

**DEPARTMENT
OF
DEVELOPMENTAL SERVICES'
AUDIT
OF
ADULT EDUCATIONAL TECHNOLOGIES, INC.**

Service:

Supported Living Service – HB0369

Audit Period: January 1, 2023, through December 31, 2023

Audit Services Branch

Auditors: Hung Bang, Chief of Vendor Audit Section
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ADULT EDUCATIONAL TECNOLOGIES, INC.

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EXECUTIVE SUMMARY

The Department of Developmental Services (Department) has audited Adult Educational Technologies, Inc. (AET). The audit was performed upon the Supported Living Service (SLS) for the period of January 1, 2023, through December 31, 2023

The audit disclosed the following issues of non-compliance:

Finding 1: Supported Living Service – Unsupported Billings

The review of AET's SLS program, Vendor Number HB0369, revealed that AET had a total of \$100,378 of unsupported billings to Regional Center of the East Bay (RCEB).

Finding 2: Non-Compliance to Obtain an Independent Audit of Financial Statements

AET did not comply with WIC, Section 4652.5, which requires a vendor with more than or equal to \$2,000,000, in purchase of service (POS) during Fiscal Year (FY) 2023-24 to 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.

Finding 3: Non-Compliance with State and Federal Tax Laws and Regulations

The review of AET's payroll records, revealed that AET did not comply with State and Federal tax laws and regulations. AET failed to withhold and report State and Federal employment tax made to individuals under Casual Labor Pay.

The total of the findings identified in this audit amounts to \$100,378, which is due back to the Department. A detailed discussion of these findings is contained in the Findings and Recommendations section of this report.

BACKGROUND

The Department is responsible, under the Lanterman Developmental Disabilities Services Act, for ensuring that persons with developmental disabilities receive the services and supports they need to lead more independent, productive and normal lives. The Department contracts with 21 private, nonprofit regional centers that provide fixed points of contact in the community for serving eligible individuals with developmental disabilities and their families in California. In order for regional centers to fulfill their objectives, they secure services and supports from qualified service providers and/or contractors. Pursuant to the Welfare and Institutions Code (WIC), Section 4648.1, the Department has the authority to audit those service providers and/or contractors that provide services and supports to persons with developmental disabilities.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The audit was conducted to determine whether AET's fiscal accountability requirement and its program were compliant with the WIC, California Code of Regulations (CCR), Title 17, State laws and regulations and the regional centers' contracts with AET for the period of January 31, 2023, through December 31, 2023.

Scope

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. The auditors did not review the financial statements of AET, nor was this audit intended to express an opinion on the financial statements. The auditors limited the review of AET's internal controls to gain an understanding of the transaction flow and invoice preparation process, as necessary, to develop appropriate auditing procedures. The audit scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that AET complied with WIC and CCR, Title 17. Any complaints that the Department's Audit Services Branch was aware of regarding non-compliance with laws and regulations were also reviewed and addressed during the course of the audit.

The audit scope was determined by reviewing the programs and services provided to RCEB that utilized AET's services during the audit period. AET provided four different types of services, of which the Department audited one. Services chosen by the Department were based on the amount of purchase of service (POS) expenditures invoiced by AET. By analyzing the information received from the vendor, an internal control questionnaire and a risk analysis, it was determined that a two-month sample period would be sufficient to fulfill the audit objectives.

Supported Living Service

During the audit period, AET operated one ILP, BMP, ADC, and SLS program. The audit included the review of one of AET's SLS program, Vendor Number HB0369, SC 896 and testing was done for the sampled months of June 2023 through September 2023.

Methodology

The following methodology was used by the Department to ensure the audit objectives were met. The methodology was designed to obtain a reasonable assurance that the evidence provided was sufficient and appropriate to support the findings and conclusions in relation to the audit objectives. The procedures performed included, but were not limited to, the following:

- Reviewed vendor files for contracts, rate letters, program designs, POS authorizations and correspondence pertinent to the review.
- Corresponded with Regional Center staff for vendor background information and to obtain insight into the vendor's operations.
- Interviewed vendor staff and management to gain an understanding of the vendor's accounting procedures and processes for Regional Center billing.
- Obtained and reviewed the vendor's internal control questionnaire.
- Reviewed vendor service/attendance records to determine if the vendor had sufficient and appropriate evidence to support the direct care services billed to the Regional Center.
- Analyzed the vendor's payroll and attendance/service records to determine if the appropriate level of staffing was provided.

