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AUDIT OF THE NORTH LOS ANGELES COUNTY REGIONAL CENTER FOR FISCAL YEAR 2023-24

July 9, 2026

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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 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 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, 2023, 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. In addition, NLACRC has not addressed some issues noted in the prior audit report. Therefore, NLACRC must provide written updates every six months on the status of unresolved issues until NLACRC's implementation of compliant controls and practices for these issues are complete.

Findings that need to be addressed:

Finding 1: See findings that have been corrected on page 2.

Finding 2: Underpayments Due to Incorrect Rates – NLACRC underpaid five vendors due to incorrect application of the newly implemented rate reform.

NLACRC subsequently provided evidence of partial corrective action by adjusting the rates for four vendors, while the remaining vendor maintained its original rate.

Finding 3: Individual Trust Accounts:

A. See findings that have been corrected on page 2.

B. Remaining Individual Trust Balances – NLACRC has balances totaling $81,514.66 for seven individuals remaining in the trust accounts.

NLACRC subsequently provided documentation indicating it has taken partial corrective action by disbursing the funds for six individuals; therefore, the remaining trust balance for one individual is $711.34.

C. See findings that have been corrected below.

D. See findings that have been corrected below.

Finding 4: See findings that have been corrected below.

Finding 5: See findings that have been corrected below.

Finding 6: Conflict of Interest (COI) Statements – One governing board member's COI statement was not reviewed for conflict.

Finding 7**:** See findings that have been corrected below.

Finding 8: Equipment Inventory (Repeat) – NLACRC continues to have weaknesses with its inventory process.

Findings that have been corrected:

Finding 1: Rate Reform Implementation Issues – NLACRC needs to adjust the rates paid to five vendors.

Finding 3: Individual Trust Accounts:

A. Individual Trust Balances Over the Resource Limit – NLACRC has one individual trust account that exceeds the $2,000 resource limit.

C. Interest Not Disbursed – NLACRC did not disburse interest to six individual's trust accounts.

D. Individual Trust Disbursements Not Supported – NLACRC could not provide document to support a money management disbursement for one individual.

Finding 4: Bank Reconciliations – NLACRC's bank reconciliation process revealed weaknesses with the timeliness of the reconciliations.

Finding 5: Start-Up – NLACRC reimbursed one vendor, [redacted], $373,690 without documentation to support the payment.

Finding 7**:** Lack of Minutes for Closed Board Meetings – NLACRC was unable to provide closed board minutes for review.

Finding 9: Overstated Claims – NLACRC overstated claims totaling $37,026.17 for nine vendors.

Finding 10: Payments Made After Death – NLACRC made payments for three individuals after their date of death.

Finding 11: Improper Allocation of Community Placement Plan (CPP) Funds – NLACRC improperly claimed $345.87 in CPP expenses for one individual.

BACKGROUND

The Department 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 DD and their families. The contract is funded by State and federal funds that are dependent upon the Regional Center performing certain tasks, providing services to eligible individuals, and submitting billings to the Department.

This audit was conducted from February 10, 2025, through March 13, 2025, by the Audit Services Branch.

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 March 9, 2026. The findings in the draft audit report were discussed at a formal exit conference on March 13, 2026. 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 the nine Department audit findings, it has been determined that the Regional Center has taken appropriate corrective action to resolve eight findings. Since one finding noted in prior audit is unresolved, the Regional Center must provide written updates to the Department every six months on the status of these unresolved findings until the Regional Center's implementation of compliant controls and practices for those issues are complete.

FINDINGS AND RECOMMENDATIONS

Findings that need to be addressed.

Finding 1: See findings that have been corrected on page 11.

Finding 2: **Underpayments Due to Incorrect Rates**

The sampled review of 51 POS vendor files revealed five vendors were reimbursed at incorrect rates. NLACRC underpaid five vendors when it did not apply the newly implemented rates that were issued in April 2022 and January 2023.

NLACRC subsequently provided documentation indicating the rates for four vendors were adjusted, while the remaining vendor maintained its original rate.

WIC, 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)."

Recommendation:

NLACRC must revise the vendor's payment rate to assure the vendor is being paid correctly.

Finding 3: **Individual Trust Accounts**

A. See findings that have been corrected on page 12.

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 two deceased individuals and five individuals that NLACRC is no longer

representative payee. The seven individual accounts had remaining trust balances totaling $81,514.66. These remaining trust balances should have been forwarded to the individual's beneficiaries, returned to the Social Security Administration (SSA) or escheated to the State if unclaimed for more than three years. NLACRC did not state a reason for the remaining balances. (See Attachment A)

NLACRC provided documentation indicating it has taken partial corrective action by disbursing the funds for six individuals; therefore, the remaining trust balance for one individual is $711.34.

