



**AUDIT OF THE  
SAN DIEGO 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  
Oscar Perez, Supervisor, Audit Branch

Audit Staff: Nathan Oates, Carlos Whylesmenchaca, and Chantha Ham

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

# TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY .....	1
BACKGROUND .....	4
Authority .....	5
Criteria .....	5
Audit Period .....	5
OBJECTIVES, SCOPE, AND METHODOLOGY .....	6
I. Purchase of Service .....	7
II. Regional Center Operations .....	7
III. Targeted Case Management and Regional Center Rate Study .....	8
IV. Service Coordinator Caseload Survey .....	8
V. Early Intervention Program (Part C Funding) .....	9
VI. Family Cost Participation Program .....	9
VII. Annual Family Program Fee .....	9
VIII. Procurement .....	10
IX. Statewide/Regional Center Median Rates .....	11
X. Other Sources of Funding from DDS .....	12
XI. Follow-up Review on Prior DDS Audit Findings .....	12
CONCLUSIONS .....	13
VIEWS OF RESPONSIBLE OFFICIALS .....	14
RESTRICTED USE .....	15
FINDINGS AND RECOMMENDATIONS .....	16
EVALUATION OF RESPONSE .....	24
ATTACHMENTS .....	A-D
REGIONAL CENTER'S RESPONSE .....	Appendix A

# EXECUTIVE SUMMARY

---

The Department of Developmental Services (DDS) conducted a fiscal compliance audit of San Diego Regional Center (SDRC) to ensure SDRC is compliant with the requirements set forth in the California Code of Regulations, Title 17 (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 SDRC maintains accounting records and supporting documentation for transactions in an organized manner. This audit report identifies some areas where SDRC's administrative, and operational controls could be strengthened, but none of the findings were of a nature that would indicate systemic issues or constitute major concerns regarding SDRC's operations. A follow-up review was performed to ensure SDRC has taken corrective action to resolve the findings identified in the prior DDS audit report.

## Findings That Need to be Addressed

### **Finding 1: Rate Increase After the Freeze (Repeat)**

The sampled review of 130 Purchase of Service (POS) vendors revealed that SDRC continued to reimburse two vendors, Faustino Moises Martinez, Vendor Number HQ0334, Service Code 875 and Care 4 U Mobility, Vendor Number HQ0846, Service Code 875, at rates higher than the rates that were in effect as of June 30, 2008. This resulted in overpayments totaling \$183,832.41 from August 2013 through May 2015. This issue was also identified in the prior audit. This is not in compliance with W&I Code, Section 4648.4(b)(2).

### **Finding 2: Overstated Claims-Duplicate Payment/Overlapping Authorizations**

The sampled review of SDRC's Uniform Fiscal Systems (UFS) Indicator Reports revealed 34 instances where SDRC over claimed expenses to the State totaling \$18,179.96. The overpayments were due to duplicate payments and/or overlapping authorizations. This is not in compliance with CCR, Title 17, Section 54326(a)(10).

### **Finding 3: Missing Documentation – Unsupported Billings (Repeat)**

The sampled review of 130 POS vendors revealed that SDRC reimbursed three vendors for services provided to the consumers without supporting documentation. This resulted in unsupported payments totaling \$7,499.69. This issue was also identified in the prior audit. This is not in compliance with CCR, Title 17, Section 50604(d)(1)(2)(3)(C)(e), and the State Contract, Article IV, Sections 3(a) and (b).

**Finding 4: Unsupported Credit Card Expenditures**

The review of SDRC's operational expenditures revealed two credit card transactions totaling \$412.75 with insufficient documentation to support the expenses claimed to the State. This is not in compliance with the State Contract, Article IV, Section 3(a).

**Finding 5: Annual Family Program Fee – Income Documentation**

The sampled review of 25 Annual Family Program Fee (AFPF) assessments revealed that SDRC does not require families to submit income documentation for its AFPF assessments. SDRC permits families to self-certify their income using SDRC's AFPF Income Schedule. This is not in compliance with W&I Code, Section 4785(b)(2), and Section II(C) of the DDS AFPF Procedures.

**Finding 6: Family Cost Participation Program – Late Assessments**

The sampled review of 22 Family Cost Participation Program (FCPP) consumer files revealed SDRC 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 for 18 consumers. The assessments were completed more than 30 days after the signing of the IPP. This is not in compliance with W&I Code, Section 4783(g)(A)(B)(C).

