

**AUDIT OF THE
SAN DIEGO REGIONAL CENTER
FOR FISCAL YEARS 2005-06 and 2006-07**

Department of Developmental Services

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

Karyn A. Meyreles, Deputy Director, Administration Division
Edward Yan, Acting Manager, Audit Branch
Luciah Ellen Nzima, Supervisor, Audit Branch

Audit Staff: Mubashshir Ahmad, Paramjit Judge, Soi Ly, and Oscar Perez

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

TABLE OF CONTENTS

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	8
III. Targeted Case Management and Regional Center Rate Study	8
IV. Service Coordinator Caseload Study	8
V. Early Intervention Program (Part C Funding)	9
VI. Family Cost Participation Program	9
VII. Other Sources of Funding	10
VIII. Follow-up Review on Prior DDS's Audit Findings	10
CONCLUSIONS.....	11
VIEWS OF RESPONSIBLE OFFICIALS	12
RESTRICTED USE.....	13
FINDINGS AND RECOMMENDATIONS.....	14
EVALUATION OF RESPONSE	20
REGIONAL CENTER'S RESPONSE.....	Appendix A

EXECUTIVE SUMMARY

The fiscal compliance audit of San Diego Regional Center (SDRC) revealed that SDRC was in substantial compliance with the requirements set forth in California Code of Regulations 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 the Department of Developmental Services (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 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.

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

- I. The following findings need to be addressed, but do not significantly impair the financial integrity of SDRC or seriously compromise its ability to account for or manage State funds.

Finding 1: San Diego Information Systems (SANDIS) Fees

The review of the San Diego Information Systems (SANDIS) area revealed that SDRC had received a total of \$112,925 from other regional centers for FYs 2005-06, 2006-07, and 2007-08, as fees that SDRC was charging for additional services that were not included as part of the Memorandum of Understanding (MOU) between DDS and SDRC. However, it was found that SDRC was not allocating a percentage of the fees collected to offset its overhead costs and salaries of its employees for the additional services.

Finding 2: SDRC Foundation - Conflict of Interest

The review of the Board members for the Foundation and SDRC's staff listing revealed conflicts of interest that exist but were not properly disclosed. It was found that there were four common board members on the Boards of SDRC and the Foundation. Further review revealed SDRC's Executive Director and the Business Services Administrator are board members of the Foundation with full voting rights. In addition, it was found that SDRC's Board has virtual control of the Foundation's Board which controls the operational functions of the Foundation. This is not in compliance with Title 17, Sections 54522 (a), (b), and (c) and 54523 (a) and (b).

Finding 3: Client Trust Disbursements Not Supported (Repeat)

A review of the client trust money management disbursements revealed that SDRC did not have receipts to support checks that were issued to vendors for the spending down of consumer funds. Without supporting receipts, there is no

evidence to ensure that the disbursements from the client trust funds are appropriate. This issue was identified in the prior DDS audit report. This is not in compliance with the Social Security Handbook, Section 1616.

Finding 4: Equipment - Lack of Reporting on New Equipment

SDRC has not been completing the required Equipment Acquired Under Contract form (DS 2130), for newly purchased equipment. This is not in compliance with the State's Equipment Management System Guidelines Section III (B).

II. The following findings were identified during the audit, but have since been addressed and corrected by SDRC.

Finding 5: Over/Under-Stated Claims

A review of the Residential, Day Program, and Operational Indicator reports revealed 63 instances in which SDRC over or under claimed expenses to the State. These payments were either due to duplicate payments, proration errors, use of incorrect rates, or rate increases for the service months. As a result, the total overpayment to vendors by SDRC was \$8,618.86 and the total underpayment was \$1,081.66. This is not in compliance with Title 17, Section 54326 (a)(10).

SDRC has taken corrective action by making billing adjustments with the respective vendors for the over and under payments.

Finding 6: Medi-Cal Provider Agreement Forms (Repeat)

The file review of 100 Residential, Day Program, and Transportation vendor files revealed that Medi-Cal Provider Agreement forms for 18 vendors were found to be either missing or incomplete. The incomplete forms were missing signatures, service codes, vendor numbers and/or vendor names. This issue was identified in the prior DDS audit report. This is not in compliance with Title 17, Section 54326 (a).

SDRC took corrective action by providing DDS with copies of the missing and corrected Medi-Cal Provider Agreement forms.

Finding 7: Equipment - Missing State Equipment

A sample of 60 items from the equipment inventory list provided by SDRC revealed three items that could not be located. This is not in compliance with Article IV, Section 4 (a) of the contract with DDS.

SDRC determined the missing items were surveyed out, but were not deleted from the inventory list. SDRC took corrective action to resolve this issue by completing Form 152 "Property Survey Report" for the three items and updating its inventory list.

