DEPARTMENT OF DEVELOPMENTAL SERVICES
1600 NINTH STREET, Room 320, MS 3-9
SACRAMENTO, CA 95814
TTY 654-2054 (For the Hearing Impaired)
(916) 654-1958

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OCT 18 2016
EXECUTIVE OFFICE

October 6, 2016

Louis Mitchell, Board President
Los Angeles County Developmental Services Foundation, Inc.
445 S. Figueroa Street, Suite 1700
Los Angeles, CA 90071

Dear Mr. Mitchell:

The Department of Developmental Services' (DDS) Audit Branch has completed the audit of the Frank D. Lanterman Regional Center (FDLRC). The period of review was from July 1, 2012, through June 30, 2014. The enclosed report discusses the areas reviewed along with the findings and recommendations. The report includes the response submitted by FDLRC, which is included as Appendix A, and DDS' reply, which is enclosed on page 24 of the report.

If there is a disagreement with the audit findings, a written "Statement of Disputed Issues" may be filed with DDS' Audit Appeals Unit, pursuant to California Code of Regulations (CCR), Title 17, Section 50730, Request for Administrative Review (excerpt enclosed). The "Statement of Disputed Issues" must be filed within 30 days of receipt of this report to:

Department of Developmental Services
Attn: John Doyle, Chief Deputy Director
1600 Ninth Street, Room 240, MS 2-13
Sacramento, CA 95814

The cooperation of FDLRC's staff in completing the audit is appreciated.

Also enclosed is your invoice for the total amount of $203,383.93 from the current audit findings. When you make the payments to DDS, please refer to the invoice number, so proper credit can be given. If you have any questions regarding the payment process, please contact Tim Gonsalves, Chief, Accounting Section, at (916) 654-2987.

If you have any questions regarding the report, please contact Edward Yan, Manager, Audit Branch, at (916) 654-3695.

Sincerely,

BRIAN WINFIELD
Acting Deputy Director
Community Services Division

Enclosures

cc: Melinda Sullivan, FDLRC
Patrick Aulicino, FDLRC
Evie Correa, DHCS
Jean Johnson, DDS
Rapone Anderson, DDS
Tim Gonsalves, DDS
Dean Shellenberger, DDS
Carie Powell, DDS
Edward Yan, DDS
Luciah Ellen Nzima, DDS
Soi Ly, DDS

State of California
DEPARTMENT OF DEVELOPMENTAL SERVICES
1600 9th Street
Sacramento, CA 95814

Louis Mitchell, Board President. Los Angeles County Developmental Services Foundation, Inc. 445 S. Figueroa Street, Suite 1700 Los Angeles, CA 90071	INVOICE No. **12324** Date **October 6, 2016**

Headquarters

Please return copy of Invoice with your remittance and make payable to:

DEPARTMENT OF DEVELOPMENTAL SERVICES
1600 9th Street, Room 310, MS 3-7
Sacramento, CA 95814
Attn: Tim Gonsalves, Chief, Accounting Section

For: Per final audit report dated October 6, 2016 please reimburse the Department of Developmental Services for the unresolved overpayment of $203,383.93 for the period July 1, 2012 through June 30, 2014.

Amount Due ..... **$ 203,383.93**

DDS ACCOUNTING OFFICE ONLY:

TC	FY	Vendor	Current Doc	Index	Obj/Pca	Amount	Source	Subsidiary
468	2012-14	-00	INV12324	9998	960000	$ 203,383.93	570000	

DS 1095 (4/87)

California Code of Regulations
Title 17, Division 2
Chapter 1 – General provisions
SubChapter 7 – Fiscal Audit Appeals
Article 2 – Administrative Review

§50730. Request for Administrative Review

(a) An individual, entity, or organization which disagrees with any portion or aspect of an audit report issued by the Department or regional center may request an administrative review. The appellant's written request shall be submitted to the Department within 30 days after the receipt of the audit report. The request may be amended at any time during the 30-day period.

(b) If the appellant does not submit the written request within the 30-day period, the appeals review officer shall deny such request, and all audit exceptions or findings in the report shall be deemed final unless the appellant establishes good cause for late filing.

(c) The request shall be known as a "Statement of Disputed Issues." It shall be in writing, signed by the appellant or his/her authorized agent, and shall state the address of the appellant and of the agent, if any agent has been designated. An appellant shall specify the name and address of the individual authorized on behalf of the appellant to receive any and all documents, including the final decision of the Director, relating to proceedings conducted pursuant to this subchapter. The Statement of Disputed Issues need not be formal, but it shall be both complete and specific as to each audit exception or finding being protested. In addition, it shall set forth all of the appellant's contentions as to those exceptions or findings, and the estimated dollar amount of each exception or finding being appealed.

(d) If the appeals review officer determines that a Statement of Disputed Issues fails to state the grounds upon which objections to the audit report are based, with sufficient completeness and specificity for full resolution of the issues presented, he/she shall notify the appellant, in writing, that it does not comply with the requirements of this subchapter.

(e) The appellant has 15 days after the date of mailing of such notice within which to file an amended Statement of Disputed Issues. If the appellant does not amend his/her appeal to correct the stated deficiencies within the time permitted, all audit exceptions or findings affected shall be dismissed from the appeal, unless good cause is shown for the noncompliance.

(f) The appellant shall attach to the Statement of Disputed Issues all documents which he/she intends to introduce into evidence in support of stated contentions. An appellant that is unable to locate, prepare, or compile such documents within the appeal period specified in Subsection (a) above, shall include a statement to this effect in the Statement of Disputed Issues. The appellant shall have an additional 30 days after the expiration of the initial 30-day period in which to submit the documents. Documents that are not submitted within this period shall not be accepted into evidence at any stage of the appeal process unless good cause is shown for the failure to present the documents within the prescribed period.

AUDIT OF THE FRANK D. LANTERMAN REGIONAL CENTER FOR FISCAL YEARS 2012-13 AND 2013-14

Department of Developmental Services

This audit report was prepared by the
California Department of Developmental Services
1600 Ninth Street
Sacramento, CA 95814

Jean Johnson, Deputy Director, Administration Division
Edward Yan, Manager, Audit Branch
Luciah Ellen Nzima, Chief of Regional Center Audits, Audit Branch
Soi Ly, Supervisor, Audit Branch

Audit Staff: Nestor Tuazon, Fahm Saelee, and Dong Le.

For more information, please call: (916) 654-3695

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EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) conducted a fiscal compliance audit of the Frank D. Lanterman Regional Center (FDLRC) to ensure FDLRC is compliant with the requirements set forth in the California Code of Regulations (CCR), Title 17, the California Welfare and Institutions (W&I) Code, the Home and Community-Based Services (HCBS) Waiver for the Developmentally Disabled, and the contract with DDS. Overall, the audit indicated that FDLRC maintains accounting records and supporting documentation for transactions in an organized manner. This audit report identifies some areas where FDLRC's administrative, operational controls could be strengthened, but none of the findings were of a nature that would indicate systemic issues or constitute major concerns regarding FDLRC's operations. A follow-up review was performed to ensure FDLRC has taken corrective action to resolve the findings identified in the prior DDS audit report.

Findings That Need to be Addressed.