**Finding 7: Expenses Did Not Match to the Year-End General Ledger**

The review of the Targeted Case Management (TCM) Rate Study worksheets for May 2013 and March 2014 revealed the expenses included in Attachment C did not reconcile to the Year-End General Ledger. This resulted in discrepancies of \$1,171,178.39 and \$143,918.84 for the 2013 and 2014 rate studies, respectively. This is not in compliance with DDS' Instructions for the TCM Rate Study.

**Finding 8: Targeted Case Management Time Study-Recording of Attendance**

The sampled review of 19 TCM Time Study forms, (DS 1916), revealed eight employees had vacation and sick hours recorded on their payroll timesheets which did not properly reflect the hours recorded on the DS 1916 forms. This resulted in 23.50 understated hours and 17.50 overstated hours on the TCM Time Study. This is not in compliance with the TCM Rate Study Process and Instructions from DDS.

**Finding 9: Vendors Not Enrolled in Electronic Billing (Repeat)**

The review of SDRC's electronic billing (EB) vendor listing revealed that 208 out of 3,776 vendors have not been enrolled in EB as of July 1, 2012. None of these vendors were paid by voucher or demonstrated 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 identified in the prior audit report. This is not in compliance with W&I Code, Section 4641.5 (a)(1)(2) and (b).

**Finding 10: Policies and Procedures for Vendor Audits and Reviews**

The review of SDRC's list of 179 vendors who were required to contract with an independent accounting firm for an audit or review of its financial statements revealed that 136 vendors did not submit an audit or review. It was found that SDRC does not have procedures in place to follow-up with vendors who have not submitted the required audit reports or reviews. This is not in compliance with W&I Code, Sections 4652.5(a)(1)(A)(B) and (b).

## 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 (RC). 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, Centers for Medicare and Medicaid Services (CMS) that services billed under California's HCBS Waiver program are provided and that criteria set forth for receiving funds have been met. As part of 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 San Diego-Imperial Counties Developmental Services, Inc. (SDICSI) entered into contract HD099017 (State Contract) effective July 1, 2009, through June 30, 2016. The contract specifies that SDICSI will operate an agency known as SDRC to provide services to individuals with DD and their families in San Diego and Imperial Counties. The contract is funded by State and Federal funds that are dependent upon SDRC performing certain tasks, providing services to eligible consumers and submitting billings to DDS.

This audit was conducted at SDRC from October 27, 2014, through December 12, 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
- Federal Office of Management Budget (OMB) Circular A-133
- State Contract between DDS and SDRC, effective July 1, 2009

## **AUDIT PERIOD**

The audit period was July 1, 2012, through June 30, 2014, with a 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 on 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 SDRC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that SDRC was in compliance with the objectives identified above. Accordingly, DDS examined transactions, on a test basis, to determine whether SDRC was in compliance with the Lanterman Act, CCR, Title 17, the HCBS Waiver for the Developmentally Disabled, and the State Contract.

DDS' review of SDRC'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 2012-13, issued on December 3, 2013. DDS noted no management letter issued for SDRC. This review was performed to determine the impact, if any, upon the DDS audit and, as necessary, develop appropriate audit procedures.

The audit procedures performed included the following:

**I. Purchase of Service**

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

- DDS tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.
- DDS selected a sample of invoices for service providers with daily and hourly rates, standard monthly rates, and mileage rates to determine if supporting attendance documentation was maintained by SDRC. 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 analyzed all of SDRC'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**

DDS audited SDRC's operations and conducted tests to determine compliance with the State Contract. The tests included various expenditures claimed for administration to ensure that SDRC's accounting staff is properly inputting data, to ensure 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, time sheets, 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 SDRC'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 SDRC's Rate Study. DDS examined the months of May 2013 and March 2014, and traced the reported information to source documents.
- Reviewed SDRC'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 that 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.

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 regional center'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 SDRC 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 SDRC 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 regional center, and a cost for participation is assessed to the parents under FCPP. To determine whether SDRC 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 regional center 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 SDRC implemented the required RFP process by January 1, 2011, DDS performed the following procedures during our audit review:

- Reviewed SDRC'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 include 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 SDRC. 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 SDRC notified the vendor community and the public of contracting opportunities available.
- Reviewed the contracts to ensure that SDRC has adequate and detailed documentation for the selection and evaluation process of vendor proposals, written justification for final vendor selection decisions, and that the 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 SDRC 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 SDRC's 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 SDRC'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 SDRC's State Contract requirements as amended.

#### **IX. Statewide/Regional Center Median Rates**

The Statewide or Regional Center 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 SDRC was in compliance with the Lanterman Act, DDS performed the following procedures during the audit review:

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