACRC has balances totaling \$46,486.61 for three deceased individual trust accounts.
- C. Interest Not Disbursed – NLACRC did not disburse interest to four individual’s trust accounts.

Finding 8: Equipment Inventory – NLACRC’s fixed asset inventory listing was not complete.

Finding 9: Independent CPA Vendor Audit/Review Oversight – NLACRC’s vendor tracking worksheets did not reconcile with the DDS list, documentation was not provided for the exempt vendors and NLACRC did not notify the department annually of the exemptions.

BACKGROUND

DDS and NLACRC, Inc. entered into State Contract HD199012, effective July 1, 2019, through June 30, 2026. This contract specifies that NLACRC, Inc. will operate an agency known as the NLACRC to provide services to individuals with intellectual and developmental disabilities (IDD) and their families. The contract is funded by state and federal funds that are dependent upon the regional center performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted from July 31, 2023, through September 28, 2023, by the Audit Section of DDS.

AUTHORITY

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

CRITERIA

The following criteria were used for this audit:

- W&I Code,
- Approved Application for the HCBS Waiver for the Developmentally Disabled,
- CCR, Title 17,
- OMB Circulars A-122 and A-133, and
- The State Contract between DDS and the regional center, effective July 1, 2019.

IEWS OF RESPONSIBLE OFFICIALS

The findings in this audit report will be discussed with the regional center during the formal exit conference after issuance of the draft audit report. After the formal exit conference, DDS will incorporate the views and responses of responsible officials into the final audit report.

CONCLUSIONS

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

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

FINDINGS AND RECOMMENDATIONS

Findings that need to be addressed.

Finding 1: Incorrect Rate Reform Model Implementation

The review of the Rate Reform Model implementation revealed eight NLACRC Transportation, Additional Component, Service Code 880 vendors received incorrect rate increases when the 25 percent incremental rate adjustment was implemented in April 2022 and the 50 percent incremental rate adjustment was implemented in January 2023. This occurred due to incorrect data being entered in the worksheets used to calculate the rate. The overpayments to the eight vendors, due to incorrect rate increases, totaled \$1,025,153.09 from April 2022 through May 2023. (See Attachment A)

NLACRC recovered overpayments totaling \$16,441.18 from one vendor. Therefore, the remaining overpayment amount is \$1,008,711.91.

Service Code 880 – Transportation-Additional Component

“With the varied number of unit types used for the billing of these services, the process to establish the equivalent baseline trip rate depends on the current unit type. Regional Centers were instructed to provide the following information:

For services that are billed based on 15-minute, hourly, or mileage rates, report the average number of units per trip.

For services that are not billed based on trip, 15-minute, hourly, or mileage rates, report the average number of trips per unit.”

Recommendation:

NLACRC must reimburse DDS the overpayments made to the remaining seven vendors totaling \$1,008,711.91. In addition, NLACRC should review the accuracy of the worksheets used to establish the rate increases for the eight vendors.

Finding 2: Over/Underpayments Due to Incorrect Rates

The sampled review of 101 POS vendor files revealed seven vendors were reimbursed at incorrect rates. NLACRC overpaid three vendors providing personal assistance, Service Code 62 services totaling \$873,763. In addition, NLACRC underpaid one vendor for adaptive skills trainer services, Service Code 605 and three vendors for in-home respite services, Service Code 862, totaling \$335,268.38. The over/underpayments to the seven vendors occurred when NLACRC did not apply the newly implemented rates that were issued in April 2022 and January 2023. (See Attachment B)

NLACRC recovered overpayments from vendors totaling \$396,021.65 and reimbursed vendors totaling \$263,405.34. Therefore, the over/underpayments still outstanding are \$477,741.35 and \$71,863.04 respectively.

W&I Code, Section 4519.10(c)(1)(A) and (B) states:

“(c)(1)(A) Commencing April 1, 2022, the department shall implement a rate increase for service providers that equals one-quarter of the difference between current rates and the fully funded rate model for each provider.

(B) Commencing January 1, 2023, and continuing through the 2023-24 fiscal year, the department shall adjust rates to equal one-half of the difference between rates in effect March 31, 2022, and the fully funded rate model for each provider, and additional funding shall be available for the quality incentive program described in subdivision (e).”

CCR, Title 17, Section 57300(c)(2) states:

“(c) Regional Centers shall not reimburse vendors:

(2) For services in an amount greater than the rate established pursuant to these regulations.”

Recommendation:

NLACRC must reimburse DDS the overpayments made to the three vendors totaling \$477,741.35 and make payments to the four vendors totaling \$71,863.04 for the underpayments. In addition, NLACRC should revise the vendors’ payment rates to ensure the vendors are paid correctly.