BACKGROUND

The Department of Developmental Services (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 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's 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 reviewed by DDS Federal Programs Operations Section staff to assess overall programmatic compliance with HCBS Waiver requirements. The HCBS Waiver compliance monitoring review will have 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 center fiscal, administrative and program operations.

DDS and San Diego-Imperial Counties Developmental Services, Inc. (SDICSI) entered into a contract, HD999016 effective July 1, 2004, through June 30, 2009. This contract specifies that SDICSI will operate an agency known as the San Diego Regional Center (SDRC) to provide services to persons with DD and their families in the 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 May 19, 2008, through June 19, 2008, and was conducted by DDS's Audit Branch.

AUTHORITY

The audit was conducted under the authority of the Welfare and Institutions (W&I) Code, Section 4780.5, and Article IV, Provision Number 3 of SDRC's contract.

CRITERIA

The following criteria were used for this audit:

- California Welfare and Institutions Code
- "Approved Application for the Home and Community-Based Services Waiver for the Developmentally Disabled"
- California Code of Regulations Title 17
- Federal Office of Management Budget (OMB) Circular A-133
- SDRC's contract with the DDS

AUDIT PERIOD

The audit period was from July 1, 2005, through June 30, 2007, 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 to Title 17, California Code of Regulations (Title 17),
- To determine compliance to the provisions of the HCBS Waiver for the Developmentally Disabled, and
- To determine that costs claimed were in compliance to the provisions of the SDRC's contract with DDS.

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. We limited our scope to planning and performing audit procedures necessary to obtain reasonable assurance that SDRC was in compliance with the objectives identified above. Accordingly, we examined transactions, on a test basis, to determine whether SDRC was in compliance with Title 17, the HCBS Waiver for the Developmentally Disabled, and the contract with DDS.

Our review of the SDRC's internal control structure was limited to gaining an understanding of the transaction flow and the policies and procedures as necessary to develop appropriate auditing procedures.

We reviewed the annual audit report that was conducted by an independent accounting firm for Fiscal Years (FYs):

- FY 2005-06, issued October 20, 2006
- FY 2006-07, issued December 11, 2007

In addition, we reviewed the associated management letter that was issued by the independent accounting firm for FY 2006-07. This review was performed to determine the impact, if any, upon our audit and as necessary, develop appropriate audit procedures.

The audit procedures performed included the following:

I. Purchase of Service

We selected a sample of Purchase of Service (POS) claimed and 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. For POS the following procedures were performed:

- We tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.
- We 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 individuals were reviewed to ensure that the rates paid were set in accordance with the provisions of Title 17.
- We selected a sample of individual trust accounts to determine if there were any unusual activities and to determine if any individual account balances were not over \$2,000 resource limit as required by the Social Security Administration (SSA). In addition, we determined if any retro Social Security benefit payments received were not held longer than nine months. We 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 are maintained.
- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, is not used by SDRC. 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 SSA (or other source) in a timely manner.
- We selected a sample of Uniform Fiscal Systems (UFS) reconciliations to determine if any accounts were out-of-balance or if there were any outstanding reconciling items.
- We analyzed all of SDRC's bank accounts to determine if the DDS had signatory authority as required by the contract with the DDS.
- We selected a sample of bank reconciliations for Operations and Consumer Trust bank accounts to determine if the reconciliations are properly completed on a monthly basis.

II. Regional Center Operations

We audited SDRC's operations and conducted tests to determine compliance to the contract with DDS. The tests included various expenditures claimed for administration to ensure that the accounting staff was properly inputting data, transactions were be 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 was 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 was tested to determine compliance to Title 17 and the contract with DDS.
- A sample of equipment was selected and physically inspected to determine compliance with requirements of the contract with DDS.
- We reviewed SDRC's policies and procedures for compliance to the Title 17 Conflict of Interest requirements and 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 DDS rate of reimbursement from the Federal Government. The last rate study to determine the TCM rate was performed in May 2004 which was reviewed in the last DDS biannual audit. As a result, there was no rate to review for this audit period.

IV. Service Coordinator Caseload Study

Under the W&I Code Section 4640.6, regional centers are required to provide service coordinator caseload data to DDS annually. Prior to January 1, 2004, the survey required regional centers to have a service coordinator-to-consumer ratio of 1:62 for all consumers who had not moved from the developmental centers to the community since April 14, 1993, and a ratio of 1:45 for all consumers who had moved from developmental centers to the community since April 14, 1993. However, for the period commencing January 1, 2004 to June 30, 2007, inclusive, the following service coordinator-to-consumer ratios apply:

- A. For all consumers that are three years of age and younger and for consumers that are enrolled on the HCBS 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 in the community continuously for at least 12 months, the required average ratio shall be 1:62.
- 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.