Social Security Handbook, Section 1616 states:

> "The responsibilities of a representative payee are to:
>
> > Return conserved funds to SSA when no longer serving as the beneficiary's representative payee and return any payments not due when a beneficiary has died."

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, 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 with the individual's next of kin and disburse the remaining funds totaling $711.34 once it receives a signed and notarized affidavit.

C. See findings that have been corrected on page 12.

D. See findings that have been corrected on page 13.

Finding 4: See findings that have been corrected on page 14.

Finding 5: See findings that have been corrected on page 15.

Finding 6: **COI Statements**

The review of the COI statements revealed one governing board member's COI statement was not reviewed to confirm that a conflict does not exist. This review would assure the governing board members are free from COIs that could adversely influence their judgment, objectivity or loyalty to the regional center, its individuals or its mission.

WIC, Section 4626(e), (f) and (l) states:

"(e) The department shall develop and publish a standard conflict-of-interest reporting statement. The conflict-of-interest statement shall be completed by each regional center governing board member and each regional center employee specified in regulations, including, at a minimum, the executive director, every administrator, every program director, every service coordinator, and every employee who has decision making or policymaking authority or authority to obligate the regional center's resources. …

"(f) Every new Regional Center governing board member and Regional Center executive director shall complete and file the conflict-of-interest statement described in subdivision (e) with his or her respective governing board within 30 days of being selected, appointed, or elected."

"(l) The department and the regional center governing board shall review the conflict-of-interest statement of the regional center executive director and each regional center board member to ensure that no conflicts of interest exist."

Recommendation:

No action is required. The governing board member in question subsequently provided a COI statement. Following a review, it was confirmed that no conflict exists.

Finding 7: See findings that have been corrected on page 17.

Finding 8: **Equipment Inventory (Repeat)**

The review of the inventory process revealed NLACRC continues to have weakness with its inventory tracking procedures. In response to the prior audit report, NLACRC indicated it has taken steps to update its equipment inventory procedures and their inventory software. However, NLACRC continues to have issues with the inventory listing not being updated. There were 343 items of equipment on the listing which did not show that the items were verified; therefore, it was difficult to determine if a comprehensive inventory was conducted. (See Attachment B)

In addition, the review revealed two items of equipment (laptop - State tag number 395794 and server rack - State tag number 376532) are missing. NLACRC stated a former employee failed to return the laptop but could not provide an explanation for the missing server rack. NLACRC has since completed survey forms for the two items and adjusted its inventory listing.

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 Guidelines Section III (E) states:

"RCs will conform with the following guidelines for any state-owned equipment that is junked, recycled, lost, stolen, donated destroyed, traded-in, transferred or otherwise removed from the control of the RC. RCs shall work directly with their regional Department of General Services' (DGS) office to properly dispose of state-owned

equipment. RCs will complete a Property Survey Report (Std. 152) for all state-owned equipment subject to disposal. DGS must review and approve Std. 152 before the equipment is actually disposed. A copy of the Std. 152 will be forwarded to CSS after the items have been disposed and all required approvals and certifications have been obtained. Another copy of the Std. 152 shall be forwarded to the RC Accounting Unit for posting. The RC will retain copies of all completed Std. 152s for audit purposes."

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

SAM, 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 follow the State Contract, State Equipment Management Guidelines and SAM to verify all state-owned equipment is properly accounted. In addition, NLACRC must provide written updates every six months to the Department on the status of this unresolved finding, until NLACRC's implementation of compliant controls and practices for equipment management is complete.

Findings that have been corrected:

Finding 1: <u>Rate Reform Model Implementation Issues</u>

Rates for five vendors of transportation, additional component (service code 880) were found to have been calculated assuming more than two trips per day for each individual. This was due in part because the rate reform workbooks and accompanying instructions issued by the Department did not identify the maximum number of trips per day. (See Attachment C)

NLACRC subsequently provided documentation indicating it has taken corrective action by adjusting the rates for the five vendors; therefore, this issue is considered resolved.

The Department has since issued a revised directive on October 28, 2025, providing additional guidance to regional centers regarding the rate reform implementation for transportation services which states in part:

"Transportation – Additional Component (service code 880)

<u>New Components</u>

- Billing: Providers will bill services for each individual, per one-way trip associated with transporting the individual to or from the day service program, for a maximum of two one-way trips per day per individual."

Recommendation:

NLACRC must review all transportation, additional component, service code 880 vendors to verify the rates are calculated based on the maximum of two trips per day per revised directive.

Finding 3: Individual Trust Accounts

A. Individual Trust Balances Over the Resource Limit

The review of the individual trust accounts revealed one individual, Unique Client Identifier (UCI) number [redacted] with an account balance of $3,200 which exceeds the resource limit of $2,000 by $1,200. By exceeding the resource limit, the individual is at risk of losing SSI benefits that are used to offset the costs of residential services.