Finding 3: Overstated Claims

The review of the Operational Indicator Reports revealed 130 instances in which NLACRC overstated claims totaling \$124,670.23. NLACRC provided documentation with its response to the draft audit report indicating it took corrective action to resolve the overpayments totaling \$124,670.23. (See Attachment C).

CCR, Title 17, Section 57300(c)(2) states:

“(c) Regional Centers shall not reimburse vendors:

(2) For services in an amount greater than the rate established pursuant to these regulations.”

Recommendation:

NLACRC must ensure its staff monitor the Operational Indicator Reports for errors that may have occurred while doing business with its vendors.

Finding 4: Bank Reconciliations

The review of six sampled months of bank reconciliations for the Operations, Client Trust, Dedicated Trust, Payroll and Flex Spending accounts revealed the following weaknesses:

- NLACRC could not provide written policies or procedures for bank reconciliations.

- Only one of the six sampled bank reconciliations for the Operations account was completed in October 2021, while the other five bank reconciliations could not be provided or were never completed.
- All Client Trust bank reconciliations and three months of bank reconciliations for the Dedicated Client Trust Account were not completed in a timely manner. The reconciliations were not completed within 30 days.
- NLACRC could not provide documentation to support the reconciling items from the Operations and Client Trust accounts.
- None of the completed Operations, Payroll and Flex Spending bank reconciliations included the date prepared or date reviewed.

W&I Code, Section 4631(b), states:

“The department’s contract with a regional center shall require strict accountability and reporting of all revenues and expenditures, and strict accountability and reporting as to the effectiveness of the regional center in carrying out its program and fiscal responsibilities as established herein.”

Article I, Section 12 of the contract between DDS and NLACRC states in part:

“The Contractor shall comply with all California statutes, laws, and regulations applicable to nonprofit corporations.”

Article IV, Section 3(a) of the contract between DDS and NLACRC states in part:

“The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures...”

State Administrative Manual, Reconciliations – General - 7901 states in part:

“Agencies/departments are required to perform reconciliations to ensure accuracy and consistency in their accounting records. Agencies/departments will reconcile the account balances to supporting documentation such as invoices, receipts, etc. Agencies/departments will also compare agency/department accounts with records other than those prepared by the agency/department, such as bank statements used in a bank reconciliation.”

“ . . .each agency/department is responsible for completing any reconciliation necessary to safeguard the state’s assets and ensure reliable financial data.

All reconciliations will show the preparer’s and reviewer’s names and signatures, date prepared, and date reviewed.
Reconciliations will be prepared monthly within 30 days of the preceding month, except for property reconciliations.”

Recommendation:

NLACRC must develop and implement written bank reconciliation policies and procedures. In addition, NLACRC must ensure it completes the bank reconciliations timely, maintains the supporting documents to validate the transactions and have the bank reconciliations dated by the preparer and reviewer. This will ensure that errors or fraudulent transactions can be detected, analyzed and rectified immediately.

Finding 5: Service Coordinator Caseload Ratio

The review of NLACRC’s Service Coordinator Caseload ratios revealed weakness in its reporting. The review revealed NLACRC included 13 positions that were vacant for more than 60 days of the reporting month. This occurred for both February 2022 and February 2023 caseload surveys.

W&I Code, Section 4640.6(e)(3) states:

“(3) Not include positions that are vacant for more than 60 days or new positions established within 60 days of the reporting month that are still vacant.

Recommendation:

NLACRC should develop procedures to ensure positions vacant for more than 60 days and vacancies established within 60 days of the reporting month are not included in the Service Coordinator Caseload ratios reported to DDS.

Finding 6: BOD COI Statements

The review of BOD COI statements revealed weaknesses in NLACRC's oversight of these statements. The review revealed three BOD COI statements from FY 2021-22 and 16 from FY 2022-23 were not completed by August 1st. NLACRC stated the BOD COI statements were not completed on time due to a training issue. The staff member in charge was trained to have the COI statements completed by August 10th instead of August 1st.

W&I Code, Section 4626(g) states:

“Every regional center board member and regional center employee referenced in subdivision (e) shall complete and file the conflict-of-interest statement by August 1 of each year.”

Recommendation:

NLACRC should improve their BOD COI process to ensure the BOD COI statements are completed by August 1st.