We also reviewed the Service Coordinator Caseload Survey methodology used in calculating the caseload ratio 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

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

VI. Family Cost Participation Program

The Family Cost Participation Program (FCPP) was created for the purpose of assessing cost participation 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. To determine whether the regional center is in compliance with Title 17 and the W&I Code, we performed the following procedures during our audit review.

- Reviewed the parents' income documentation to verify their level of participation based on the Family Cost Participation Schedule.
- Reviewed copies of the notification letters to verify the parents were notified of their assessed cost participation within 10 working days.
- Reviewed vendor payments to verify the regional center is paying for only its assessed share of cost.

VII. Other Sources of Funding

Regional centers may receive many other sources of funding. For the other sources of funding identified for SDRC, we performed sample tests to ensure that the accounting staff was 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 other sources of funding identified for this audit are:

- Family Resource Center Program
- Start Up Programs
- Wellness Grants
- Medicare Moderation Act (Part D Funding)

VIII. Follow-up Review on Prior DDS's Audit Findings

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

CONCLUSIONS

Based upon the audit procedures performed, we have determined that except for the items identified in the Findings and Recommendations Section, SDRC was in substantial compliance to applicable sections of Title 17, the HCBS waiver, and the terms of the SDRC's contract with DDS for the audit period July 1, 2005, through June 30, 2007.

Except for those items described in the Findings and Recommendations Section, 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 SDRC has taken appropriate corrective actions to resolve all prior audit issues, except for findings three and six, which are included in the Findings and Recommendations Section.

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft report on July 6, 2009. The findings in the report were discussed at an exit conference with SDRC on July 15, 2009. At the exit conference, we stated that the final report will incorporate the views of responsible officials.

RESTRICTED USE

This report is solely for the information and use of the Department of Developmental Services, Department of Health Care Services, the Centers for Medicare and Medicaid Services, and the San Diego Regional Center. It is not intended and should not be used by anyone other than these specified parties. This restriction does not limit distribution of this report, which is a matter of public record.

FINDINGS AND RECOMMENDATIONS

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

- I. The following findings need to be addressed, but do not significantly impair the financial integrity of SDRC or seriously compromise its ability to account for or manage State funds.

Finding 1: San Diego Information Systems (SANDIS) Fees

The review of the SANDIS area revealed that SDRC had received a total of \$112,925 from other regional centers for FYs 2005-06, 2006-07, and 2007-08, as fees that SDRC was charging for additional services that were not included as part of the Memorandum of Understanding (MOU) between DDS and SDRC. This MOU details the services SDRC is to provide for SANDIS users. However, it was found that SDRC was not allocating a percentage of the additional fees collected to offset the overhead costs and salaries of its employees who spent time providing the additional support services for SANDIS. (See Attachment A)

“Good business practices commonly require a percentage of fees collected from services provided be used to offset employee salaries and overhead expenses such as rent and utilities.”

Recommendation:

SDRC should develop and implement policies and procedures to ensure that a percentage of the fees received from the other regional centers for additional SANDIS services are used to offset overhead costs and salaries for those SDRC employees who provided the additional services under SANDIS.

Finding 2: SDRC Foundation - Conflict of Interest

The review of the Board members for the Foundation and SDRC’s staff listing revealed conflicts of interest that exist but were not properly disclosed. It was found that there were four common board members on the Boards of SDRC and the Foundation. Further review revealed SDRC’s Executive Director and the Business Services Administrator are board members and officers of the Foundation with full voting rights. However, these individuals did not file subsequent conflict of interest statements nor did they request a waiver of the prohibitions of any present or potential conflict of interest from DDS. In addition, it was found that SDRC’s Board has virtual control of the Foundation’s Board of Directors and through the Board, the operational functions of the Foundation.

Title 17, Sections 54522 (a), (b) and (c) states in part:

- (a) "...each regional center employee who has a decision or policy-making authority, as defined in Section 54505 (e) herein, and each member of the governing board, including the board member designated by the regional center provider advisory committee pursuant to W&I Code, Section 4622 (a) (7) shall prepare and file an initial conflict of interest statement pursuant to these regulations. ...Subsequent statements shall be filed thereafter whenever a change in status would create a present or potential conflict of interest situation as defined in these regulations.
- (b) If a present or potential conflict of interest exists, the statements of the regional center employees and governing board members, including the board member designated by the regional center provider advisory committee pursuant to W&I Code, Section 4622 (a) (7), shall if desired by the governing board member or regional center employee, also contain a request for waiver of the prohibitions of any present or potential conflict of interest, and a suggested plan of action for resolution of the present or potential conflict of interest, including limitations on the governing board member or regional center employee which will enable him or her to avoid actions involving the conflict of interest during the period the waiver request is being reviewed pursuant to Section 54523 of these regulations.
- (c) The regional center or the regional center governing board shall review, respectively, the waiver request of all regional center employees and governing board members, and determine, in its discretion, whether to submit the request pursuant to the regulation, or require the individual to eliminate the conflict of interest or resign his or her position as stated therein."