Finding 1: **Negotiated Rates Above the Statewide Median Rate**

The sampled review of 133 Purchase of Service (POS) vendor contracts revealed three vendors that were contracted above the Statewide/Regional Center's Median Rate, which was implemented on July 1, 2008. This resulted in overpayments totaling $203,120.89. This is not in compliance with W&I Code, Sections 4691.9(a) and (b).

Finding 2: **Family Cost Participation Program**

A. Overstated Share of Cost

The sampled review of 20 Family Cost Participation Program (FCPP) consumer files revealed FDLRC paid the entire share of cost for respite services, for one family, to the vendor Tender Touch Homecare, Vendor Number HL0363, Service Code 862. This resulted in overpayments totaling $263.04. This is not in compliance with CCR, Title 17, Section 50255(a).

B. Assessments Not Completed As Part of the Individual Program Plan (IPP) (Repeat)

The sampled review of 20 FCPP consumer files revealed six instances in which FDLRC did not assess the parents' share of cost participation as part of the consumer's Individual Program Plan (IPP) or the Individualized Family Service Plan (IFSP) review. The assessments were completed more than 20 days after the signing of the IPP or IFSP. This is not in compliance with the W&I Code, Section 4783(g)(1).

Finding 3: **Equipment Inventory - Improper Capitalization**

The review of FDLRC's equipment inventory listing revealed that FDLRC capitalized all of its equipment rather than items valued at, or above, $5,000. FDLRC was not aware that only items valued at, or above, $5,000 are to be capitalized. This is not in compliance with the State Equipment Management Guidelines, Attachment D, Section 8602.

Finding 4: **Targeted Case Management (TCM) Time Study – Recording of Attendance**

The review of the TCM Time Study revealed that four of the 20 sampled employees had vacation and sick hours recorded on their timesheets which did not properly reflect the hours recorded on the TCM Time Study forms (DS 1916). This resulted in 31.5 hours that were overstated and one hour that was understated. This is not in compliance with the TCM Rate Study Process and Instructions.

Finding 5: **Vendors Not Enrolled in Electronic Billing (EB) (Repeat)**

The review of FDLRC's EB process found that 15 out of 4,050 eligible vendors have not been enrolled in EB. These vendors were not paid by voucher or did not demonstrate that submitting billings electronically for services would present a substantial financial hardship, which would have precluded them from enrolling in the EB process. This issue was also noted in the prior audit report. This is not in compliance with W&I Code, Section 4641.5(a).

Finding 6: **Lack of Annual Notification of the Whistleblower Policy**

FDLRC has not notified its board members, employees, families, and vendor community annually of the FDLRC Whistleblower Policy. The Whistleblower Policy was last distributed in 2010. This is not in compliance with the State Contract, Article I, Section 18(b)(6) and FDLRC's Whistleblower Policy.

Finding 7: **Annual Family Program Fee (AFPF) – Missing Registration Form**

The review of 15 AFPF consumer files revealed five consumers did not have an AFPF registration form (DS 6009) on file. FDLRC sends the DS 6009 to eligible families during annual assessment; however, FDLRC does not have a procedure in place to ensure all the families return a completed DS 6009 form. This is not in compliance with DDS' Annual Family Program Fee Procedures.

II. Finding That Has Been Addressed and Corrected by FDLRC.

Finding 8: **Over and Understated Claims**

The sampled review of 133 Purchase of Service (POS) vendor contracts revealed FDLRC overpaid 24 vendors and underpaid 13 vendors a total of $57,429.52 and $41,472.45, respectively. This occurred due to duplicate payments, overlapping authorizations, proration errors, incorrect application of the payment reduction and vendors being paid the wrong rates. This is not in compliance with CCR, Title 17; Sections 54326(a)(10) and 56917(i); and Assembly Bill 104, Chapter 37, Section 24, Section 10(a).

FDLRC has taken corrective action in resolving this issue by recovering the $57,429.52 overpaid to 24 vendors and issued payments totaling $41,472.45 to 13 vendors.

BACKGROUND

DDS is responsible, under the Lanterman Developmental Disabilities Services Act (Lanterman Act), for ensuring that persons with developmental disabilities (DD) receive the services and supports they need to lead more independent, productive and normal lives. To ensure that these services and supports are available, DDS contracts with 21 private, nonprofit community agencies/corporations that provide fixed points of contact in the community for serving eligible individuals with DD and their families in California. These fixed points of contact are referred to as Regional Centers (RCs). The RCs are responsible under State law to help ensure that such persons receive access to the programs and services that are best suited to them throughout their lifetime.

DDS is also responsible for providing assurance to the Department of Health and Human Services and Centers for Medicare and Medicaid Services (CMS), that services billed under California's Home and Community Based Services (HCBS) Waiver program are provided and that criteria set forth for receiving funds have been met. As part of DDS' program for providing this assurance, the Audit Branch conducts fiscal compliance audits of each RC no less than every two years, and completes follow-up reviews in alternate years. Also, DDS requires RCs to contract with independent Certified Public Accountants (CPA) to conduct an annual financial statement audit. The DDS audit is designed to wrap around the independent CPA's audit to ensure comprehensive financial accountability.

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

DDS and Los Angeles County Developmental Services Foundation, Inc., entered into contract HD099010, effective July 1, 2009, through June 30, 2016. The contract specifies that Los Angeles County Developmental Services Foundation, Inc. will operate an agency known as the FDLRC to provide services to persons with DD and their families in the Central, Glendale, Hollywood, Wilshire, and Pasadena areas. The contracts are funded by State and federal funds that are dependent upon FDLRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at FDLRC from October 13, 2014, through November 21, 2014, and was conducted by DDS' Audit Branch.

AUTHORITY

The audit was conducted under the authority of the W&I Code, Section 4780.5, and Article IV, Section 3 of the State Contract.

CRITERIA

The following criteria were used for this audit:

- California's W&I Code
- "Approved Application for the HCBS Waiver for the Developmentally Disabled"
- CCR, Title 17
- OMB Circular A-133
- State Contract between DDS and FDLRC, effective July 1, 2009

AUDIT PERIOD

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

OBJECTIVES, SCOPE, AND METHODOLOGY

This audit was conducted as part of the overall DDS monitoring system that provides information for RCs' fiscal, administrative, and program operations. The objectives of this audit are:

- To determine compliance with the W&I Code (or the Lanterman Act)
- To determine compliance with CCR, Title 17 regulations
- To determine compliance with the provisions of the HCBS Waiver Program for the Developmentally Disabled
- To determine that costs claimed were in compliance with the provisions of the State Contract

The audit was conducted in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. However, the procedures do not constitute an audit of the FDLRC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that FDLRC was in compliance with the objectives identified above. Accordingly, DDS examined transactions on a test basis, to determine whether FDLRC was in compliance with the Lanterman Act, CCR, Title 17, the HCBS Waiver for the Developmentally Disabled, and the State Contract.

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

DDS reviewed the Annual Audit Report that was conducted by an independent accounting firm for Fiscal Year (FY) 2012-13, issued on January 22, 2014. In addition, DDS noted no management letter was issued for FDLRC. This review was performed to determine the impact, if any, upon the DDS audit and, as necessary, develop appropriate audit procedures.