Finding 7: Individual Trust Accounts

A. Individual Trust Balances Over the Resource Limit

The review of the individual trust accounts revealed three individuals with account balances exceeding \$2,000. By exceeding the resource limit, the individuals are at risk of losing SSI benefits that are used to offset the costs of residential services. (See Attachment D)

Social Security Handbook, Chapter 21, Section 2113.2 states:

“In order to receive SSI benefits, you cannot own countable real or personal property (including cash) in excess of a specified amount at the beginning of each month. For an individual with an eligible or ineligible spouse, the applicable limit is one and one-half times as much as that for an individual without a spouse. These limits are set by law, and they are not subject to regular cost-of-living adjustments. But they are subject to change. The limits for January 2009 are \$2,000 for an individual and \$3,000 for a couple.”

Recommendation:

NLACRC must ensure all individual trust balances remain within the resource limits established by the Social Security guidelines.

B. Remaining Individual Trust Balances

The review of the individual trust accounts revealed NLACRC has not taken action to close the individual trust accounts for three deceased individuals. The three deceased individual accounts had remaining trust balances totaling \$46,486.61. These remaining trust balances should have been transferred to the Department of Health Care Services (DHCS), if required by Medicaid, forwarded to the individual's beneficiaries, or escheated to the State if unclaimed for more than three years. NLACRC did not state a reason for the remaining balances. (See Attachment E)

Social Security Handbook, Chapter 16, Section 1622 states:

“In the event of the beneficiary's death, conserved funds become the property of the beneficiary's estate. Rather than returning them to us, you must give them to the legal representative of the deceased beneficiary's estate for disposition under State law. If no legal representative exists, you must contact the State probate court (or the State agency handling estate matters) for instructions on what to do with the remaining conserved funds.”

California Code of Civil Procedure (CCP), Article 2, Section 1518(a)(1), states in part:

“All intangible personal property, including intangible personal property maintained in a deposit or account, and the income or increment on such tangible or intangible property, held in a fiduciary capacity for the benefit of another person escheats to this state if for more than three years after it becomes payable or distributable, the owner has not done any of the following:

- (A) Increased or decreased the principal.
- (B) Accepted payment of principal or income.
- (C) Corresponded in writing concerning the property.
- (D) Otherwise indicated an interest in the property as evidenced by a memorandum or other record on file with the fiduciary.”

Recommendation:

NLACRC must follow-up to determine whether DHCS will collect the \$46,486.61 from the deceased individual trust accounts. If DHCS is not seeking repayment from the deceased individuals, the funds must be forwarded to the individuals' beneficiaries, or escheated to the State. In addition, NLACRC must forward the remaining funds for the two individuals that transferred to their corresponding regional center and close their account at NLACRC.

C. Interest Not Disbursed

The review of the individual trust accounts revealed four individuals did not receive interest. Two individuals did not receive any interest for the audit period and two individuals have not received interest since January 2023. NLACRC did not state a reason why the interest was not disbursed to the four individuals. (See Attachment F)

Article III, Section 10 of the contract between DDS and NLACRC states in part:

“Contractor shall ensure that the consumer benefits directly from all interest earned on trust accounts. Guided by prudent business practices, all trust funds must be placed in a separate bank account that earns at least the prevailing rate of monetary interest for a “Business Savings” account, or equivalent account. This account shall be in the name of both the State and Contractor in accordance with the provisions of Article III, Section 3. All interest must be allocated to the individual consumer accounts. Bank charges (net after applying bank credits, if any), that are specifically identifiable to the trust account may be offset against the consumers’ interest. In no case shall the amount of bank charges allocated to the individual consumer accounts exceed the amount of interest earned.”

Recommendation:

NLACRC must determine why the four individuals did not receive interest and allocate the proper amount to their accounts. In addition, NLACRC should scan the other individual trust accounts to ensure all individual are receiving interest.

Finding 8: Equipment Inventory

The review of the inventory process revealed weakness with NLACRC's inventory taking procedures. NLACRC's fixed asset inventory listing was not updated after the comprehensive physical inventory was completed. There were eight pieces of equipment with a check date greater than three years. In addition, NLACRC's inventory did not include the date of the inventory, nor the name and signatures of the inventory takers and reviewer.

Article IV, Section 4(a) of the contract between DDS and NLACRC states in part:

“Contractor shall comply with the State’s Equipment Management System Guidelines for regional center equipment and appropriate directions and instructions which the State may prescribe as reasonably necessary for the protection of State of California property.”

State’s Equipment Management System Guidelines, Section III, F. Inventory of State-Owned Equipment states in part:

“Each RC shall conduct a comprehensive physical inventory of all state-owned nonexpendable equipment and sensitive equipment, as defined in Attachment A, at least once every three years.”

State’s Equipment Management System Guidelines, Section III, F. Inventory of State-Owned Equipment states in part:

“The inventory will be conducted per State Administrative Manual (SAM) Section 8652.”