CONCLUSION

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

VIEWS OF RESPONSIBLE OFFICIALS

The Department issued a draft audit report on July 7, 2025. The findings in the report were discussed at an exit conference with AET on July 14, 2025. Subsequent to the exit conference, on August 25, 2025, AET submitted a response via email agreeing and accepting the findings.

RESTRICTED USE

This report is solely for the information and use of the Department, Department of Health Care Services, RCEB and AET. This restriction is not intended to limit distribution of this report, which is a matter of public record.

FINDINGS AND RECOMMENDATIONS

Finding 1: Supported Living Service – Unsupported Billings

The review of AET's SLS program, Vendor Number HB0369, for the sampled months of June 2023 through September 2023, revealed that AET had unsupported billings for services billed to RCEB. Unsupported billings occurred due to a lack of supporting documentation to support the units of service billed to RCEB and non-compliance with the CCR, Title 17.

The Department reviewed the direct care payroll hours, casual labor paid hours, timesheet hours and compared those hours to the direct care service hours billed to RCEB. The casual labor paid hours are not reflected in the direct care payrolls. To verify the manual checks for casual labor paid hours, the Department reviewed AET's general ledgers and bank statements and cross referenced them with the timesheet hours. The Department noted that the direct care payroll hours documented in the payroll register and the verified timesheet hours for casual labor were 2,965 hours less than the direct care service hours billed to RCEB. AET billed for 2,965 hours of service not supported by payroll register and manual checks for casual labor paid hours. The lack of documentation resulted in unsupported billings to RCEB in the amount of \$100,378, which is due back to the Department.
(See Attachment A)

WIC, Section 4648.1(e)(1) states:

“(e) A regional center or the department may recover from the provider funds paid for services when the department or the regional center determines that either of the following has occurred:

- (1) The services were not provided in accordance with the regional center's contract or authorization with the provider, or with applicable state laws or regulations.”

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

“(a) All vendors shall: ...

- (3) Maintain records of services provided to consumers in sufficient detail to verify delivery of the units of service billed: ...
- (10) Bill only for services which are actually provided to consumers and which have been authorized by the referring regional center.”

CCR, Title 17, Section 50604(d) and (e) states:

- “(d) All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program....
- (e) All service providers’ records shall be supported by source documentation.”

Recommendation:

AET must reimburse the Department \$100,378 for the unsupported billings. In addition, AET should comply with the CCR, Title 17 as stated above to ensure that proper documentation is maintained to support the amounts billed to RCEB.

Vendor’s Response:

AET, stated in the response, dated August 25, 2025, that AET agreed with the finding.

See Attachment B for the full text of AET’s response to the draft audit report and Attachment C for the Department’s evaluation of AET’s response.

Finding 2: Non-Compliance to Obtain an Independent Audit of Financial Statements

AET did not comply with WIC, Section 4652.5, which requires a vendor with more than or equal to \$2,000,000, in POS during Fiscal Year (FY) 2023-24 to 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.

WIC, Section 4652.5(a)(1)(A) and (b)(c) states:

- “(a) (1) An entity that receives payments from one or more regional centers shall contract with an independent accounting firm to obtain an independent audit or independent review report of its financial statements relating to payments made by regional centers, subject to both of the following:
 - (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 nine months of the end of the entity’s fiscal year.

- (c) Regional centers receiving the audit or review reports required by subdivision (b) shall review and require resolution by the entity for issues identified in the report that have an impact on regional center services. Regional centers shall take appropriate action, up to termination of vendorization, for lack of adequate resolution of issues.”

Recommendation:

AET must obtain an independent audit report of its financial statements and provide copies of the independent audit report to RCEB and the Department.

Vendor’s Response:

AET stated in the response, dated August 25, 2025, that AET agreed with the finding.

See Attachment B for the full text of AET’s response to the draft audit report and Attachment C for the Department’s evaluation of AET’s response.