Also, Title 17, Sections 54523 (a) and (b) states:

- (a) "If the conflict of interest statement filed by the regional center governing board member or the regional center employee indicates that a present or potential conflict of interest exist and a waiver is being requested, then within 30 calendar days of receipt of such a statement, the governing board or regional center shall, unless it has elected to do otherwise pursuant to Section 54522 (c), submit the request for waiver packet in accordance with the procedures set forth in this section.
- (b) All requests for waiver packets must be submitted to the Department. In addition, copies of the request for waiver packets involving the governing board members must also be sent to the area board in the area and to the State Council."

Recommendation:

SDRC should develop and implement policies and procedures to ensure that all present or potential conflicts of interest are properly reported and to request a waiver from DDS when these exist.

Finding 3: Client Trust Disbursements Not Supported (Repeat)

A review of the client trust money management disbursements revealed that SDRC does not require supporting receipts prior to issuing payments from client trust accounts. SDRC issues disbursements based upon check request forms that are prepared by its Service Coordinators. This issue was identified in the prior DDS audit report.

Without supporting receipts, there is no evidence to ensure that the disbursements from the client trust funds are appropriate. In addition, the client trust funds account for benefits received from the Social Security Administration.

Social Security Handbook Chapter 16, Sections 1616 states:

“The responsibilities of a representative payee are to:

- D. Keep written records of all payments received from SSA along with receipts to show how funds were spent and/or saved on behalf of the beneficiary.”

Recommendation:

As the representative payee for its consumers, SDRC should continue to develop and implement procedures to require supporting receipts prior to making disbursements from the client trust accounts. This will ensure all money management checks disbursed to vendors are for an appropriate purpose and will ensure that there is a proper accounting of Social Security benefits. The procedures should also include a requirement that SDRC maintains the supporting receipts on file.

Finding 4: Equipment - Lack of Reporting of New Equipment

SDRC has not been completing the required form DS 2130, Equipment Acquired Under Contract, for newly acquired equipment. This form is required by the State’s Equipment Management Guidelines Section III (B), which states in part:

“RCs will also provide the Department of Developmental Services’ (DDS) Customer Support Section (CSS) with a list of all state-owned, nonexpendable and sensitive equipment received during each calendar quarter. This information is to be provided to CSS quarterly, utilizing the Equipment Acquired Under Contract form (DS 2130), or suitable electronic alternative.”

Recommendation:

SDRC should develop policies and procedures to ensure compliance to the State's Equipment Systems Guidelines as required by its contract with DDS. These policies and procedures should include a requirement to complete and file all required forms with DDS.

II. The following findings were identified during the audit, but have since been addressed and corrected by SDRC.

Finding 5: Over/Under-Stated Claims

A review of the Residential, Day Program, and Operational Indicator reports revealed 63 instances in which SDRC over or under claimed expenses to the State. There were 34 instances of overpayments totaling \$8,618.86, due to duplicate payments proration errors or use of incorrect rates for the service months. The remaining 29 instances were underpayments totaling \$1,081.66 due to duplicate payments and rate increases for the service months.

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

“All vendors shall...

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

In addition, for good business and internal control practices, SDRC should generate and monitor the Operational Indicator reports periodically to detect and correct any overpayments that may have occurred in the course of doing business with its vendors.

SDRC has taken corrective action by making billing adjustments for the over and under payments.

Recommendation:

SDRC should continue to review the payment invoices, rate letters, and Operational Indicator reports to ensure any payment errors that may have occurred in the course of doing business with its vendors are identified and corrected on a timely basis.

Finding 6: Medi-Cal Provider Agreement Forms (Repeat)

The file review of 100 Day Program, Transportation, and Residential vendor files revealed 18 files were found to be either missing or had an incomplete Medi-Cal Provider Agreement form. The incomplete Medi-Cal Provider Agreement forms

were missing signatures, service codes, vendor numbers and/or vendor names. This issue was identified in the prior DDS audit report.

Title 17, Section 54326(a) states:

“All vendors shall...

(16) Sign the Home and Community Based Service provider Agreement (6/99), if applicable pursuant to Section 54310(a) (10) (I), (d).”

In addition, for good internal practices, all required forms should be properly completed and retained on file.

SDRC took corrective steps to comply with Title 17, Section 54326(a) by providing to DDS the missing and incomplete Medi-Cal Provider Agreement forms.

Recommendation:

SDRC should implement procedures to ensure there is a complete Medi-Cal Provider Agreement form on file for every vendor providing services to the consumer.