State Administrative Manual, Inventorying Property - 8652 states in part:

“Taking Physical Inventory

Agencies/departments will make a physical count of all property and reconcile the count with the accounting records at least once every three years. Inventory counting does not need to be performed at one time for an entire agency’s/department’s capital assets/property. Agencies/departments may take a rotating inventory according to an inventory calendar.

Inventory Plan

Agencies/departments are responsible for developing and carrying out an inventory plan which will include:

1. Inventory Taking

- a. Time schedule.
- b. Count procedure (type of listing or count sheet to be used).
- c. Count assignment (statement of who will take the inventory at the times and locations scheduled).

2. Internal Control

- a. Inventories will not be exclusively controlled by the custodian of the property records.
- b. Worksheets used to take inventory will be retained for audit and will show the date of inventory and the name of the inventory taker.”

Recommendation:

NLACRC must develop procedures that adhere to all the requirements set forth regarding the safeguarding of State property. This will ensure compliance with the State Contract, Article IV, Section 4(a), State’s Equipment Management System Guidelines and SAM.

Finding 9: Independent CPA Vendor Audit/Review Oversight

The review of the Vendor Independent CPA Audit/Reviews revealed a weakness in NLACRC’s oversight of the Vendor Independent CPA Audit/Reviews. NLACRC used a spreadsheet to track the Vendor Independent CPA Audit/Reviews. However, the spreadsheet did not reconcile with the DDS list of vendors required to submit an Independent CPA Audit/Review that was provided to NLACRC.

In addition, the review revealed NLACRC exempted 34 vendors from 2021 and 73 vendors from 2022. However, NLACRC did not provide documentation to support the exemptions and did not notify the department of the exemptions.

W&I Code Section 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 five hundred thousand dollars (\$500,000) but less than two million dollars (\$2,000,000), the entity shall obtain an independent review report of its financial statements for the entity's fiscal year that includes the last day of the most recent state fiscal year.

(B) If the amount received from the regional center or regional centers during each state fiscal year is equal to or more than two million dollars (\$2,000,000), the entity shall obtain an independent audit of its financial statements for the entity's fiscal year that includes the last day of the most recent state fiscal year.

(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 9 months of the end of the entity's fiscal year."

W&I Code, Section 4652.5(d)(2) states in part:

"A regional center shall submit copies of all independent audit reports that it receives to the department for review. The department shall compile data, by regional center, on vendor compliance with audit requirements and opinions resulting from audit reports and shall annually publish the data in the performance dashboard developed pursuant to Section 4572."

W&I Code, Section 4652.5(h) states in part:

"(1) An entity required to obtain an independent review report of its financial statements pursuant to subparagraph (A) of paragraph (1) of subdivision (a) may apply to the regional center for, and the regional center shall grant, a two-year exemption from the independent review report requirement if the regional center does not find issues in the prior year's independent review report that have an impact on regional center services."

(2) An entity required to obtain an independent audit of its financial statements pursuant to subparagraph (B) of paragraph (1) of subdivision (a) may apply to the regional center for an exemption from the independent audit requirement, subject to both the following conditions:

- (A) If the independent audit for the prior year resulted in an unmodified opinion or an unmodified opinion with additional communication, the regional center shall grant the entity a two-year exemption.
- (B) If the independent audit for the prior year resulted in a qualified opinion and the issues are not material, the regional center shall grant the entity a two-year exemption. The entity and the regional center shall continue to address issues raised in this independent audit, regardless of whether the exemption is granted.

(3) A regional center shall annually report to the department any exemptions granted pursuant to this subdivision.”

CCR, Title 17, Section 54370(a) states:

“(a) The vendoring regional center shall be responsible for ensuring that vendors within its service catchment area comply with the vendorization requirements.”

Recommendation:

NLACRC should develop and implement policies and procedures to ensure it is properly tracking and following up with vendors who are required to, but have not, submitted an audit report or review. Failure to receive these reports limits NLACRC’s ability to detect vendor issues that may adversely affect services. In addition, NLACRC should ensure documentation is maintained to support the exemptions and develop a procedure to notify the department annually of these exemptions.

EVALUATION OF RESPONSE

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

Finding 1: Incorrect Rate Reform Model Implementation

NLACRC stated that DDS' assumption that all transportation vendors providing Additional Component, Service Code 880 services are only providing two trips per day to consumers is incorrect since some vendors transport consumers to multiple locations daily based on the consumer's individual program plan.