The audit procedures performed included the following:

I. Purchase of Service (POS)

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

- DDS tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.

- DDS selected a sample of invoices for service providers with daily and hourly rates, standard monthly rates, and mileage rates to determine if supporting attendance documentation was maintained by FDLRC. The rates charged for the services provided to individual consumers were reviewed to ensure that the rates paid were set in accordance with the provisions of CCR, Title 17, and the W&I Code.

- DDS selected a sample of individual Consumer Trust Accounts to determine if there were any unusual activities and whether any account balances exceeded $2,000 as prohibited by the Social Security Administration. In addition, DDS determined if any retroactive Social Security benefit payments received exceeded the $2,000 resource limit for longer than nine months. DDS also reviewed these accounts to ensure that the interest earnings were distributed quarterly, personal and incidental funds were paid before the tenth of each month, and that proper documentation for expenditures was maintained.

- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, was tested to determine whether funds received were properly identified to a consumer or returned to the Social Security Administration in a timely manner. An interview with FDLRC's staff revealed that FDLRC has procedures in place to determine the correct recipient of unidentified consumer trust funds. If the correct recipient cannot be determined, the funds are returned to Social Security Administration (or other source) in a timely manner.

- DDS analyzed all of FDLRC's bank accounts to determine whether DDS had signatory authority as required by the contracts with DDS.

- DDS selected a sample of bank reconciliations for Operations accounts to determine if the reconciliations were properly completed on a monthly basis.

II. Regional Center Operations (OPS)

DDS audited FDLRC's operations and conducted tests to determine compliance with the State Contract. The tests included auditing various expenditures claimed for administration to ensure that FDLRC's accounting staff is properly inputting data, that transactions were recorded on a timely basis, and to ensure that expenditures charged to various operating areas were valid and reasonable. These tests included the following:

- 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 operating expenses, including, but not limited to, purchases of office supplies, consultant contracts, insurance expenses, and lease agreements were tested to determine compliance with CCR, Title 17, and the State Contract.

- A sample of equipment was selected and physically inspected to determine compliance with requirements of the State Contract.

- DDS reviewed FDLRC's policies and procedures for compliance with the DDS Conflict of Interest regulations and DDS selected a sample of personnel files to determine if the policies and procedures were followed.

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

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

- Reviewed applicable TCM records and FDLRC's Rate Study. DDS examined the months of May 2013 and March 2014 and traced the reported information to source documents.

- Reviewed FDLRC's TCM Time Study. DDS selected a sample of payroll timesheets for this review and compared it to the Case Management Time Study Forms (DS 1916) to ensure that they were properly completed and supported.

IV. Service Coordinator Caseload Survey

Under W&I Code, Section 4640.6(e), RCs are required to provide service coordinator caseload data to DDS. The following average service coordinator-to-consumer ratios apply per W&I Code, Section 4640.6(c)(3):

A. For all consumers who are three years of age and younger and for consumers enrolled in the Waiver, the required average ratio shall be 1:62.

B. For all consumers who have moved from a developmental center to the community since April 14, 1993, and have lived continuously in the community for at least 12 months, the required average ratio shall be 1:62. The required average ratio shall be 1:45 for consumers who have moved within the first year.

C. For all consumers who have not moved from the developmental centers to the community since April 14, 1993, and who are not covered under A above, the required average ratio shall be 1:66. The 1:66 ratio was lifted in February 2009, upon imposition of the 3 percent operations reduction to regional centers as required per W&I Code, Section 4640.6(i) and (j). The ratio continued to be suspended from July 2010 until July 2012 with imposition of the subsequent 4.25 percent and 1.25 percent payment reductions.

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

V. Early Intervention Program (Part C Funding)

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

For this program, DDS reviewed the Early Intervention Program, including the Early Start Plan and Federal Part C funding to determine if the funds were properly accounted for in the RC's accounting records.

VI. Family Cost Participation Program (FCPP)

The FCPP was created for the purpose of assessing consumer costs to parents based on income level and dependents. The family cost participation assessments are only applied to respite, day care, and camping services that are included in the child's IPP. To determine whether FDLRC is in compliance with CCR, Title 17 and the W&I Code, DDS performed the following procedures during the audit review:

- Reviewed the list of consumers who received respite, day care, and camping services, for ages 0 through 17 years who live with their parents and are not Medi-Cal eligible, to determine their contribution for the FCPP.

- Reviewed the parents' income documentation to verify their level of participation based on the FCPP Schedule.

- Reviewed copies of the notification letters to verify that the parents were notified of their assessed cost participation within 10 working days of receipt of the parents' income documentation.

- Reviewed vendor payments to verify that FDLRC is paying for only its assessed share of cost.

VII. Annual Family Program Fee (AFPF)

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

- The adjusted gross family income is at, or above, 400 percent of the Federal poverty level based upon family size.

- The child has a developmental disability or is eligible for services under the California Early Intervention Services Act.

- The child is less than 18 years of age and lives with his or her parent.

- The child or family receives services beyond eligibility determination, needs assessment, and service coordination.

- The child does not receive services through the Medi-Cal program.

- Documentation was maintained by the RC to support reduced assessments.

VIII. Procurement

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

- Reviewed the FDLRC 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 communicates 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 FDLRC. The process was reviewed to ensure that the vendor selection process is transparent, impartial, and avoids the appearance of favoritism. Additionally, DDS verified that supporting documentation is retained for the selection process and, in instances where a vendor with a higher bid is selected, there is written documentation retained as justification for such a selection.

DDS performed the following procedures to determine compliance with Article II of the State Contract for new contracts in place as of January 1, 2011:

- Selected a sample of Operational, Start-Up and negotiated POS contracts subject to competitive bidding to ensure FDLRC notified the vendor community and the public of contracting opportunities available.

- Reviewed the contracts to ensure that FDLRC has adequate and detailed documentation for the selection and evaluation process of vendor proposals, written justification for final vendor selection decisions, and that those contracts were properly signed and executed by both parties to the contract.

In addition, DDS performed the following procedures to determine compliance with the W&I Code, Section 4625.5 for new contracts in place as of March 2011:

- Reviewed to ensure FDLRC 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 FDLRC Board approved POS, Start-Up and Operational vendor contracts of $250,000 or more to ensure the inclusion of a provision for fair and equitable recoupment of funds for vendors that cease to provide services to consumers. Verified that the funds provided were specifically used to establish new or additional services to consumers and that the usage of funds is of direct benefit to consumers, and that contracts are supported with sufficiently detailed and measurable performance expectations and results.

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

IX. Statewide/Regional Center Median Rates

The statewide or RC median rates were implemented on July 1, 2008, and amended on December 15, 2011, to ensure RCs are not negotiating rates higher than the set median rates for services. Despite the median rate requirement, rate increases could be obtained from DDS under health and safety exemptions where RCs demonstrate the exemption is necessary for the health and safety of the consumers.

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

- Reviewed sample vendor files to determine whether FDLRC is using appropriately vendorized service providers, has correct service codes, and that FDLRC is paying authorized contract rates and complying with the medium rate requirements of the W&I Code, Section 4691.9.