Finding 7: Equipment - Missing State Equipment

A sample of 60 items from the equipment inventory list provided by SDRC revealed three items that could not be located. The three missing items were two desktops and one laptop computer. SDRC stated that the one laptop and two desktop computers that were missing may have been surveyed and that due to some oversight the items had not been taken off the listing.

Article IV, Section 4a of the contract between DDS and SDRC states:

“Contractor shall maintain and administer, in accordance with sound business practice, a program for the utilization, care, maintenance, protection and preservation of State of California property so as to assure its full availability and usefulness for the performance of this contract. Contractor shall comply with the State’s Equipment Management System Guidelines for regional center equipment and appropriate directions and instructions which the State may prescribe as reasonably necessary for the protection of State of California property.”

SDRC determined the missing items were surveyed out, but were not deleted from the inventory list. SDRC took corrective action to resolve this issue by completing Form 152 “Property Survey Report” for the three items and updating its inventory list.

Recommendation:

SDRC should develop and implement procedures to ensure the maintenance and safeguarding of equipment. This would ensure compliance with the State contract requirements regarding State property.

EVALUATION OF RESPONSE

As part of the audit report process, SDRC is provided with a draft report and is requested to provide a response to each finding. The response to the draft audit report, dated September 8, 2009, is provided as Appendix A. This report includes the complete text of the findings in the Findings and Recommendation section and a summary of the findings in the Executive Summary section. DDS's Audit Branch has evaluated SDRC's response. Except as noted below, SDRC's response addressed the audit findings and provided reasonable assurance that corrective action would be taken to resolve the issues. DDS's Audit Branch will confirm SDRC's corrective actions identified in the response during the follow-up review or the next scheduled audit.

Finding 1: San Diego Information Systems (SANDIS) Fees

SDRC concurs with the recommendation and states it has added overhead costs and salaries for those employees who provide additional services under SANDIS. Additional follow-up will be performed in this area during the next scheduled DDS audit to determine if the finding has been fully resolved.

Finding 2: SDRC Foundation – Conflict of Interest

In SDRC's response, SDRC requests further explanation as to why DDS perceives a conflict of interest and why a waiver is required. DDS perceives a conflict of interest as a situation in which a private or public individual or entity is in a position to influence a personal or corporate benefit in a professional or official capacity. However, the existence of a conflict of interest is not evidence of any wrongdoing, but it may become a legal issue if individuals or entities attempt to influence decisions, policies, or outcomes for their own personal benefit. It was found there are four common board members on the Boards of SDRC and the Foundation. In addition, it was found that the Executive Director and Business Services Administrator of SDRC are also on the Foundation's board. Since they all have full voting rights on the Foundation's board, conflicts of interest may exist due to the perception of influence they have as to the decision making process of the daily operations of the Foundation.

The Lanterman Developmental Disabilities Services Act and associated Title 17 regulations include regional center board member conflict of interest provisions. Therefore, to ensure that any present or potential conflicts of interest are properly disclosed pursuant to Title 17, Section 54520, it continues to be DDS's recommendation that SDRC properly report and request a waiver from DDS if conflicts of interest exists. It is requested that SDRC advise DDS within 30 days of the receipt of this final report of the action taken to resolve these conflicts.

Additional follow-up will be performed in the next scheduled DDS audit to determine if the finding has been fully resolved.

Finding 3: Client Trust Disbursements Not Supported (Repeat)

SDRC provided additional information in its response to support that its current Client Trust Disbursement procedures are satisfactory with the Social Security Administration. In a recent Social Security Administration's report of SDRC's trust operations and records, it found that SDRC has strong internal and external controls in place to safeguard beneficiaries' funds and fulfills the responsibilities of a representative payee. Therefore, based on the additional information provided by SDRC, DDS considers this issue to be resolved. However, in the next scheduled audit, DDS will further review SDRC's current procedures to confirm that SDRC is in compliance with the Social Security requirements for its consumers.

**San Diego Regional Center
Annual SANDIS Fees Collected from Regional Centers
Fiscal Years 2005-06, 2006-07, and 2007-08**

	Regional Center Name	Fees Collected
Fiscal Year 2005-06		
1	North Bay Regional Center	1,200.00
2	Kern Regional Center	1,200.00
3	Eastern Los Angeles Regional Center	600.00
4	Regional Center of East Bay	1,200.00
5	Far Northern Regional Center	1,200.00
6	Inland Regional Center	1,800.00
7	North Los Angeles Regional Center	1,800.00
8	Frank D. Lanterman Regional Center	1,800.00
9	Valley Mountain Regional Center	1,800.00
10	Redwood Coast Regional Center	1,800.00
11	Central Valley Regional Center	1,200.00
12	South Central Los Angeles Regional Center	1,200.00
13	Westside Regional Center	1,800.00
14	Golden Gate Regional Center	600.00
15	Harbor Regional Center	600.00
16	Regional Center of Orange County	1,200.00
17	San Gabriel/Pomona Regional Center	1,200.00
18	San Andreas Regional Center	1,200.00
19	Alta California Regional Center	1,200.00
20	Tri-Counties Regional Center	1,200.00
Total Fees For FY 2005-06		<u>\$25,800.00</u>