In addition, NLACRC explained that it implemented the new rates based off DDS' instructions to have the vendors complete the worksheets based off the number of trips per day. Nonetheless, NLACRC asked the vendors to re-evaluate the data in their worksheets, as overpayments totaling \$1,025,153.09 resulted from incorrectly implementing the rate reform model.

After the worksheets were re-evaluated, NLACRC recovered \$16,441.18 in overpayments from one vendor and coordinated repayment plans with two vendors totaling \$724,491.92. Per NLACRC, among the remaining five vendors with overpayments totaling \$284,220, three assert that the average number of trips per unit exceeded two per day and there are no overpayments; the last two plan to appeal the overpayment, stating they were following DDS' instructions. As a result, NLACRC must submit reimbursement updates to DDS indicating \$724,491.92 was collected through their payments plans with the two vendors and reimburse DDS the remaining balance totaling \$284,220.

Finding 2: Over/Underpayments Due to Incorrect Rates

NLACRC took corrective action to resolve the \$873,763 in overpayments by providing documentation showing \$396,021.65 was collected from the vendors. NLACRC also explained that the remaining \$477,741.35 will be offset towards future payments to the vendor.

In addition, NLACRC took corrective action to resolve the \$335,268.38 in underpayments by providing documentation showing payments were made to the vendors totaling \$263,405.34. NLACRC explained that the remaining \$71,863.04 will be paid to the vendors once it receives permission from DDS to issue payments for the closed fiscal years.

Finding 3: Overstated Claims

NLACRC provided documentation with its response to the draft audit report indicating it took corrective action to resolve the overpayments totaling \$124,670.23. Therefore, this issue is resolved.

Finding 4: Bank Reconciliations

NLACRC acknowledges the importance of having timely bank reconciliations and stated the bank reconciliations were delayed due to changes in staffing and workload challenges due to COVID. NLACRC took corrective action by providing documentation indicating the bank reconciliations were subsequently completed for FY 2021-22 and 2022-23, and that bank reconciliation policies and procedures are documented.

Finding 5: Service Coordinator Caseload Ratio

NLACRC stated the positions vacant for more than 60 days of the reporting month were inadvertently included in the caseload reports due to new staff completing the reports. NLACRC states that, going forward, it will exclude the vacant positions from the service coordinator caseload reports.

Finding 6: BOD COI Statements

NLACRC stated it has implemented procedures to ensure its Board members complete and submit a COI statement by August 1st of each year and will forward the completed COI statements to DDS within ten days of completion or no later than August 10th of each year.

Finding 7: Individual Trust Accounts

A. Individual Trust Balances Over the Resource Limit

NLACRC stated it will ensure the individual trust balances remain within the resource limit established by Social Security and took corrective action by providing documentation indicating the three individual trust accounts are currently below the \$2,000 resource limit.

B. Remaining Individual Trust Balances

NLACRC took corrective action by providing documentation indicating the remaining trust balances for the three individuals have been distributed to their next of kins.

C. Interest Not Disbursed

NCLARC stated the interest was not disbursed to the four individuals due to the interest calculation indicator being turned off. NLACRC stated it will take corrective action by turning the interest calculation indicator on for all individuals with a trust balance and disburse the interest to the four individuals once it calculates the quarterly interest through September 2024.

Finding 8: Equipment Inventory

NLACRC took corrective action by updating its equipment inventory procedures and updated their inventory software with additional options to allow the inventory taker to use hand scanners for recording.

Finding 9: Independent CPA Vendor Audit/Review Oversight

NLACRC disagrees with the finding that their spreadsheet did not reconcile with DDS' list of vendors and that documentation was not maintained to support the exemptions granted. NLACRC provided a different spreadsheet and copies of exemptions with its response to the draft report that were not provided during the audit. Therefore, DDS stands by its finding. DDS reviewed the spreadsheet and exemptions and can confirm the new spreadsheet reconciles with the DDS data. However, 70 of the 107 exemptions remain unsupported, and documentation was not provided to verify that the exemptions were reported to DDS

ATTACHMENT A

NORTH LOS ANGELES COUNTY REGIONAL CENTER

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

ATTACHMENT B

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APPENDIX A

SCOPE, OBJECTIVES, AND METHODOLOGY

DDS is responsible, under the W&I Code, for ensuring that persons with intellectual and developmental disabilities receive the services and supports they need to lead more independent, productive, and integrated lives. To secure these services and supports, DDS contracts with 21 private, nonprofit community agencies/corporations that provide fixed points of contact in the community for serving eligible individuals and their families in California. These fixed points of contact are referred to as regional centers. The regional centers are responsible under State law to help ensure that such persons receive access to the programs and services that are best suited to them throughout their lifetime.

