



**AUDIT OF THE  
SAN DIEGO REGIONAL CENTER  
FOR FISCAL YEARS 2010-11 AND 2011-12**

---

**Department of Developmental Services**

This 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  
Staci Yasui, Supervisor, Audit Branch  
Oscar Perez, Supervisor, Audit Branch

Audit Staff: Grace Gwarada, Pang Her, and Adam Smarte

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

# TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY .....	1
BACKGROUND .....	5
Authority .....	6
Criteria .....	6
Audit Period .....	6
OBJECTIVES, SCOPE, AND METHODOLOGY .....	7
I. Purchase of Service .....	8
II. Regional Center Operations .....	9
III. Targeted Case Management and Regional Center Rate Study .....	9
IV. Service Coordinator Caseload Survey .....	9
V. Early Intervention Program .....	10
VI. Family Cost Participation Program .....	10
VII. Annual Family Program Fee .....	11
VIII. Procurement .....	11
IX. Statewide/Regional Center Medium Rates .....	12
X. Other Sources of Funding from DDS .....	13
XI. Follow-up Review on Prior DDS Audit Findings .....	13
CONCLUSIONS .....	14
VIEWS OF RESPONSIBLE OFFICIALS .....	15
RESTRICTED USE .....	16
FINDINGS AND RECOMMENDATIONS .....	17
EVALUATION OF RESPONSE .....	28
REGIONAL CENTER'S RESPONSE .....	Appendix A

## EXECUTIVE SUMMARY

---

The Department of Developmental Services' (DDS) fiscal compliance audit of the San Diego Regional Center (SDRC) was conducted to ensure SDRC's compliance with the requirements set forth in the California Code of Regulations, Title 17 (CCR, title 17), the California Welfare & Institutions (W&I) Code, the Home and Community-Based Services (HCBS) Waiver for the Developmentally Disabled, and the contract with DDS. The audit indicated that, overall, SDRC maintains accounting records and supporting documentation for transactions in an organized manner. This report identifies some areas where SDRC'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 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.

The findings of this report have been separated into the two categories below:

### I. Findings that need to be addressed.

#### **Finding 1: Rate Increase After the Freeze**

The sampled review of 16 transportation vendor files revealed four vendors received rate increases after the rate freeze was in effect as of July 1, 2008. These vendors were given rate increases to accommodate nine consumers who either had disruptive behaviors or needed to travel long distances of 50 miles or more. This resulted in overpayments totaling \$133,477.70. This is not in compliance with W&I Code, section 4648.4(b).

#### **Finding 2: Negotiated Rate Above the Statewide Median Rate (Repeat)**

The sampled review of 30 Purchase of Services (POS) vendor files and a follow-up review of the prior DDS audit report revealed that SDRC continues to reimburse Denise Anderson, vendor number PQ7307, service code 103, and Able Pathways, vendor number PQ8141, service code 102, above the Statewide Median Rate implemented on July 1, 2008. The total overpayment amount for the two vendors from January 2009 to June 2012 is \$40,143.45. This is not in compliance with W&I Code, section 4691.9(a) and (b).

#### **Finding 3: Payment Reduction**

The sampled review of 133 POS vendor files revealed that SDRC did not apply the 4.25 percent payment reduction to 20 vendors. This resulted in overpayments totaling \$8,637.70. SDRC took corrective action and recovered \$4,754.02. The total overpayment still outstanding is \$3,883.68. This is not in compliance with Assembly Bill 104, Chapter 37, section 24, section 10(a).

**Finding 4: Overstated Claims**

The sampled review of SDRC's POS vendor invoices and the Operational Indicator reports revealed 12 instances in which SDRC overclaimed expenses to the State totaling \$25,440.74. SDRC took corrective action by collecting \$24,903.25 and allocating payments to the correct service month. The total overpayment still remaining is \$537.49. This is not in compliance with CCR, title 17, section 54326(a)(10).