**San Diego Regional Center
Annual SANDIS Fees Collected from Regional Centers
Fiscal Years 2005-06, 2006-07, and 2007-08**

	Regional Center Name	Fees Collected
Fiscal Year 2006-07		
1	San Andreas Regional Center	3,600.00
2	Regional Center of Orange County	3,625.00
3	Golden Gate Regional Center	3,600.00
4	Redwood Coast Regional Center	3,000.00
5	North Los Angeles County Regional Center	3,000.00
6	Harbor Regional Center	3,600.00
7	Frank D. Lanterman Regional Center	3,000.00
8	San Gabriel/Pomona Regional Center	3,600.00
9	Westside Regional Center	3,000.00
10	Tri-Counties Regional Center	3,000.00
11	North Bay Regional Center	3,000.00
12	Central Valley Regional Center	3,000.00
13	Alta California Regional Center	2,100.00
14	South Central Los Angeles Regional Center	3,000.00
15	Eastern Los Angeles Regional Center	3,000.00
16	Far Northern Regional Center	3,000.00
17	Inland Regional Center	3,000.00
18	Regional Center of East Bay	3,000.00
19	Valley Mountain Regional Center	3,000.00
20	Kern Regional Center	3,000.00

Total Fees for FY 2006-07 \$62,125.00

**San Diego Regional Center
Annual SANDIS Fees Collected from Regional Centers
Fiscal Years 2005-06, 2006-07, and 2007-08**

	Regional Center Name	Fees Collected
Fiscal Year 2007-08		
1	Regional Center of Orange County	1,500.00
2	Eastern Los Angeles Regional Center	1,500.00
3	South Central Los Angeles Regional Center	1,500.00
4	Far Northern Regional Center	1,500.00
5	North Los Angeles County Regional Center	1,500.00
6	Valley Mountain Regional Center	1,500.00
7	Kern Regional Center	1,500.00
8	Regional Center of East Bay	1,500.00
9	Westside Regional Center	1,500.00
10	Inland Regional Center	1,500.00
11	Tri-Counties Regional Center	10,000.00
Total Fees for FY 2007-08		\$25,000.00
Grand Total of Fees Collected		\$112,925.00

APPENDIX A

SAN DIEGO REGIONAL CENTER

RESPONSE

TO AUDIT FINDINGS

Certain documents provided by SDRC as attachments to their response are not included in this report due to the detailed and sometimes confidential nature of the information.



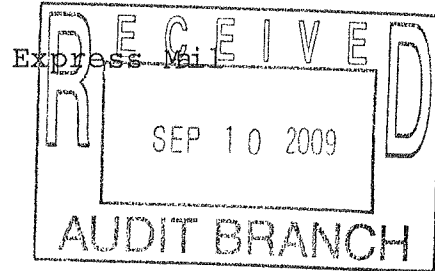
San Diego Regional Center

Serving Individuals with Developmental Disabilities in San Diego and Imperial Counties

4355 Ruffin Road, San Diego, California 92123 • (858) 576-2996 • www.sdrc.org

September 8, 2009

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



Dear Mr. Yan:

Enclosed are the San Diego Regional Center responses to the findings and recommendations of the Department of Developmental Services Draft Fiscal Audit of Fiscal Years 2005-06, and 2006-07.

Thank you for the opportunity to have the San Diego Regional Center responses included in the final audit report.

If you have any questions please contact Ed Kenney, SDRC Chief of Administrative Services at (858) 576-2970.

Sincerely,

Carlos Flores
Executive Director

Enclosure

XC: Chris Hodge, Chairperson
Angela Yates, Treasurer
Ed Kenney
Michael Bell
Lily Esconde

Erk/sdrccovltr2007auditresp.doc

East County Office
8760 Cuyamaca St., #100
Santee, CA 92071
(619) 596-1000

Imperial County Office
512 W. Aten Rd.
Imperial, CA 92251
(760) 355-8383

North County Office
1370 W. San Marcos Blvd #100
San Marcos, CA 92078
(760) 736-1200

South County Office
2727 Hoover Ave., #100
National City, CA 91950
(619) 336-6600

San Diego Regional Center Response to the Findings and Recommendations
of the DDS Draft Fiscal Audit of Fiscal Years 2005-06, and 2006-07

DDS Finding 1 San Diego Information Systems (SANDIS) Fees

The review of the San Diego Information Systems (SANDIS) area revealed that SDRC had received a total of \$112,925 from other regional centers for FY 2005-06, 2006-07, and 2007-08 as fees that SDRC was charging for additional services that were not included as part of the Memorandum of Understanding (MOU) between DDS and SDRC. This MOU details the services SDRC is to provide for SANDIS users. However it was found that SDRC was not allocating a percentage of the additional fees collected to offset the overhead costs and salaries of its employees who spent time providing the additional support services for SANDIS. (See Attachment A)

“Good Business practices commonly require a percentage of fees collected from services provided be used to offset employee salaries and overhead expenses such as rent and utilities.”