DDS also is responsible for providing assurance to the federal Department of Health and Human Services, Centers for Medicare, and Medicaid Services (CMS), that services billed under California's HCBS Waiver program are provided and that criteria set forth for receiving funds have been met. As part of providing this assurance, the Audit Section conducts fiscal compliance audits of each regional center no less than every two years and completes follow-up reviews in alternate years.

In addition to the fiscal compliance audit, each regional center also is monitored by the DDS Federal Programs Operations Section to assess overall programmatic compliance with HCBS Waiver requirements. The HCBS Waiver compliance monitoring review has its own criteria and processes. These audits and program reviews are an essential part of an overall DDS monitoring system that provides information on the regional centers' fiscal, administrative, and program operations.

This audit was conducted as part of the overall DDS monitoring system that provides information on the regional centers' fiscal, administrative, and program operations. The objectives of this audit were:

- To determine compliance with the W&I Code,
- To determine compliance with the provisions of the HCBS Waiver Program for the Developmentally Disabled,
- To determine compliance with CCR, Title 17 regulations,
- To determine compliance with OMB Circulars A-122 and A-133, and
- To determine that costs claimed were in compliance with the provisions of the State Contract between DDS and the regional center.

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. However, the procedures do not constitute an audit of the regional center's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that the regional center was in compliance with the objectives identified above.

DDS' review of the regional center's internal control structure was conducted to gain an understanding of the transaction flow and the policies and procedures, as necessary, to develop appropriate auditing procedures.

DDS reviewed available annual audit report(s) that were conducted by an independent CPA firm. This review was performed to determine the impact, if any, upon the DDS audit and, as necessary, develop appropriate audit procedures.

The audit procedures performed included the following:

I. Purchase of Service

DDS selected a sample of Purchase of Service (POS) claims billed to DDS. The sample included consumer services and vendor rates. The sample also included consumers who were eligible for the HCBS Waiver Program. For POS claims, the following procedures were performed:

- DDS tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.
- DDS selected a sample of invoices for service providers with daily and hourly rates, standard monthly rates, and mileage rates to determine if supporting attendance documentation was maintained by the regional center. The rates charged for the services provided to individual consumers were reviewed to ensure compliance with the provision of the W&I Code; the HCBS Waiver for the Developmentally Disabled; CCR, Title 17, OMB Circulars A-122 and A-133; and the State Contract between DDS and the regional center.
- If applicable to this audit, 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.
- If applicable to this audit, 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 the regional center staff revealed that the regional center 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.

- If applicable to this audit, 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 bank accounts to determine whether DDS had signatory authority, as required by the State Contract with DDS.
- DDS selected a sample of bank reconciliations for Operations (OPS) accounts and Consumer Trust bank accounts to determine if the reconciliations were properly completed on a monthly basis.

II. Regional Center Operations

DDS selected a sample of OPS claims billed to DDS to determine compliance with the State Contract. The sample included various expenditures claimed for administration that were reviewed to assure that accounting staff properly input data, transactions were recorded on a timely basis, and expenditures charged to various operating areas were valid and reasonable. The following procedures were performed:

- A sample of the personnel files, timesheets, payroll ledgers, and other support documents were selected to determine if there were any overpayments or errors in the payroll or the payroll deductions.
- A sample of OPS expenses, including, but not limited to, purchases of office supplies, consultant contracts, insurance expenses, and lease agreements were tested to determine compliance with CCR, Title 17, and the State Contract.
- A sample of equipment was selected and physically inspected to determine compliance with requirements of the State Contract.
- DDS reviewed the regional center's policies and procedures for compliance with the DDS Conflict of Interest regulations, and DDS selected a sample of personnel files to determine if the policies and procedures were followed.

III. Targeted Case Management (TCM) and Regional Center Rate Study

The TCM Rate Study determines the DDS rate of reimbursement from the federal government. The following procedures were performed upon the study:

- DDS examined the two TCM Rate Studies submitted to DDS during the audit period and traced the reported information to source documents.
- A review of the recent Case Management Time Study (required to be submitted every three years) is conducted if the study was not reviewed during the prior audit. DDS selected a sample of the Case Management Time Study Forms (DS 1916) for examination and reconciled them to the corresponding payroll timesheets to ensure that the forms were properly completed and supported.