NLACRC subsequently provided documentation indicating it has taken corrective action by assisting the individual with a spend down plan to bring the balance below the resource limit; therefore, this issue is considered resolved.

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 assure all individual trust balances remain within the resource limits established by the Social Security guidelines.

C. Interest Not Disbursed

The review of the individual trust accounts revealed six individuals receiving Social Security benefits did not receive interest payments in their bank accounts. One individual did not receive interest from March 2024 through June 2024, two individuals did not receive interest from July 2023 through June 2024, and three individuals did not

receive any interest from January 2024 through March 2024. NLACRC did not state a reason why the interest was not disbursed to the six individuals. (See Attachment D)

During the recent FY 2024-25 Department audit, NLACRC demonstrated corrective action was taken by disbursing interest to the individuals; therefore, this issue is considered resolved.

Article III, Section 10 of the contract between the Department 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 review all trust accounts to assure all individuals are receiving interest.

D. <u>Individual Trust Disbursement Not Supported</u>

The review of NLACRC's money management disbursements revealed NLACRC did not retain receipt(s) totaling $458.49 to support one money management disbursement check for UCI number [redacted].

NLACRC subsequently provided documentation indicating it has taken corrective action by obtaining receipts to support the money management disbursement for the one individual; therefore, this issue is considered resolved.

Social Security Handbook, Section 1616 states:

> "Keep written records of all payments received from SSA and how the payments were spent and/or saved along with receipts for shelter expenses and major purchases to prove how funds were spent and/or saved on behalf of the beneficiary."

Recommendation:

NLACRC must follow the Social Security Handbook to assure money management disbursements are supported. As the representative payee, NLACRC must make all its vendors aware that receipts to support the individual trust money management disbursements must be submitted to NLACRC, and request reimbursement from vendors who do not comply. This will assure all money management checks disbursed to the vendors are reviewed and that the expenditures were spent for the individuals' benefit.

Finding 4: <u>Bank Reconciliations</u>

The review of 15 sampled months of bank reconciliations for the Operations, Client Trust, Dedicated Trust, Payroll and Flex Spending accounts revealed nine months of the bank reconciliations were not completed within 30 days of the preceding month. The reconciliations were completed four to 14 months late.

During the recent FY 2024-25 Department audit, NLACRC demonstrated corrective action was taken by completing its bank reconciliations in a timely manner; therefore, this issue is considered resolved.

WIC, 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 5 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 (SAM), 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 continue to complete the bank reconciliations timely. This will assure that errors or fraudulent transactions can be detected, analyzed and rectified immediately.

Finding 5: **Start-Up**

The review of NLACRC's Start-up contract (NLACRC 2324-4) revealed Vendor PL2285, Service Code 999 was reimbursed $373,690; however, NLACRC could not provide documentation to support the payment made to the vendor.

NLACRC subsequently provided documentation to support the payments to the vendor totaling $373,690; therefore, this issue is considered resolved.

NLACRC's contract with [redacted], Exhibit A states:

> "Maximum Acquisition Amount: $300,000."

NLACRC's contract with [redacted], Section 6 and 6.1 states:

> "6. HDO's Acquisition of Housing: Disbursement of CRDP Funds; Notice to NLACRC. HDO will notify NLACRC in writing (1) when HDO opens an escrow to purchase the Property.
>
> 6.1 Disbursement of CRDP Funds at Acquisition. The CRDP - Funds NLACRC has earmarked for HDO's acquisition of the Property shall be disbursed by NLACRC directly to the escrow agent handling the sale of the Property, along with escrow instructions for the escrow agent's proper use of such funds. NLACRC shall disburse its funds by wire transfer. NLACRC's escrow instructions shall provide that escrow agent shall not disburse any CRDP Funds to HDO or for its benefit until the escrow agent (i) records the Restrictive Covenant and DDS Deed of Trust described in Section 8 and 10 below and (ii) records the Profit Participation Agreement or delivers the DDS Note described in Section 9 below."

WIC, 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 5 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…"

Recommendation:

NLACRC must follow the State contract requirements and assure documentation is maintained and accessible to support the payments.

Finding 7: **Lack of Minutes for Closed Board Meetings**

The governing board section review revealed NLACRC was unable to provide the closed board minutes for the audit period to ensure sensitive material discussed was safeguarded and not considered public record. NLACRC stated they were unable to obtain the closed board minutes since the former board secretary was unwilling to provide the minutes to the board.

During the recent FY 2024-25 Department audit, NLACRC demonstrated corrective action was taken by retaining its closed Board meeting minutes; therefore, this issue is considered resolved.

NLACRC Board of Trustees Bylaws, Article V, Section 6(b) states:

> "Maintain a log or record of actions taken in executive session and transfer this record to his or her successor."