DDS Recommendation:

SDRC should develop and implement policies and procedures to ensure that a percentage of the fees received are used to offset overhead costs and salaries for those SDRC employees who provided the additional services under SANDIS.

SDRC Response:

SDRC concurs with the recommendation. SDICDSI has added overhead costs and salaries for those SDICDSI employees who provided the additional services under SANDIS

DDS Finding 2: SDRC Foundation – Conflict of Interest

The review of the Board members for the Foundation and SDRC’s staff listing revealed conflicts of interest that exist but were not properly disclosed. It was found that there were four common board members on the Boards of SDRC and the Foundation. Further review revealed SDRC’s Executive Director and Business Services Administrator are board members of the Foundation with full voting rights. However these individuals did not file subsequent conflict of interest statements nor did they request a waiver of the prohibitions of any present or potential conflict of interest from DDS. In addition, it was found that SDRC’s Board has virtual control of the Foundation’s Board of Directors and through the Board, the operational functions of the Foundation.

- (a) Title 17, Sections 54522 (a), (b) and (c) states in part.
“...each regional center employee who has a decision or policy-making authority, as defined in Section 54505 (e) herein, and each

member of the governing board, including the board member designated by the regional center provider advisory committee pursuant to W&I Code Section 4622 (a) (7) shall prepare and file an initial conflict of interest statement pursuant to these regulations. ...Subsequent statements shall be filed thereafter whenever a change in status would create a present or potential conflict of interest situation as defined in these regulations

- (b) If a present or potential conflict of interest exists, the statements of the regional center employees and governing board members, including the board member designated by the regional center provider advisory committee pursuant to W&I Code, Section 4622 (a) (7), shall if desired by the governing board member or regional center employee, also contain a request for waiver of the prohibition of any present or potential conflict of interest, and a suggested plan of action for resolution of the present or potential conflict of interest, including limitations on the governing board member or regional center employee which will enable him or her to avoid actions involving the conflict of interest during the period the waiver request is being reviewed pursuant to Section 54523 of these regulations.
- (c) The regional center or the regional center governing board shall review, respectively, the waiver request of all regional center employees and governing board members, and determine, in its discretion, whether to submit the request pursuant to the regulation, or require the individual to eliminate the conflict of interest or resign his or her position as stated therein”.

Also, Title 17, Sections 54523 (a) and (b) states:

- (a) “If the conflict of interest statement filed by the regional center governing board member or the regional center employee indicates that a present or potential conflict of interest exists and a waiver is being requested, then within 30 calendar days of receipt of such a statement, the governing board or regional center shall, unless it has elected to do otherwise pursuant to Section 54522 (c), submit the request for waiver packet in accordance with the procedures set forth in this section.
- (b) All requests for waiver packets must be submitted to the Department. In addition, copies of the request for waiver packet involving the governing board members must also be sent to the area board in the area and to the State Council.”

DDS Recommendation:

SDRC should develop and implement policies and procedures to ensure that all present or potential conflict of interests is properly reported and to request a waiver from DDS when this exists.

SDRC Response:

The DDS finding does not provide specific information as to why a conflict of interest is perceived and why a waiver is required. The DDS finding simply states that conflicts of interest exist. SDRC defers response on this recommendation. In order to respond it would be helpful if DDS provided facts or examples to support its conclusion.

DDS Finding 3: Client Trust Disbursements Not Supported (Repeat)

A review of the client trust money management disbursements revealed that SDRC does not require supporting receipts prior to issuing payments from client trust accounts. SDRC issues disbursement based on check request forms that are prepared by its service coordinators. This issue was identified in the prior DDS Audit.

Without supporting receipts, there is no evidence to ensure that the disbursements from the client trust are appropriate. In addition, the client trust funds account for benefits received from the Social Security Administration.

Social Security Handbook Chapter 16, Section 1616 states:

“The responsibilities of a representative payee are to:

- D. Keep written records of all payments received from SSA along with receipts to show how funds were spent and/or saved on behalf of the beneficiary.”