IV. Service Coordinator Caseload Survey

Under the W&I Code, Section 4640.6(e), regional centers are required to provide service coordinator caseload data to DDS. The following average service coordinator-to-consumer ratios apply per W&I Code Section 4640.6(c)(1)(2)(3)(A)(B)(C):

“(c) Contracts between the department and regional centers shall require regional centers to have service coordinator-to-consumer ratios, as follows:

- (1) An average service coordinator-to-consumer ratio of 1 to 62 for all consumers who have not moved from the developmental centers to the community since April 14, 1993. In no case shall a service coordinator for these consumers have an assigned caseload in excess of 79 consumers for more than 60 days.
- (2) An average service coordinator-to-consumer ratio of 1 to 45 for all consumers who have moved from a developmental center to the community since April 14, 1993. In no case shall a service coordinator for these consumers have an assigned caseload in excess of 59 consumers for more than 60 days.
- (3) The following coordinator-to-consumer ratios shall apply:
 - (A) All consumers enrolled in the Home and Community-based Services Waiver program for persons with developmental disabilities, an average service coordinator-to-consumer ratio of 1 to 62.

- (B) All consumers who have moved from a developmental center to the community since April 14, 1993, and have lived continuously in the community for at least 12 months, an average service coordinator-to-consumer ratio of 1 to 62.
 - (C) All consumers who have not moved from the developmental centers to the community since April 14, 1993, and who are not described in subparagraph (A), an average service coordinator-to-consumer ratio of 1 to 66.
- (4) Notwithstanding paragraphs (1) to (3), inclusive, an average service coordinator-to-consumer ratio of 1 to 40 for all consumers five years of age and younger.
 - (5) (A) Notwithstanding paragraphs (1) to (3), inclusive, enhanced service coordination, including a service coordinator-to-consumer ratio of 1 to 40, shall be available to consumers identified as having low or no purchase-of-service expenditures, as identified in the annual Budget Act.
 - (6) (A) Notwithstanding paragraphs (1) to (3), inclusive, an average service coordinator-to-consumer ratio of 1 to 25 for all consumers with complex needs.
 - (7) For purposes of paragraph (3), service coordinators may have a mixed caseload of consumers three years of age and younger, consumers enrolled in the Home and Community-based Services Waiver program for persons with developmental disabilities, and other consumers if the overall average caseload is weighted proportionately to ensure that overall regional center average service coordinator-to-consumer ratios as specified in paragraph (3) are met. For purposes of paragraph (3), in no case shall a service coordinator have an assigned caseload in excess of 84 for more than 60 days.”

DDS also reviewed the Service Coordinator Caseload Survey methodology used in calculating the caseload ratios to determine reasonableness and that supporting documentation is maintained to support the survey and the ratios as required by W&I Code, Section 4640.6(e).

V. Early Intervention Program (EIP; Part C Funding)

For the EIP, there are several sections contained in the Early Start Plan. However, only the Part C section was applicable for this review.

VI. Family Cost Participation Program (FCPP)

The FCPP was created for the purpose of assessing consumer costs to parents based on income level and dependents. The family cost participation assessments are only applied to respite, day care, and camping services that are included in the child's Individual Program Plan (IPP)/Individualized Family Services Plan (IFSP). To determine whether the regional center was in compliance with CCR, Title 17, and the W&I Code, Section 4783, DDS performed the following procedures during the audit review:

- Reviewed the list of consumers who received respite, day care, and camping services, for ages 0 through 17 years who live with their parents and are not Medi-Cal eligible, to determine their contribution for the FCPP.
- Reviewed the parents' income documentation to verify their level of participation based on the FCPP Schedule.
- Reviewed copies of the notification letters to verify that the parents were notified of their assessed cost participation within 10 working days of receipt of the parents' income documentation.
- Reviewed vendor payments to verify that the regional center was paying for only its assessed share of cost.

VII. Annual Family Program Fee (AFPF)

The AFPF was created for the purpose of assessing an annual fee of up to \$200 based on the income level of families with children between the ages of 0 through 17 years receiving qualifying services through the regional center. The AFPF fee shall not be assessed or collected if the child receives only respite, day care, or camping services from the regional center and a cost for participation was assessed to the parents under FCPP. To determine compliance with the W&I Code, Section 4785, DDS requested a list of AFPF assessments and verified the following:

- The adjusted gross family income is at or above 400 percent of the federal poverty level based upon family size.
- The child has a DD or is eligible for services under the California Early Intervention Services Act.
- The child is less than 18 years of age and lives with his or her parent.
- The child or family receives services beyond eligibility determination, needs assessment, and service coordination.

- The child does not receive services through the Medi-Cal program.
- Documentation was maintained by the regional center to support reduced assessments.