**Finding 5: Missing Documentation**

**A. Purchase of Service**

The sampled review of 133 POS vendor files revealed SDRC reimbursed three of its vendors for services provided to the consumers without monthly invoices and attendance documentation. This resulted in an unsupported payment to vendors totaling \$8,792.49. This is not in compliance with CCR, title 17, section 50604(d) and the State Contract, Article IV, section 3(a) and (b).

**B. Operational Services**

The review of the Mental Health Services Act (MHSA) project funded through Operational funds revealed SDRC could not provide documentation to support that the deliverables outlined in the contract with the Association of Regional Center Agencies (ARCA) were met, as justification for the \$135,000.00 payment claimed for the MHSA program. This is not in compliance with the State Contract, Article IV, section 3(a) and (b).

**C. Annual Family Program Fee**

The review of the Annual Family Program Fee (AFPF) revealed SDRC was unable to provide documentation to support \$250.00 in reduced assessment fees for five of the 15 consumers sampled. This is not in compliance with the State Contract, Article IV, section 3(a) and (b) and the DDS Annual Family Program Fee Procedures.

**D. Service Coordinator Caseload Ratios**

The review of the service coordinator caseload ratios revealed SDRC did not maintain source documents for vacant or newly established positions. These documents are necessary to verify the caseload survey ratios for March 2011 and 2012 did not include positions that were vacant and new positions established within 60 days of the reporting month. This not in compliance with the State Contract, Article IV, section 3(a) and the DDS Service Coordinator Caseload Survey Instructions.

**Finding 6: Prior Year Funds Not Reverted to the State**

A follow-up review of the prior audit report revealed SDRC set up a payment plan with Faustino Moises Martinez, vendor number HQ0334, service code 875, requiring monthly payments of \$1,950.00, starting in August 2011 for an overpayment totaling \$46,495.83. SDRC collected \$39,000.00 from the vendor and used the funds to offset the current claims instead of reverting the amount to the State. This is not in compliance with the State Contract, Article III, section 4.

**Finding 7: Purchase of Service Expenses Not Tied to Consumer Unique Client Identification Number**

The sampled review of 133 POS vendor contracts revealed one POS vendor, San Diego Association of Governments (SANDAG), vendor number Z21442, service code 895, was paid under a contract Unique Client Identification (UCI) number for services provided to consumers for a total of \$268,246.25. It was found that the vendor provided services under the HCBS Waiver billable service code, but SDRC did not tie the POS expenses to individual consumers. This is not in compliance with CCR, title 17, section 50604(d)(1).

**Finding 8: Vendors Not Enrolled in Electronic Billing**

The review of SDRC's electronic billing process found that 82 out of 2,037 eligible vendors were not enrolled in electronic billing as of July 1, 2012. This is not in compliance with W&I Code, section 4641.5(a).

**Finding 9: Missing Equipment**

The sampled review of 30 items from SDRC's equipment inventory register revealed SDRC could not locate two items. This is not in compliance with the State Contract, Article IV, section 4(a).

**II. Findings that have been addressed and corrected by SDRC.**

**Finding 10: Multiple Dates of Death (Repeat)**

The review of the Uniform Fiscal System (UFS) Death report identified that 10 of the 35 sampled consumers had multiple dates of death recorded and there was one instance where the date of death recorded on UFS did not reconcile to the date of death on the death certificate. This issue was also identified in the prior DDS audit report, but was resolved by SDRC. This is not in compliance with the State Contract, Article IV, section 1(c)(1).

SDRC has taken corrective action to resolve this issue by researching the correct date of death for each consumer and updating the consumers' actual date of death in UFS.

**Finding 11: Home and Community-Based Services Provider Agreement Forms (Repeat)**

The sampled review of 133 POS vendor files revealed eight HCBS Provider Agreement forms that were not properly completed. The forms were either missing the service code, had an incorrect vendor number/service code or had multiple service codes/vendor numbers. This issue was also identified in the prior DDS audit report, but was resolved by SDRC.

