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AUDIT OF THE VALLEY MOUNTAIN REGIONAL CENTER FOR FISCAL YEARS 2022-23 AND 2023-24

July 2, 2025

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RESTRICTED USE

This audit report is solely for the information and use of the Department of Developmental Services (Department), the Centers of Medicare and Medicaid Services, the 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 conducted a fiscal compliance audit of Valley Mountain Regional Center (VMRC) to assess compliance with the requirements set forth in the Lanterman Developmental Disabilities Services Act and Related Laws/Welfare and Institutions Code (WIC); 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 the Department. 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, 2022, through June 30, 2024, with follow-up, as needed, into prior and subsequent periods. This report identifies some areas where the Regional Center's administrative and operational controls could be strengthened, but none of the findings were of a nature that would indicate systemic issues or constitute major concerns regarding the Regional Center's operations.

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

Findings that need to be addressed:

- Finding 1: Unsupported Credit Card Expenditures – There were 14 instances where credit card expenditures totaling \$1,306.57 were not supported with itemized receipts.
- Finding 2: Independent Certified Public Accountant (CPA) Audit Not Completed – VMRC did not complete an audit of its financial statements with an Independent CPA firm for Fiscal Years (FYs) 2021-22 and 2022-23.
- Finding 3: Operational Rent Survey Expenditures – VMRC could not support the expenditures reported on its Operational Rent Surveys for fiscal years 2022-23 and 2023-24.

Finding that has been addressed and corrected:

Finding 4: Overstated Claims – VMRC overpaid eight vendors a total of \$19,405.67 due to duplicate payments or overlapping authorizations. VMRC has since recovered the overstated claims.

BACKGROUND

The Department and Valley Mountain Regional Center, Inc. entered into State Contract HD199021, effective July 1, 2019, through June 30, 2026. This contract specifies that Valley Mountain Regional Center, Inc. will operate an agency known as VMRC to provide services to individuals with intellectual and developmental disabilities 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 individuals, and submitting billings to the Department.

This audit was conducted from November 18, 2024, through January 17, 2025, by the Audit Services Branch of the Department.

AUTHORITY

The audit was conducted under the authority of the WIC, Section 4780.5 and the State Contract between the Department and the Regional Center.

CRITERIA

The following criteria were used for this audit:

- WIC,
- 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 the Department and the Regional Center, effective July 1, 2019.

VIEWS OF RESPONSIBLE OFFICIALS

The Department issued the draft audit report on June 4, 2025. The findings in the draft audit report were discussed at a formal exit conference on June 13, 2025. The views of responsible officials are included in this final audit report.

CONCLUSIONS

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

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

From our review of seven prior Department audit findings, it has been determined that the Regional Center has taken appropriate corrective action to resolve all seven findings.

FINDINGS AND RECOMMENDATIONS

Findings that need to be addressed.

Finding 1: Unsupported Credit Card Expenditures

The review of VMRC's credit card expenditures revealed 14 instances where credit card expenditures totaling \$1,306.57 were not supported with itemized receipts. VMRC stated it was not able to retrieve the receipts since the purchases were made by former staff members who are no longer with VMRC. (See Attachment A)

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

“(a) The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures, and consumers served under this contract . . .”

VMRC's Administrative Procedures Manual - Credit Card Procedures, states in part:

“2. STATEMENT OF RESPONSIBILITY: All managers and card holders have a responsibility to ensure that only DDS approved or appropriate purchases are made, and the purchases are backed up with detailed-itemized receipts.

2.1 Responsibilities of Credit Card Holders:

2.1.1. Obtain original receipts indicating the detail of the purchase in order to submit them with credit card statement for payment.

2.1.2. Review the receipt when received to ensure it is an itemized receipt that includes a detailed description of items purchased.

2.1.7. Include copies of the itemized receipts for each transaction listed on the credit card statement.”

Recommendation:

VMRC must reimburse to the Department the unsupported credit card expenditures totaling \$1,306.57. In addition, VMRC must enforce its credit card procedures to ensure expenditures are supported with itemized receipts.