- Reviewed vendor contracts to verify that FDLRC is reimbursing vendors using authorized contract median rates and verified that the rates paid represented the lower of the statewide or RC median rate set after June 30, 2008. Additionally, DDS verified that providers vendorized before June 30, 2008, did not receive any unauthorized rate increases, except in situations where health and safety exemptions were granted by DDS.

X. Other Sources of Funding from DDS

RCs may receive other sources of funding from DDS. DDS performed sample tests on identified sources of funds from DDS to ensure FDLRC's accounting staff were inputting data properly, and that transactions were properly recorded and claimed. In addition, tests were performed to determine if the expenditures were reasonable and supported by documentation. The sources of funding from DDS identified in this audit are:

- Start-Up Funds, Community Placement Program (CPP)
- Part C
- Family Resource Center

XI. Follow-up Review on Prior DDS Audit Findings

As an essential part of the overall DDS monitoring system, a follow-up review of the prior DDS audit findings was conducted. DDS identified prior audit findings that were reported to FDLRC and reviewed supporting documentation to determine the degree and completeness of FDLRC's implementation of corrective actions.

CONCLUSIONS

Based upon the audit procedures performed, DDS has determined that, except for the items identified in the Findings and Recommendations section, FDLRC was in compliance with applicable sections of CCR, Title 17, the HCBS waiver, and the State Contract with DDS for the audit period July 1, 2012, through June 30, 2014.

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

From the review of prior audit issues, it has been determined that FDLRC has not taken appropriate corrective action to resolve two prior audit issues.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued a draft audit report on December 24, 2015. The findings in the audit report were discussed at a formal exit conference with FDLRC on January 12, 2016. The views of the responsible officials are included in the final audit report.

RESTRICTED USE

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

FINDINGS AND RECOMMENDATIONS

Findings That Need to be Addressed.

Finding 1: **Negotiated Rates Above the Statewide Median Rate**

The sampled review of 133 POS vendor contracts revealed three vendors, Social Vocational Services, Vendor Number HD0317, Service Code 880; Blue Eagle Villas, Vendor Number HD0320, Service Code 880; and Catalina Home Care Services, Vendor Number HD0344, Service Code 880; that were contracted above the Statewide/Regional Center's Median Rate, which was implemented on July 1, 2008.

FDLRC reimbursed Social Vocational Services and Blue Eagle Villas at a rate of $15.45 per consumer while the Median Rate was $11.33 per consumer. Also, FDLRC reimbursed Catalina Home Care Services at a rate of $14.79 per consumer, while the Median Rate was $11.33. This resulted in overpayments totaling $203,120.89. (See Attachment A)

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

> "(a) No regional center shall pay an existing service provider, for services where rates are determined through a negotiation between the regional center and the provider, a rate higher than the rate in effect on June 30, 2008, unless the increase is required by a contract between the regional center and the vendor that is in effect on June 30, 2008 . . .
>
> (b) No regional center may negotiate a rate with a new service provider, for services where rates are determined through a negotiation between the regional center and the provider, that is higher than the regional center's median rate for the same service code and unit of service, or the statewide median rate for the same service code and unit of service, whichever is lower . . ."

Recommendation:

FDLRC must reimburse to DDS the $203,120.89 in total overpayments made to the three vendors and renegotiate the rates for consistency with the Statewide/Regional Center Median Rates. In addition, FDLRC must also comply with the W&I Code, Section 4691.9 to ensure that all vendor rates negotiated after June 30, 2008, are at, or below, the Statewide/Regional Center Median Rates.

Finding 2: **Family Cost Participation Program**

A. Overstated Share of Cost

The sampled review of 20 FCPP consumer files revealed FDLRC paid the entire share of cost for respite services for one family, to Tender Touch Homecare, Vendor Number HL0363, Service Code 862. The review found that FDLRC reimbursed Tender Touch Homecare the entire 16 services units per month. However, two of these units are for share of cost that should have been the responsibility of the parents. This resulted in overpayments totaling $263.04 from April 2014 through October 2014. This occurred because FDLRC failed to change the share of cost on the service authorization in a timely manner. (See Attachment B)

CCR, Title 17, Section 50255(a) states:

> "(a) The parents of a child who meet the definition under Section 4783(a)(1) of the Welfare and Institutions Code shall be jointly and severally responsible for the assessed amount of family cost participation. However, in the case of a divorce, legal separation, or established paternity, the family cost participation assessment shall be computed on the gross annual income of both parents unless inconsistent with a court order stating otherwise."

Recommendation:

FDLRC must reimburse DDS a total of $263.04 in overpayments that resulted from FDLRC paying above its share of cost. In addition, FDLRC must ensure that changes to service authorizations are completed timely to ensure vendors are paid correctly.

B. Assessments Not Completed As Part of the IPP (Repeat)

The sampled review of 20 FCPP consumer files revealed six instances in which FDLRC did not assess the parents' share of cost participation as part of the consumer's IPP or the IFSP review. The assessments were completed more than 20 days after the signing of the IPP or IFSP. This occurred because FDLRC waited for families to provide income documentation before assessing the cost participation. (See Attachment C)

W&I Code, Sections 4783(g)(1)(A), (B), and (C) states:

> "(g) Family cost participation assessments or reassessments shall be conducted as follows:
>
> (1)(A) A regional center shall assess the cost participation for all parents of current consumers who meet the criteria specified in this section. A regional center shall use the most recent

individual program plan or individualized family service plan for this purpose.

(B) A regional center shall assess the cost participation for parents of newly identified consumers at the time of the initial individual program plan or the individualized family service plan.

(C) Reassessments for cost participation shall be conducted as part of the individual program plan or individual family service plan review pursuant to subdivision (b) of Section 4646 of this code or subdivision (f) of Section 95020 of the Government Code."

Recommendation:

FDLRC must ensure all FCPP assessments are completed as part of the consumer's IPP or IFSP review. This will ensure compliance with the W&I Code, Section 4873(g)(1).

Finding 3: **Equipment Inventory - Improper Capitalization**

The review of the equipment inventory listing revealed that FDLRC capitalized all of its equipment rather than items valued at, or above, $5,000. FDLRC was not aware that only items valued at, or above, $5,000 are to be capitalized.

The State Equipment Management Guidelines, Attachment D, Section 8602 states:

"State property is capitalized for accounting purposes when certain conditions are met. Capitalization means to record the property in the accounting records as assets. Tangible property must meet the following three requirements in order to meet the capitalization requirements:

1. Have a normal useful life of at least one year;

2. Have a unit acquisition cost of at least $5,000; and

3. Be used to conduct State business."

Recommendation:

FDLRC must correct its general ledger account to reflect only capitalized equipment with an acquisition cost at, or above, $5,000. This will ensure compliance with the State's Equipment Systems Guidelines and the State Administrative Manual as required by its contract with DDS.

Finding 4: **TCM Time Study – Recording of Attendance**

The review of the TCM Time Study revealed that four of the 20 sampled employees had vacation and sick hours recorded on their timesheets which did not properly reflect what was recorded on the DS 1916. The difference between the employees' timesheets and the TCM Time Study forms was a total of 31.5 hours.

The TCM Rate Study Process and Instructions state:

> ". . . All regional center case management staff (category CM) will complete the DS1916 during the rate study . . . The total hours worked during the day, including overtime must be shown . . ."