Finding 3: Non-Compliance with State and Federal Tax Laws and Regulations

Based on the review of AET’s payroll, employees were paid by AET’s contracted payroll service or manual check issued by AET.

For the sampled months June 2023 through September 2023, AET was found to have made cash payments in the form of manual checks to employees for services rendered under Casual Labor Pay. It was noted that AET did not withhold nor report the employment tax portion of these payments and did provide these employees with a Form W-2 or 1099-NEC statements at year end.

CFR, Title 26, Section 31.3121(d)-1 (c) states:

“(c) Common law employees.

- (1) Every individual is an employee if under the usual common law rules the relationship between him and the person for whom he performs services is the legal relationship of employer and employee.
- (2) Generally, such relationship exists when the person for whom services are performed has the right to control and direct the individual who performs the services, not only as to the result to be accomplished by the work but also as to the details and means by which that result is accomplished. That is, an employee is subject to the will and control of the employer not only as to what shall be done but how it shall be done. In this connection, it is not necessary that the employer actually direct or control the manner in which the services are performed; it is sufficient if

he has the right to do so.... In general, if an individual is subject to the control or direction of another merely as to the result to be accomplished by the work and not as to the means and methods for accomplishing the result, he is an independent contractor. An individual performing services as an independent contractor is not as to such services an employee under the usual common law rules.”

CFR, Title 20, Section 404.1007 (b) states:

“(b) Factors that show employee status. Some aspects of a job arrangement that may show you are an employee as follows:

- (1) The person you work for may fire you.
- (2) You receive training from the person you work for or are required to follow that person’s instructions.
- (4) You must do the work yourself.
- (6) The person you work for sets your hours of work, requires you to work full-time, or restricts you from doing work from others.
- (8) You are paid by the hour, week or month.”

IRC, Section 3402 (a) states:

“(a) Requirement of withholding

(1) In General

Except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary. Any tables or procedures under this paragraph shall –

- (A) apply with respect to the amount of wages paid during such periods as the Secretary may prescribe, and
- (B) be in such form, and provide for such amounts to be deducted and withheld, as the Secretary determines to be most appropriate to carry out the purposes of this chapter and to reflect the provisions of chapter 1 applicable to such periods.”

UIC, Section 13020 (a)(1) states:

“(a)(1) Every employer who pays wages to a resident employee for services performed either within or without this state, or to a nonresident employee for services performed in this state, shall deduct and withhold from those wages, except as provided in subdivision (c) and Sections 13025 and 13026, for each payroll period, a tax computed in that manner as to produce, so far as

practicable, with due regard to the credits for personal exemptions allowable under Section 17054 of the Revenue and Taxation Code, a sum which is substantially equivalent to the amount of tax reasonably estimated to be due under Part 10 (commencing with Section 17001) of Division 2 of the Revenue and Taxation Code resulting from the inclusion in the gross income of the employee of the wages which were subject to withholding. The method of determining the amount to be withheld shall be prescribed by the Franchise Tax Board pursuant to Section 18663 of the Revenue and Taxation Code.”

UIC, Section 13021 (a) states:

“(a) Every employer required to withhold any tax under Section 13020 shall for each calendar quarter, whether or not wages or payments are paid in the quarter, file a withholding report, a quarterly return, as described in subdivision (a) of Section 1088, and a report of wages in a form prescribed by the department, and pay over the taxes so required to be withheld.”

Recommendation:

AET should follow and abide by all applicable State and Federal tax laws and regulations with respect to payroll tax withholdings

Vendor’s Response:

AET stated in the response, dated August 25, 2025, that AET agreed with the finding.

See Attachment B for the full text of AET’s response to the draft audit report and Attachment C for the Department’s evaluation of AET’s response.

ATTACHMENT A

ADULT EDUCATIONAL TECHNOLOGIES, INC.

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

ATTACHMENT B – VENDOR’S RESPONSE

ADULT EDUCATIONAL TECHNOLOGIES, INC.

To request a copy of the vendor’s response to the result of the audit, please contact the Audit Services Branch at (916) 654-3695.

ATTACHMENT C – EVALUATION OF RESPONSE

The Department evaluated AET's written response to the draft audit report, dated August 25, 2025, and determined that AET agreed with the findings.