WIC, Article 3, Section 4663(a) and (b) states:

> "(a) The governing board of a Regional Center may hold a closed meeting to discuss or consider one or more of the following:
>
> (1) Real estate negotiations.
> (2) The appointment, employment, evaluation of performance, or dismissal of a Regional Center employee.
> (3) Employee salaries and benefits.
> (4) Labor contract negotiations.
> (5) Pending litigation.
>
> (b) …Minutes of closed sessions shall be kept by a designated officer or employee of the Regional Center, but these minutes shall not be considered public records. Prior to and directly after holding any closed session, the Regional Center board shall state the specific reason or reasons for the closed session. In the closed session, the board may consider only those matters covered in its statement."

Recommendation:

NLACRC must continue to assure all minutes of the closed board meetings specify the reason for the closed sessions and should not be considered public records. These minutes of the closed board meetings should be recorded, kept, and safeguarded by a designated officer or employee of the NLACRC.

Finding 9: Overstated Claims

The review of the Operational Indicator Reports revealed 18 instances in which NLACRC overstated claims totaling $37,026.17. The overstated claims occurred due to duplicate payments and overlapping authorizations. NLACRC has since recovered the overpayments totaling $37,026.17. (See Attachment 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 assure its staff monitor the Operational Indicator Reports for errors that may have occurred while doing business with its vendors.

Finding 10: Payments Made After Death

The review of the individual trust accounts revealed NLACRC made payments to vendors after the individuals' date of death. This resulted in payments to the vendors totaling $10,827.59 for three individuals. NLACRC has since recovered the payments totaling $10,827.59 from the vendors.

CCR, Title 17, Section 50612 (e)(1)(c) states in part:

"The Regional Center purchase of service authorization shall contain the requirements for terminating payments to service providers…

1. The circumstances for terminating payments by the Regional Center shall include:

c. The death of the consumer"

Recommendation:

NLACRC must review all current, deceased individual files to ensure the vendors are reimbursed only for services rendered.

Finding 11: <u>Improper Allocation of CPP Funds</u>

The review of NLACRC's CPP expenditures revealed that NLACRC claimed $345.87 for one individual that was not listed under the CPP placements during FY 2023-24. The individual's expenditure was allocated to CPP rather than the General Fund account. NLACRC has since reallocated $345.87 to the General Fund.

Guidelines for Regional Center CPP, (III)(A) states in part:

> "Placement funding will be allocated based on claims associated with reconciled CPP placements that occur during each FY. As part of the POS claims review process, the Department may periodically request verification of consumers who have transitioned to the community and their associated costs."

State Contract, Exhibit E, Section 2(a) states, in relevant part:

> "Contractor shall use funds allocated for the regional center's approved Community Placement Plan and Community Resource Development Plan only for the purposes allocated and in compliance with the State's Community Placement Plan and Community Resource Development Plan and Housing Guidelines."

Recommendation:

NLACRC must review the CPP claims to ensure the individuals' expenditures are allocated to proper funding sources before claims are made to the Department.

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.

Findings that need to be addressed:

Finding 2: Underpayments Due to Incorrect Rates

NLACRC stated it updated the rates for the five vendors in accordance with the rate implementation and processed retroactive payments. However, review of the vendor payment histories revealed only four vendors had their rates adjusted, while the remaining vendor maintained its original rate. The one vendor's rate was not updated in the system due to an oversight. NLACRC must take corrective action and update the rate for the one vendor.

Finding 3: Individual Trust Accounts

B. Remaining Individual Trust Balances

NLACRC provided documentation indicating the individual trust balances for six of the seven individuals have been disbursed. Regarding the remaining individual (UCI [redacted]), NLACRC stated this individual passed away in April 2026 and that it would disburse the remaining funds to the next of kin upon receipt of a signed and notarized affidavit. Therefore, the Department considers this issue partially resolved. To fully resolve this issue NLACRC must provide the Department with documentation proving the funds have been successfully disbursed.

Finding 6: COI Statements

NLACRC stated it is committed to assuring that COI statements are completed, reviewed and submitted. To support this, NLACRC has trained Human Resources staff on the procedures for collecting, reviewing and approving the statements. The governing board member in question subsequently provided a COI statement. Following a review, it was confirmed that no conflict exists; therefore, no further action is required.

Finding 8: **Equipment Inventory (Repeat)**

NLACRC stated it is committed to complying with the State contract/guidelines and is actively improving its inventory tracking processes by retraining applicable staff. In addition, NLACRC stated it will provide the Department with progress updates every six months.

ATTACHMENTS A-E

NORTH LOS ANGELES COUNTY REGIONAL CENTER

To request a copy of the attachments 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

NORTH LOS ANGELES COUNTY REGIONAL CENTER

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