For good business and internal control practices, vacation and sick leave should be recorded correctly on the DS 1916. Time recorded incorrectly may result in an incorrect calculation of the TCM rate, which could result in the requirement to return overpayments of the TCM rate to the federal government.

Recommendation:

FDLRC staff must review the employee timesheet to ensure time reported on the DS 1916 is accurate.

Finding 5: **Vendors Not Enrolled in Electronic Billing (Repeat)**

The review of FDLRC's EB process found that 15 out of 4,050 eligible vendors have not been enrolled in EB. Exceptions are granted for vendors paid by vouchers and vendors who demonstrate that enrolling in EB will present a financial hardship. However, it was found that none of the 15 vendors were paid by vouchers or demonstrated that submitting billings electronically would have presented a financial hardship. (See Attachment D)

This issue was identified in the prior audit report and FDLRC provided documentation indicating it had resolved the issue with the 29 vendors who were not enrolled in EB. FDLRC stated that it worked systematically and diligently to enroll its providers into EB.

W&I Code, Sections 4641.5(a)(1) and (2) states:

> "(a) Effective July 1, 2011, regional centers shall begin transitioning all vendors of all regional center services to electronic billing for services purchased through a regional center. All vendors and contracted providers shall submit all billings electronically for services provided on or after July 1, 2012, with the exception of the following:

(1) A vendor or provider whose services are paid for by vouchers, as that term is defined in subdivision (i) of Section 4512.

(2) A vendor or provider who demonstrates that submitting billings electronically for services presents substantial financial hardship for the provider."

Recommendation:

FDLRC must continue to enroll all vendors in the EB process to be in compliance with W&I Code, Section 4641.5(a). In the event that vendors cannot be enrolled in EB, FDLRC must provide DDS with proper documentation from the vendor that precludes it from the EB process.

Finding 6: **Lack of Annual Notification of the Whistleblower Policy**

FDLRC has not notified its board members, employees, families, and vendor community annually of the FDLRC Whistleblower Policy. The Whistleblower Policy was last distributed in 2010. FDLRC indicated that the Whistleblower Policy is posted on its website for its employees and the public to review.

The State Contract, Article I, Section 18(b)(6) states:

"(b)(6) Include a process for ensuring notification of employees, board members, consumers/families, and vendor community of both the regional center and the State's Whistleblower policy within 30 days of the effective date of the regional center's policy and annually thereafter."

Recommendation:

FDLRC must ensure that employees, board members, families, and vendor community are notified annually about the DDS and FDLRC Whistleblower policies. In addition, FDLRC must ensure that it maintains the Whistleblower acknowledgment forms signed by the board members and employees.

Finding 7: **Annual Family Program Fee – Missing Registration Form**

The sampled review of 15 AFPF consumer files revealed five consumers who did not have the AFPF registration form (DS 6009) on file. FDLRC stated that the DS 6009s are sent to all eligible families during the annual assessment. However, FDLRC does not have a process in place to ensure all families return a completed DS 6009. (See Attachment E)

DDS' Annual Family Program Fee Procedures, Section II, Paragraph B states:

> "To comply with requirements contained in WIC Section 4785(e), which provides for collection by DDS after regional center has exhausted its efforts, regional centers shall complete the AFPF registration forms (appendix D, DDS form DS 6009) with parents at the time of the consumer's IPP or IFSP."

Recommendation:

FDLRC must discontinue the practice of sending the DS 6009 to families for completion and ensure DS 6009 are completed at the time of consumer's IPP or IFSP, pursuant to DDS' Annual Family Program Fee Procedures.

II. Finding That Has Been Addressed and Corrected by FDLRC.

Finding 8: <u>Over and Understated Claims</u>

The sampled review of 133 POS vendor contracts and the indicator reports revealed FDLRC overpaid 24 vendors and underpaid 13 vendors a total $57,429.52 and $41,472.45, respectively. This occurred due to duplicate payments, proration errors, incorrect application of the payment reduction, and vendors being paid the wrong rates.

FDLRC has taken corrective action in resolving this issue by recovering the $57,429.52 overpaid to 24 vendors and issued payments totaling $41,472.45 to 13 vendors.

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

> "(a) All vendors shall . . .
>
> (10) Bill only for services which are actually provided to consumers and which have been authorized by the referring regional center . . . ."

CCR, Title 17, Section 56917(i) states:

> "(i) The established rate shall be prorated for partial month of service in all cases by dividing the established rate by 30.44, then multiplying by the number of days the consumer resided in the facility."

Assembly Bill 104, Chapter 37, Section 24, Section 10(a) states:

> "Notwithstanding any other provision of law, in order to implement changes in the level of funding for regional center purchase of services, regional centers shall reduce payments for services and supports provided

pursuant to Title 14 (commencing with Section 95000) of the Government Code and Division 4.1 (commencing with Section 4400) and Division 4.5 (commencing with Section 4500) of the Welfare and Institutions Code. From February 1, 2009, to June 30, 2010, inclusive, regional centers shall reduce all payments for these services and supports paid from purchase of services funds for services delivered on or after February 1, 2009, by 3 percent, and from July 1, 2010, to June 30, 2012, inclusive, by 4.25 percent, unless the regional center demonstrates that a non-reduced payment is necessary to protect the health and safety of the individual for whom the services and supports are proposed to be purchased, and the State Department of Developmental Services has granted prior written approval."

Recommendation:

FDLRC must review the indicator reports to ensure duplicate payments to vendors are identified and corrected timely. In addition, FDLRC must ensure that partial stays are accurately calculated and vendors are reimbursed correctly.

EVALUATION OF RESPONSE

As part of the audit report process, FDLRC was provided with a draft audit report and was requested to provide a response to each finding. FDLRC s response dated March 15, 2016, is provided as Appendix A. This report includes the complete text of the findings in the Findings and Recommendations section, as well as a summary of the findings in the Executive Summary section.

DDS' Audit Branch has evaluated FDLRC's response. Except as noted below, FDLRC's response addressed the audit findings and provided reasonable assurance that corrective action would be taken to resolve the issues. DDS' Audit Branch will confirm FDLRC's corrective actions identified in the response during the follow-up review of the next scheduled audit.

Finding 1: **Negotiated Rates Above the Statewide Median Rate**

FDLRC agreed that the rate of $15.45 paid to the vendors is above the median rates; however, it disagrees with the overpayment amount. FDLRC stated the overpayments should have been calculated using the statewide median rate of $12.38 per day, and has amended the rates for the three transportation providers in December 2014 to reflect this amount. DDS contends that the overpayments calculated using the FDLRC's median rate of $11.33 per day is accurate, since this rate is lower than the statewide median rate of $12.38 per day for Service Code 880. In addition, FDLRC stated it has implemented training for new staff on the use of the median rate schedule and that all rates subject to the median rate restrictions will be reviewed by the Director of Community Services to ensure compliance.

FDLRC has also requested that DDS reconsider the overpayments since the providers were paid according to the terms of their payment agreements. DDS agrees that the services were provided according to the contract but disagrees with FDLRC's request to dismiss the overpayments as the rate paid to the vendor was above the median rate. FDLRC must reimburse to DDS the $203,120.89. Furthermore, FDLRC must amend its rate to $11.33 per day to comply with the median rates in effect 2008 and calculate and recover the overpayments made to the three vendors from December 2014 to current.