DDS Recommendation:

As the representative payee for its consumers, SDRC should continue to develop and implement procedures to require supporting receipts prior to making disbursements from the client trust accounts. This will ensure all money management checks disbursed to vendors are for an appropriate purpose and will ensure that there is a proper accounting of Social Security benefits. The procedure should also include a requirement that SDRC maintains the supporting receipts on file.

SDRC Response:

SDRC contends that it is in compliance with the DDS recommendation and Social Security Administration. A check request for each purchase is submitted by the consumer's client program coordinator. The supporting receipts for the purchase are held on file by the provider and must be made available if requested by SDRC.

On April 1, 2009 the Social Security Administration reviewed SDRC Trust operations and records. They specifically examined our procedures for having the provider maintain receipts to show how funds were spent. They found SDRC has strong internal and external controls in place to safeguard beneficiary's funds. The Social Security Administration determined SDRC fulfills the responsibilities of a representative payee. A copy of their report is attached.

DDS Finding 4: Equipment - Lack of Reporting on New Equipment

SDRC has not been completing the required form DS 2130, Equipment Acquired under Contract form, for newly purchased equipment. This form is required by the State's Equipment Management System Guidelines Section III (B), which states in part:

“RCs will also provide the Department of Developmental Services’ (DDS) customer Support Section (CSS) with a list of all state owned, nonexpendable and sensitive equipment received during each calendar quarter. This information is to be provided to the CSS quarterly, utilizing the Equipment Acquired under Contract form (DS 2130), of suitable electronic alternative.”

DDS Recommendation:

SDRC should develop policies and procedures to ensure compliance to the State's Equipment Systems Guidelines as required by contract with DDS. This policies and procedure should include requirements to complete and file all required forms with DDS.

SDRC Response:

SDRC concurs with the recommendation and will comply with the State's Equipment Systems Guidelines

DDS Finding 5: Over/Under-Stated Claims

A review of the Residential, Day Program, and Operational Indicator reports revealed 63 instances in which SDRC over or under claimed expenses to the state. There were 34 instances of overpayments totaling \$8,618.86, due to duplicate payment proration errors or use of wrong rates for the service months. The remaining 29 instances were under payments totaling \$1,081.66 due to duplicate payments and rate increases for the service months.

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

“All vendors shall...

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

In addition, for good business and internal control practices, SDRC should generate and monitor the Operational Indicator reports periodically to detect and correct any overpayments that may have occurred in the course of doing business with its vendors.

SDRC has taken corrective action by making billing adjustments for the over and under payments.

DDS Recommendation:

SDRC should continue to review the payment invoices, rate letters, and Operational Indicator reports to ensure any payment errors that may have occurred in the course of doing business with its vendors are identified and corrected on a timely basis.

SDRC Response:

SDRC concurs with the recommendation.

DDS Finding 6: Medi-Cal Provider Agreement forms (Repeat)

The file review of 100 day program, Transportation and Residential vendor files revealed 18 files were found to be either missing or had and incomplete Medi-Cal Provider Agreement form. The incomplete Medi-Cal Provider Agreement forms were missing signatures, service codes, vendor numbers and/or vendor names. This issue was identified in the prior DDS audit report.

Title 17, Section 54326 (a) states:

“All vendors shall...

(16) Sign the Home and Community Based Service Provider Agreement (6/99), if applicable pursuant to Section 54310 (a) (10) (I), (d).”

SDRC took corrective steps to comply with Title 17, Section 54326 (a) by providing to DDS the missing and incomplete Medi-Cal Provider Agreement forms.

DDS Recommendation:

SDRC should implement procedures to ensure there is a complete Medi-Cal Provider Agreement form on file for every vendor providing services to the consumer.

SDRC Response:

SDRC concurs with the recommendation.

DDS Finding 7: Equipment - Missing State Equipment

A sample of 60 items from the equipment inventory list provided by SDRC revealed three items that could not be located. The three missing items were two desktops and one laptop computer. SDRC stated that the two desktop and one laptop computer that were missing may have been surveyed and that due to some oversight the items were not taken off the listing.

Article IV, Section 4a of the contract between DDS and SDRC states:

“Contractor shall maintain and administer, in accordance with sound business practice, a program for the utilization, care, maintenance, protection and preservation of State of California property so as to assure its full availability and usefulness for the performance of this contract. Contractor shall comply with the State’s Equipment Management System Guidelines for regional center equipment and appropriate directions and instructions which the State may prescribe as reasonably necessary for the protection of State of California property.”

SDRC determined the missing items were surveyed out, but were not deleted from the inventory list. SDRC took the corrective action to resolve this issue by completing Form 152 “Property Survey Report” for the three items and updating its inventory list.

DDS Recommendation:

SDRC should develop and implement procedures to ensure the maintenance and safeguarding of equipment. This would ensure compliance with the State contract requirements regarding State property.

SDRC Response:

SDRC concurs with the recommendation.