Finding 2: Independent CPA Audit Not Completed

VMRC did not complete an audit of its financial statements with an Independent CPA firm for FYs 2021-22 and 2022-23. VMRC stated that this issue occurred when previous management overlooked the requirement to complete an annual financial audit.

Following the completion of audit fieldwork, VMRC provided the Department with the FY 2021-22 financial audit report and stated that the FY 2022-23 report will be submitted upon completion.

W&I Code, Section 4639(a) states:

“The governing board of a regional center shall annually contract with an independent accounting firm for an audited financial statement. The audit report and accompanying management letter shall be reviewed and approved by the regional center board and submitted to the department within 60 days of completion and before April 1 of each year. Upon submission to the department, the audit report and accompanying management letter shall be made available to the public by the regional center. It is the intent of the Legislature that no additional funds be appropriated for this purpose.”

Recommendation:

VMRC must provide to the Department the audited financial statements for FY 2022-23 after completion by the CPA firm. In addition, VMRC must submit future audit reports to the Department within sixty days of completion and before April 1st of each year.

Finding 3: Operational Rent Survey Expenditures

The review of the Operational Rent Surveys for FYs 2022-23 and 2023-24 revealed VMRC did not provide documentation to support the amounts reported to DDS for allowable utilities and maintenance costs that were not included in the lease amounts. VMRC stated it was unable to provide the support since the amounts were reported by former staff members who are no longer employed by VMRC.

The Department's Regional Center Requests for Increased Rent Funding Guidelines, states in part:

- "1. Lease expenses include base rent, utilities expenses, and facility maintenance expenses as detailed in the "Guidelines for Allowable Rent Expenditures...Information collected via the survey tool will include:
 - Allowable maintenance and utility costs if not included in lease."

Recommendation:

VMRC must develop procedures to ensure that the reported amounts are properly supported and that revisions are made to the Spring Rent Survey to include all projected expenses, thereby preventing the potential overstatement or understatement of utilities and maintenance costs that are not covered by the lease.

Finding that has been addressed and corrected.

Finding 4: Overstated Claims

The review of the Operational Indicator Reports revealed 14 instances in which VMRC overpaid eight vendors a total of \$19,405.67 due to duplicate payments or overlapping authorizations. VMRC indicated this occurred due to a lack of oversight on its part when its staff did not identify the erroneous payments during its review of the Operational Indicator Reports. VMRC has since recovered this full amount.

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:

VMRC staff must accurately reviews all Operational Indicator Reports and promptly correct all erroneous payments that may have occurred while conducting business with its vendors.

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. The Department's Audit Services Branch has evaluated the response and will confirm the appropriate corrective actions have been taken during the next scheduled audit, unless otherwise described.

Finding 1: Unsupported Credit Card Expenditures

VMRC agreed to reimburse the Department \$1,306.57 for the unsupported credit card expenditures and attributed the issue to lapses in adherence to its internal policy requiring itemized receipts. To prevent future occurrences, VMRC stated it implemented an electronic expense reporting system requiring the upload of the itemized receipts. The Department will conduct a follow-up review during the next scheduled audit to ensure VMRC is enforcing its newly implemented procedure.

Finding 2: Independent CPA Audit Not Conducted

VMRC acknowledges the finding and stated that it was not able to complete the Independent CPA audits within the required timeframes. VMRC has since submitted its FY 2021-22 financial audit report to the Department and stated its CPA firm is currently conducting the audits for FYs 2022-23 and 2023-24. To ensure timely compliance going forward, VMRC stated that it has strengthened its internal audit scheduling and oversight processes. The Department will conduct a follow-up review during the next scheduled audit to verify that VMRC is submitting its financial audit reports within sixty days of completion and before April 1st of each year.

Finding 3: Operational Rent Survey Expenditures

VMRC acknowledges the finding and attributed the issue to inconsistencies in tracking and submitting lease and rental information during the survey periods. In response, VMRC stated it has provided targeted training to relevant staff and implemented enhanced internal control procedures to ensure future rent survey submissions are compliant. The Department will conduct a follow-up review during the next scheduled audit to verify the accuracy of future rent surveys.