SDRC has taken corrective action to comply with CCR, title 17, section 4326(a)(16), and provided DDS with the properly completed HCBS Provider Agreement forms.

## 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. The regional centers are responsible under State law to help ensure that such persons receive access to the programs and services that are best suited to them throughout their lifetime.

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 regional center no less than every two years, and completes follow-up reviews in alternate years. Also, DDS requires regional centers 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 regional center 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 regional centers' fiscal, administrative and program operations.

DDS and San Diego-Imperial Counties Developmental Services, Inc. (SDICSI), entered into a contract, HD099017, effective July 1, 2009, through June 30, 2016. This contract specifies that SDICSI will operate an agency known as San Diego Regional Center (SDRC) to provide services to persons with DD and their families in San Diego and Imperial Counties. The contract is funded by State and Federal funds that are dependent upon the SDRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at SDRC from February 4, 2013, through March 8, 2013, 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, 2010, through June 30, 2012, 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 on regional centers' 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, and
- 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, 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 2010-11, issued on December 19, 2011
- Fiscal year 2011-12, issued on December 11, 2012

Management letters were issued by the independent accounting firm during this review. 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, 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 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 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 SDRC staff revealed that SDRC 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 selected a sample of UFS reconciliations to determine if any accounts were out-of-balance or if there were any outstanding items that were not reconciled.
- DDS analyzed all of SDRC's bank accounts to determine whether DDS had signatory authority as required by the contract with DDS.
- DDS selected a sample of bank reconciliations for Operations and Consumer Trust bank 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 accounting staff is properly inputting data, 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 and Regional Center Rate Study**

The Targeted Case Management (TCM) Rate Study is the study that determines the DDS rate of reimbursement from the Federal Government. DDS reviewed SDRC's TCM and Rate Study records for the months of June 2011 and October 2012, to ensure the reported information is traced to source documents.

The last Case Management Time Study was performed in May 2010 which was reviewed in the FY 2009-10 DDS audit. As a result, there was no Case Management Time Study to review for this audit period.

## **IV. Service Coordinator Caseload Survey**

Under W&I Code, section 4640.6(e), regional centers 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**

The Family Cost Participation Program (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 Individual Program Plan (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 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' complete income documentation.
- Reviewed vendor payments to verify that SDRC is paying for only its assessed share of cost.

## **VII. Annual Family Program Fee**

The AFPP 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 years of age receiving qualifying services through a regional center. The AFPP 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 AFPP 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 regional centers outline the vendor selection process when using the RFP process to address consumer service needs. As of January 1, 2011, DDS requires regional centers to document their contracting practices, as well as how particular vendors are selected to provide consumer services. By implementing a procurement process, regional centers will ensure that the most cost effective service providers, amongst comparable service providers, are selected as required by the Lanterman Act and the State Contract as amended.

To determine whether SDRC implemented the required RFP process by January 1, 2011, DDS performed the following procedures during the audit review:

- Reviewed the SDRC contracting process to ensure the existence of a Board approved procurement policy and to verify that the RFP process ensures competitive bidding as required by Article II of the State Contract as amended.
- Reviewed the RFP contracting policy to determine whether the protocols in place included applicable dollar thresholds and comply with Article II of the State Contract as amended.

- Reviewed the RFP notification process to verify that it is open to the public, and clearly communicated to all vendors. All submitted proposals are evaluated by a team of individuals, to determine whether proposals are properly documented, recorded and authorized by appropriate officials at 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 the 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 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 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 Board approved POS, Start-Up and Operational vendor contracts over \$250,000 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 are 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 over \$250,000 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 and Regional Center Median Rates were implemented on July 1, 2008, and amended on December 15, 2011, to ensure regional centers are not negotiating rates higher than the set median rates for services. Despite the median rate requirement, rate