Finding 2: **Family Cost Participation Program**

A. Overstated Share of Cost

FDLRC agreed with the finding and stated that it has reminded its staff of the proper way to apply the share of cost to existing FCPP authorizations. FDLRC must reimburse DDS the overpayments totaling $263.04. DDS will conduct a follow-up during the next scheduled audit to ensure this issue has been resolved.

B. Assessments Not Completed As Part of the IPP (Repeat)

FDLRC stated it typically waits to receive income documentation before assessing cost participation and that its policy and practice is to not authorize new services until the share of cost is assessed. FDLRC indicated that this process results in no fiscal impact, since no new services are authorized. DDS agrees with FDLRC that there was no fiscal impact from the way the FCPP is administered; however, FDLRC must complete consumers' assessments as part of the IPP. DDS will conduct a follow-up during the next scheduled audit to ensure this issue has been resolved.

Finding 3: Equipment Inventory-Improper Capitalization

FDLRC agreed with the finding and stated that it will change its internal coding system so that the general ledger account only reflects capitalized equipment with an acquisition cost at, or above, $5,000. DDS will conduct a follow-up during the next scheduled audit to ensure this issue has been resolved.

Finding 4: TCM Time Study–Recording of Attendance

FDLRC agreed with the finding and stated that these were isolated instances that occurred because the manager responsible for reviewing the forms was temporarily absent. FDLRC stated it will diligently review its records to minimize the recurrence of this particular issue. DDS will conduct a follow-up during the next scheduled audit to ensure this issue has been resolved.

Finding 5: Vendors Not Enrolled in Electronic Billing (Repeat)

FDLRC stated that two of the providers are voucher recipients and their vendor numbers are being changed to "V" numbers. FDLRC stated that the remaining 13 vendors are either generic or government agencies that have no interest in enrolling in electronic billing, or organizations that provided training seminars to clients and families, which required payment at the time of registration prior to providing services to the consumers. FDLRC stated it cannot integrate the EB system for such vendors. DDS reviewed all 15 vendor numbers to determine which vendors had changed to "V" numbers and determined that three vendors, ZM0021, PD0633, and ZD0065 have been placed on inactive status. However, FDLRC must continue to put effort into enrolling the remaining 10 vendors into EB or provide DDS with proper documentation from the vendors that preclude them from the EB process.

Finding 6: **Lack of Annual Notification of the Whistleblower Policy**

FDLRC agreed with the finding and indicated it now has a process in place to review the Whistleblower policy annually with staff and Board members. Also, FDLRC will notify clients, families, and service providers of the existence of this policy on an annual basis. DDS will conduct a follow-up during the next scheduled audit to ensure this issue has been resolved.

Finding 7: **Annual Family Program Fee–Missing Registration Form**

FDLRC stated there was no adverse fiscal impact that resulted from the missing DS6009 because of the way FDLRC administers the AFPF program. FDLRC stated that the family had already paid the required fee; as such, the DS6009 was not needed. DDS agrees with FDLRC that there is no adverse fiscal impact for not having the DS6009 on file since the information contained in the DS6009 could be obtained from UFS.

APPENDIX A

FRANK D. LANTERMAN REGIONAL CENTER

RESPONSE
TO AUDIT FINDINGS

(Certain documents provided by the Frank D. Lanterman Regional Center as attachments to its response are not included in this Audit Report due to the detailed and sometimes confidential nature of the information.)

FRANK D. LANTERMAN REGIONAL CENTER

March 3, 2015

RECEIVED
MAR 09 2016
AUDIT BRANCH

Edward Yan, Manager
Audit Branch
State of California, Department of Developmental Services
1600 Ninth St., Room 230, MS 2-10
Sacramento, CA 95814

RE: DDS audit for fiscal years 2012-13 and 2013-14

Dear Mr. Yan:

Attached please find Lanterman's response to the audit referenced above. For ease of review, we have retyped the findings and recommendations and followed them with our responses that are shown *in italics.*

Should you or your staff have questions regarding this report, please contact Patrick Aulicino, Associate Director of Administrative Services. Thank you.

Sincerely,

Melinda Sullivan
Executive Director

FRANK D. LANTERMAN REGIONAL CENTER

Response to DDS audit of 2012-13 and 2013-14

Findings and recommendations are taken directly from the DDS report. The response of the Regional Center is shown directly following each recommendation *in italics*.

Findings That Need to be Addressed.

Finding 1: **Negotiated Above the Statewide Median Rate**

The sampled review of 133 POS vendor contracts revealed three vendors, Social Vocational Services, Vendor Number HD0317, Service Code 880; Blue Eagle Villas, Vendor Number HD0320, Service Code 880; and Catalina Home Care Services, Vendor Number HD0344, Service Code 880; that were contracted above the Statewide/Regional Center's Median Rate, which was implemented on July 1, 2008.

FDLRC reimbursed Social Vocational Services and Blue Eagle Villas at a rate of $15.45 per consumer while the Median Rate was $11.33 per consumer. Also, FDLRC reimbursed Catalina Home Care Services at a rate of $14.79 per consumer, while the Median Rate was $11.33. This resulted in overpayments totaling $203,120.89. (See Attachment A)

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

> "(a) No regional center shall pay an existing service provider, for services where rates are determined through a negotiation between the regional center and the provider, a rate higher that the rate in effect on June 30, 2008, unless the increase is required by a contract between the regional center and the vendor that is in effect on June 30, 2008…
>
> (b) No regional center may negotiate a rate with a new service provider, for services where rates are determined through a negotiation between the regional center and the provider, that is higher that the regional center's median rate for the same service code and unit of service, whichever is lower…"

Recommendation:

FDLRC must reimburse to DDS the $203,120.89 in total overpayments made to the three vendors and renegotiate the rates for the consistency with the Statewide/Regional Center Median Rates. In addition, FDLRC must also comply with the W&I Code, Section 4691.9 to ensure that all vendor rates negotiated after June 30, 2008, are at, or below, the Statewide/Regional Center Median Rates.

Regional Center Response:

The regional center accepts the finding. Our research determined that the three rates in question were input by one particular staff person so this does not appear to be a systemic issue.

At the time of the audit, subsequent to discussions with DDS audit staff, we took immediate action to change the rate for Blue Eagle Villa (HD0320), Catalina Home Care (HD0344), and Social Vocational Services (HD0317). A letter was sent to the providers on November 4, 2014 informing them of the error and notifying them that effective 12/1/14 the transportation rate was being lowered to $12.38 per day, which is the statewide median rate shown to us by the auditors at that time. Therefore, any amount owed by us would be significantly less than the $203,120.89 mentioned in the audit. We are unclear as to the origin of the rate of $11.33 as referenced in the audit report.

At the time of the audit, all Community Services staff were given another copy of the 2011 DDS Median Rate Survey and were retrained on how to determine the appropriate median rates for new providers. Our current policy and practice is for the Director of Community Services to discuss the median rate with staff that are assigned vendorization responsibilities for the particular provider or note the rate on the actual assignment. If the assigned staff have not discussed the median rate or the Director has not noted it on the assignment, the Director checks the rate on the payment agreement form (PAF) against the survey before signing the PAF.