Finding 4: Overstated Claims

VMRC stated it has successfully recovered the full amount of \$19,405.67 from the affected vendors. To prevent similar issues in the future, VMRC stated it now performs regular reviews of the Operational Indicator Reports, has trained its staff to verify authorizations against claims prior to payment. In addition, VMRC indicated that it has implemented internal controls to detect overlapping authorizations and potential duplicate billings. The Department will conduct a follow-up review during the next scheduled audit to verify its staff are accurately reviewing all Operational Indicator Reports.

ATTACHMENT A

VALLEY MOUNTAIN REGIONAL CENTER

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

APPENDIX A

SCOPE, OBJECTIVES, AND METHODOLOGY

The Department is responsible, under the WIC, 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, the Department 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.

The Department also is responsible for providing assurance to the federal Department of Health and Human Services, Centers for Medicare, and Medicaid Services, 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 Services 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 is monitored by the Department's Federal Programs Branch 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 Department monitoring system that provides information on the Regional Centers' fiscal, administrative, and program operations.

This audit was conducted as part of the overall Department 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 WIC,
- 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 the Department 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. The Department 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.

The Department 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.

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

The audit procedures performed included the following:

I. Purchase of Service

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

- The Department tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.
- The Department 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 individuals were reviewed to ensure compliance with the provision of the WIC; the HCBS Waiver for the Developmentally Disabled; CCR, Title 17, OMB Circulars A-122 and A-133; and the State Contract between the Department and the Regional Center.
- If applicable to this audit, the Department selected a sample of Individual 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, the Department determined if any retroactive Social Security benefit payments received exceeded the \$2,000 resource limit for longer than nine months. The Department 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 Department analyzed all bank accounts to determine whether the Department had signatory authority, as required by the State Contract with the Department.

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

II. Regional Center Operations

The Department selected a sample of OPS claims billed to the Department 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.
- The Department reviewed the Regional Center's policies and procedures for compliance with the Department Conflict of Interest regulations, and the Department 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 Department rate of reimbursement from the federal government. The following procedures were performed upon the study:

- The Department examined the two TCM Rate Studies submitted to the Department 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. The Department 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 WIC, Section 4640.6(e), Regional Centers are required to provide service coordinator caseload data to the Department. The Department verified that the documentation was maintained to support the service coordinator caseload survey ratios.

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. 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 the Department, or (2) the cost of services provided, whichever is less. To determine compliance with the WIC Section 4784, the Department 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 the Department 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 the Department 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, and a return envelope within 10 working days after placement of a minor child.
- Provided the Department a copy of each informational letter given or sent to parents, indicating the addressee and the date given or mailed.

VII. 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 individual service needs. As of January 1, 2011, the Department requires Regional Centers to document their contracting practices, as well as how particular vendors are selected to provide individual 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, the Department 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, the Department 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.

The Department performed the following procedures to determine compliance with the State Contract:

- Selected a sample of Operations, Community Placement Plan, 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, the Department performed the following procedures:

- To determine compliance with the WIC, 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 individuals; verified that the funds provided were specifically used to establish new or additional services to individuals, the usage of funds is of direct benefit to individuals, 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 WIC and State Contract requirements.

VIII. 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 the Department under health and safety exemptions where Regional Centers demonstrate the exemption is necessary for the health and safety of the individuals.

To determine compliance with the Lanterman Act, the Department 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 WIC 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, the Department 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 the Department.
- 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. The Department 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.

IX. Other Sources of Funding from the Department

Regional Centers may receive other sources of funding from the Department. The Department performed sample tests on identified sources of funds from the Department 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 the Department identified in this audit may include:

- Community Placement Plan;
- Part C – Early Start Program;
- Family Resource Center;
- Foster Grandparent;
- Senior Companion;
- Mental Health Services Act;
- HCBS Compliance;
- Language Access and Cultural Competency Program; and
- Enhanced Community Integration for Children and Adolescents.

X. Follow-up Review on Prior Department Audit Finding(s)

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

APPENDIX B

VMRC'S RESPONSE TO THE AUDIT FINDINGS

To request a copy of the Regional Center's response to the audit findings, please contact the Audit Services Branch at (916) 654-3695.