VIII. Parental Fee Program (PFP)

The PFP was created for the purpose of prescribing financial responsibility to parents of children under the age of 18 years who are receiving 24-hour, out-of-home care services through a regional center or who are residents of a state hospital or on leave from a state hospital. Parents shall be required to pay a fee depending upon their ability to pay, but not to exceed (1) the cost of caring for a child without DD at home, as determined by the Director of DDS, or (2) the cost of services provided, whichever is less. To determine compliance with the W&I Code Section 4784, DDS requested a list of PFP assessments and verified the following:

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

IX. Procurement

The Request for Proposal (RFP) process was implemented so that regional centers outline the vendor selection process when using the RFP process to address consumer service needs. As of January 1, 2011, DDS requires regional centers to document their contracting practices, as well as how particular vendors are selected to provide consumer services. By implementing a procurement process, regional centers will ensure that the most cost-effective service providers, amongst comparable service providers, are selected, as required by the Lanterman Act and the State Contract. To determine whether the regional center implemented the required RFP process, DDS performed the following procedures during the audit review:

- Reviewed the regional center's contracting process to ensure the existence of a Board-approved procurement policy and to verify that the RFP process ensures competitive bidding, as required by Article II of the State Contract, as amended.
- Reviewed the RFP contracting policy to determine whether the protocols in place included applicable dollar thresholds and comply with Article II of the State Contract, as amended.
- Reviewed the RFP notification process to verify that it is open to the public and clearly communicated to all vendors. All submitted proposals are evaluated by a team of individuals to determine whether proposals are properly documented, recorded, and authorized by appropriate officials at the regional center. The process was reviewed to ensure that the vendor selection process is transparent and impartial and avoids the appearance of favoritism. Additionally, DDS verified that supporting documentation is retained for the selection process and, in instances where a vendor with a higher bid is selected, written documentation is retained as justification for such a selection.

DDS performed the following procedures to determine compliance with the State Contract:

- Selected a sample of Operations, Community Placement Plan (CPP), and negotiated POS contracts subject to competitive bidding to ensure the regional center notified the vendor community and the public of contracting opportunities available.
- Reviewed the contracts to ensure that the regional center has adequate and detailed documentation for the selection and evaluation process of vendor proposals and written justification for final vendor selection decisions and that those contracts were properly signed and executed by both parties to the contract.

In addition, DDS performed the following procedures:

- To determine compliance with the W&I Code, Section 4625.5: Reviewed to verify that the regional center has a written policy requiring the Board to review and approve any of its contracts of two hundred fifty thousand dollars (\$250,000) or more before entering into a contract with the vendor.
- Reviewed the regional center Board-approved Operations, Start-Up, and POS vendor contracts of \$250,000 or more, to verify that the inclusion of a provision for fair and equitable recoupment of funds for vendors that cease to provide services to consumers; verified that the funds provided were specifically used to establish new or additional services to consumers, the usage of funds is of direct benefit to consumers, and the contracts are supported with sufficiently detailed and measurable performance expectations and results.

The process above was conducted in order to assess the current RFP process and Board approval for contracts of \$250,000 or more, as well as to determine whether the process in place satisfies the W&I Code and State Contract requirements.

X. Statewide/Regional Center Median Rates

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

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

- Reviewed sample vendor files to determine whether the regional center is using appropriately vendorized service providers and correct service codes, and is paying authorized contract rates and complying with the median rate requirements of W&I Code Section 4691.9.
- Reviewed vendor contracts to verify that the regional center is reimbursing vendors using authorized contract median rates and verified that rates paid represented the lower of the statewide or regional center median rate set after June 30, 2008. Additionally, DDS verified that providers vendorized before June 30, 2008, did not receive any unauthorized rate increases, except in situations where required by regulation, or health and safety exemptions were granted by DDS.

- Reviewed vendor contracts to verify that the regional center did not negotiate rates with new service providers for services which are higher than the regional center's median rate for the same service code and unit of service, or the statewide median rate for the same service code and unit of service, whichever is lower. DDS also verified that units of service designations conformed with existing regional center designations or, if none exists, checked that units of service conformed to a designation used to calculate the statewide median rate for the same service code.

XI. Other Sources of Funding from DDS

Regional centers may receive other sources of funding from DDS. DDS performed sample tests on identified sources of funds from DDS to ensure the regional center'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 may include:

- CPP;
- Part C – Early Start Program;
- Family Resource Center;
- Foster Grandparent (FGP);
- Senior Companion (SC);
- Self Determination;
- Mental Health Services Act; and
- First Five.

XII. Follow-up Review on Prior DDS Audit Finding(s)

As an essential part of the overall DDS monitoring system, a follow-up review of prior DDS audit finding(s) was conducted, if applicable. DDS identified prior audit finding(s) and reviewed supporting documentation to determine the degree of completeness of implementation of corrective actions.

APPENDIX B

NLACRC'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.