New staff of the unit receive training on the use of the median rate schedule during their orientation.

As an additional check and balance to our processes, we will institute a practice of running a report on a regular basis of all new rates assigned for service codes that are subject to the median rate restrictions. The Director of Community Services or her designee will review the rates against the median rate tables and rectify any errors at that time.

As we paid the providers in question according to the terms of their payment agreements with us from 2008 until the time of the audit, we are unable to request funds back from them. We therefore ask that the Department reconsider the finding that the Regional Center reimburse DDS.

Finding 2: Family Cost Participation Program

A. Overstated Share of Cost

The sampled review of 20 FCPP consumer files revealed FDLRC paid the entire share of cost for respite services for one family, to Tender Touch Homecare, Vendor Number HL0363, Service Code 862. The review found that FDLRC reimbursed

Tender Touch Homecare the entire 16 services units per month. However, two of these units are for share of cost that should have been the responsibility of the parents. This resulted in overpayments totaling $263.04 from April 2014 through October 2014. This occurred because FDLRC failed to change the share of cost on the service authorization in a timely manner. (See Attachment B)

CCR, Title 17, Section 50255(a) states:

"(a) The parents of a child who meet the definition under Section 4783(a)(1) of the Welfare and Institutions Code shall be jointly and severally responsible for the assessed amount of family cost participation."

Recommendation:

FDLRC must reimburse DDS a total of $263.04 in overpayments that resulted from FDLRC paying above its share of cost. In addition, FDLRC must ensure that changes to service authorizations are completed timely to ensure vendors are paid correctly.

Regional Center Response:

The Regional Center accepts the finding. One client was overpaid $263.04 because the FCPP share of cost assessment was not applied in a timely manner. The assessment was completed on March 3, 2014; however the authorization was not adjusted until December 12. The service coordinator had the understanding that no adjustments to the authorization were required and that the share of cost was to apply only if the authorization were to be extended. Staff have been reminded as to the proper way to apply the share of cost to an existing authorization.

B. <u>Assessments Not Completed As Part of the IPP</u> (Repeat)

The sampled review of 20 FCPP consumer files revealed six instances in which FDLRC did not assess the parents' share of cost participation as part of the consumer's IPP or the IFSP review. The assessments were completed more than 20 days after the signing of the IPP or IFSP. This occurred because FDLRC waited for families to provide income documentation before assessing the cost participation. (See Attachment C)

W&I Code, Sections 4783(g)(1)(A), (B), and (C) states:

"(g) Family cost participation assessments or reassessments shall be conducted as follows:

(1)(A) A regional center shall assess the cost participation for all parents of current consumers who meet the criteria specified in this section. A regional center shall use the most recent individual

program plan or individualized family service plan for this purpose.

(B) A regional center shall assess the cost participation for parents of newly identified consumers at the time of the individual program plan or the individualized family service plan.

(C) Reassessments for cost participation shall be conducted as part of the individual program plan or individual family service plan review pursuant to subdivision (b) of Section 4646 of this code or subdivision (f) of Section 95020 of the Government Code."

Recommendation:

FDLRC must ensure all FCPP assessments are completed as part of the consumer's IPP or IFSP review. This will ensure compliance with the W&I Code, Section 4873(g)(1).

Regional Center Response:

Yes, the Regional Center typically does wait to receive income documentation before assessing cost participation. This is often not available or easily accessible at the time of the IPP, but we do it as soon as possible thereafter. Our policy and practice is to not authorize new services until the share of cost is assessed.

The process we used resulted in no fiscal impact relative to the specific situations noted by the auditors. The details related to the six specific clients noted are as follows:

No.1 Yes, the assessment was completed more than 20 days after the IPP (actually, 27), but there was no fiscal impact as there was no share of cost.

No 2 Yes, the assessment was completed more than 20 days after the IPP (actually, 38). A share of cost was assessed which was effective August 1, 2013 which would have been the same initiation date had the assessment been completed within 20 days. Therefore, our process had no fiscal impact.

No 3 Yes, the assessment was completed more than 20 days after the IPP (actually, 80), but there was no fiscal impact as there was no share of cost. In addition, services were not put in place until about 9 months after the creation of the IPP.

No. 4 Yes, the assessment was completed more than 20 days after the IPP (actually 31). The share of cost was assessed and the authorization adjusted effective 3/1/14, which would have been the same date of implementation had the assessment been completed within 20 days. Therefore, our process had no fiscal impact.

No. 5 Yes, the assessment was completed more than 20 days after the IPP (actually, 21). A share of cost was assessed and the authorization started as of 5/1/13, which is a year after the IPP date.

No 6 Yes, the assessment was completed more than 20 days after the IPP (actually, 23). The authorization that was put in place in February of 2013 used the share of cost percentage developed in the previous year (15%); the assessment completed in April of 2013 showed a share of cost of 14%. Both of these resulted in the same amount of hours to be reduced, so there was no fiscal impact.

Finding 3: Equipment Inventory – Improper Capitalization

The review of the equipment inventory listing revealed that FDLRC capitalized all of its equipment rather than items valued at or above $5,000. FDLRC was not aware that only items at or above $5,000 are to be capitalized.

The State Equipment Management Guidelines, Attachment D, Section 8602 states:

> "State property is capitalized for accounting purposes when certain conditions are met. Capitalization means to record the property in the accounting records as assets. Tangible property must meet the following three requirements in order to meet the capitalization requirements:
>
> 1. Have a normal useful life of at least one year;
> 2. Have a unit acquisition cost of at least $5,000; and
> 3. Be used to conduct State business."

Recommendation:

FDLRC must correct its general ledger account to reflect only capitalized equipment with an acquisition cost at above $5,000. This will ensure compliance with the State's Equipment Systems Guidelines and the State Administrative Manual as required by its contract with DDS.

Regional Center Response:

The Regional Center does not disagree with the finding and will change its internal coding system so that the general ledger account only reflects capitalized equipment with an acquisition cost at or above $5,000. It is important to note that this change in no way impacts the safeguarding of equipment or inventory processes nor does it have any financial impact.

Finding 4: **TCM Time Study-Recording of Attendance**

The review of the TCM Time Study revealed that four of the 20 sampled employees had vacation and sick hours recorded on their timesheets which did not properly reflect what was recorded on the DS 1916. The difference between the employees' timesheets and the TCM Time Study forms were a total of 31.5 hours.

The TCM Rate Study Process and Instructions state:

> "...All regional center case management staff (category CM) will complete the DS1916during the rate study...The total hours worked during the day, including overtime must be shown..."

For good business and internal control practices, vacation and sick leave should be recorded correctly on the DS1916. Time recorded incorrectly may result in an incorrect calculation of the TCM rate, which could result in the requirement to return overpayments of the TCM rate to the federal government.

Recommendation:

FDLRC staff must review the employee timesheet to ensure time reported on the DS1916 is accurate.

Regional Center Response:

The auditors noted five discrepancies for four service coordinators out of a total of 100 service coordination staff. Of these five instances, we find that two are errors in TCM unit reporting, two are errors in the time card, and we are unclear as to the findings on the fifth. The detail on those instances is appended to this response.

Our practice is for each manager to review all TCM entries in concert with the payroll records for each of their service coordinators prior to submission. We see this finding as isolated instances that were partially impacted by the temporary absence of one manager. In the future, we will diligently review records to minimize the recurrence of this particular issue.

Finding 5: **Vendors Not Enrolled in Electronic Billing (Repeat)**

The review of FDLRC's EB process found that 15 out of 4,050 eligible vendors have not been enrolled in EB. Exceptions are granted for vendors paid by vouchers and vendors who demonstrate that enrolling in EB will present a financial hardship. However, it was found that none of the 15 vendors were paid by vouchers or demonstrated that submitting billings electronically would have presented a financial hardship. (See Attachment D)

This issue was identified in the prior audit and FDLRC provided documentation indicating it had resolved the issue with the 29 vendors who were not enrolled in EB. FDLRC stated that it worked systematically and diligently to enroll its providers into EB.

W&I Code, Sections 4641.5(a)(1) and (2) states:

> "(a) Effective July 1, 2011, regional centers shall begin transitioning all vendors of all regional center services to electronic billing for services purchased through a regional center. All vendors and contracted providers shall submit all billings electronically for services provided on or after July 1, 2012, with the exception of the following:
>
> (1) A vendor or provider whose services are paid for by vouchers, as the term is defined in subdivision (i) of Section 4512.
>
> (2) A vendor or provider who demonstrates that submitting billings electronically for services presents substantial financial hardship for the provider."

Recommendation:

FDLRC must continue to enroll all vendors in the EB process to be in compliance with W&I Code, Section 4641.5(a). In the event that vendors cannot be enrolled in EB, FDLRC must provide DDS with proper documentation from the vendor that precludes it from the EB process.

Regional Center Response:

The Regional Center diligently enrolls providers in electronic billing, and indeed the Department's finding represents a very small number of the total number of providers. Two of the providers noted on the list are actually voucher recipients and we are changing their vendor numbers to "V" numbers. It is important to note that many of the remaining 13 noted are generic or government agencies who are not interested in being enrolled. Others are organizations from which we have purchased training opportunities for clients and families; it is customary to send a check for the training with the registration prior to the event. This practice does not mesh with the electronic billing system.

Finding 6: **Lack of Annual Notification of the Whistleblower Policy**

FDLRC has not notified its board members, employees, families, and vendor community annually of the FDLRC Whistleblower Policy. The Whistleblower Policy was last distributed in 2010. FDLRC indicated that the Whistleblower Policy is posted on its website for its employees and the public to review.

The State Contract, Article I, Section 18(b)(6) states:

> "(b)(6) Include a process for ensuring notification of employees, board members, consumers/families, and vendor community of both the regional center the State's Whistleblower policy within 30 days of the effective date of the regional center's policy and annually thereafter."

Recommendation:

FDLRC must ensure that employees, board members, families, and vendor community are notified annually about the DDS and FDLRC Whistleblower policies. In addition, FDLRC must ensure that it maintains the Whistleblower acknowledgement forms signed by the board members and employees.

Regional Center Response:

The Regional Center accepts the finding, and has processes in place to review the policy annually with staff and Board members and have them sign acknowledgements. The Regional Center will also remind client, families, and service providers of the existence of this policy on an annual basis.

Finding 7: **Annual Family Program Fee-Missing Registration Form**

The sampled review of 15 AFPF consumer files revealed five consumers that did not have the AFPF registration form (DS 6009) on file. FDLRC stated that the DS 6009s are sent to all eligible families during the annual assessment. However, FDLRC does not have a process in place to ensure all families return a completed DS 6009. (See Attachment E)

DDS' Annual Family Program Fee Procedures, Section II, Paragraph B states:

> "To comply with requirements contained in WIC Section 4785(e), which provides for collection by DDS after regional center has exhausted its efforts, regional centers shall complete the AFPF registration forms (appendix D, DDS for DS 6009) with parents at the time of the consumer's IPP or IFSP."

Recommendation:

FDLRC must discontinue the practice of sending the DS 6009 to families for completion and ensure DS 6009 are completed at the time of consumer's IPP or IFSP, pursuant to DDS' Annual Family Program Fee Procedures.

Regional Center Response:

Since the inception of the program in 2011, the Regional Center has had a practice of administering the program through one individual on an annual basis to allow for the consistency of application and to assure that all appropriate families are captured in the process. This process has included the determination of eligible families at the end of the fiscal year and the mailing of the DS6009 forms to families at that time. We find that this process works well and takes a significant burden away from service coordination staff.

The Exhibit attached to the audit does not specify for which year(s) the DS6009 is missing for each family, so we researched both years for each. Also, note that we may assess the fee without the form if the family just sends us income documentation. In some cases, we already have income information on file which has been submitted for something such as FCPP or insurance copayment eligibility and we use this to determine a liability for the AFPF. Our research of the ten instances in question (five families times two years each), shows that an assessment was not required in seven instances; in the remaining three, the family paid the required fee.

Consequently, there was no adverse fiscal impact that resulted from the way in which we are administering this program.

We will review our procedure and practice relative to having the form completed at the time of the IPP or IFSP.

II. Finding That Has Been Addressed and Corrected by FDLRC.

Finding 8: **Over and Understated Claims**

The sampled review of 133 POS vendor contracts and the indicator reports revealed FDLRC overpaid 24 vendors and underpaid 13 vendors a total of $57,429.52 and $41,472.45, respectively. This occurred due to duplicate payments, proration errors, incorrect application of the payment reduction, and vendors being paid the wrong rates.

FDLRC has taken corrective action in resolving this issue by recovering the $57,429.52 overpaid to 24 vendors and issued payments totaling $41,472.45 to 13 vendors.

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

"(a) All vendors shall…

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

CCR, Title 17, Section 56917(i) states:

> (i) The established rate shall be prorated for partial month of service in all cases by dividing the established rate by 30.44, then multiplying by the number of days the consumer resided in the facility."

Assembly Bill 104, Chapter 37, Section 24, Section 10(a) states:

> "Notwithstanding any other provision of law, in order to implement changes in the level of funding for regional center purchase of services, regional centers shall reduce payments for services and supports provided pursuant to Title 14 (commencing with Section 95000) of the Government Code and Division 4.1 (commencing with Section 4500) of the Welfare and Institutions Code. From February 1, 2009, to June 30, 2010, inclusive, regional centers shall reduce all payments for these services and supports paid from purchase of services funds for services delivered on or after February 1, 2009, by 3 percent, and from July 1, 2010, to June 30, 2012, inclusive, by 4.25 percent, unless the regional center demonstrates that a nonreduced payment is necessary to protect the health and safety of the individual for whom the services and supports are proposed to be purchased, and the State Department of Developmental Services has granted prior written approval."

Recommendation:

FDLRC must review the indicator reports to ensure duplicate payments to vendors are identified and corrected timely. In addition, FDLRC must ensure that partial stays are accurately calculated and vendors are reimbursed correctly.

Regional Center Response:

As in prior years, the dollar amount of this finding is minimal, and the Regional Center extends every effort to pay providers correctly. This is particularly challenging in recent times, as there has been significant activity relative to rate reductions and increases, many of them retroactive.

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