

**AUDIT OF THE
REGIONAL CENTER OF ORANGE COUNTY
FOR FISCAL YEARS 2009-10 AND 2010-11**

Department of Developmental Services

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EXECUTIVE SUMMARY

The Department of Developmental Services' (DDS) fiscal compliance audit of the Regional Center of Orange County (RCOC) revealed that the RCOC was in 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 contracts with DDS. The audit indicated that, overall, RCOC maintains accounting records and supporting documentation for transactions in an organized manner. This report identifies some areas where RCOC'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 RCOC's operations.

Findings that need to be addressed.

Finding 1: Negotiated Rates Above the Statewide Median Rate

A sample review of 44 Purchase of Services (POS) vendor contracts finalized after June 30, 2008, revealed two vendors, Elivira Walker, vendor number PM1343, service code 605, and Anaheim Hills Speech, vendor number PM1370, service code 028, that were contracted above the Statewide median rate requirement implemented on July 1, 2008. This resulted in overpayments totaling \$3,222.79. This is not in compliance with the requirements of the W&I Code, section 4691.9(a) and (b).

Finding 2: Family Cost Participation Program (FCPP)

A. Overstated Share of Cost

A review of the Family Cost Participation Program (FCPP) revealed that RCOC has been paying more than its assessed share of cost for three of the 47 sampled consumers participating in the program. As a result, RCOC made overpayments to vendors, which totaled \$2,831.82. This is not in compliance with CCR, title 17, section 50255(a).

RCOC has provided subsequent information in response to the Draft Report which indicated the consumers were Medi-Cal eligible and not required to participate in FCPP. Based on the new information, DDS considers this issue resolved.

B. Late Assessments

A sample review of 47 FCPP consumer files revealed eight instances where RCOC did not assess the parents' share of cost at the maximum amount when parents did not provide income documentation within 10 working days from the date of the parents' signatures on the Individual Program Plan (IPP). This is not in compliance with W&I Code, section 4783(g)(4).

Finding 3: Lack of Signatory Authority (Repeat)

A review of the bank accounts revealed RCOC's Self-Funded Dental account, continues to lack the required DDS signatory authority. This issue was identified in the two prior audit reports. This is not in compliance with the State Contract, Article III, section 3(f) and (g).

Finding 4: Equipment Inventory

A review of the equipment inventory revealed RCOC did not follow the State's Equipment Management System Guidelines issued by DDS for the surveying of equipment. RCOC failed to complete the Property Survey Report form (STD. 152) that required submission to the Department of General Services' (DGS) for the surveying of 80 inventory items. The 80 items were found to have been donated to Goodwill. This is not in compliance with the State Administrative Manual (SAM), section 8640 and the State's Equipment Management System Guidelines, section III(E).

Finding 5: Missing "Hold Harmless" Clause (Repeat)

A review of RCOC's lease agreements revealed one of the three current lease agreements did not include the "Hold Harmless" clause. This issue was identified in three prior audit reports. This issue is not in compliance with the State contract, Article VII, section 1.

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. DDS also 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 center's fiscal, administrative and program operations.

DDS and Regional Center of Orange County, Inc. entered into a contract, HD099014, effective July 1, 2009, through June 30, 2016. This contract specifies that Regional Center of Orange County, Inc. will operate an agency known as the Regional Center of Orange County (RCOC) to provide services to persons with DD and their families in Orange County. The contract is funded by State and Federal funds that are dependent upon the RCOC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at RCOC from February 21, 2012, through March 23, 2012, and was conducted by the 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 RCOC, effective July 1, 2009

AUDIT PERIOD

The audit period was July 1, 2009, through June 30, 2011, 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,
- 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 RCOC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that RCOC was in compliance with the objectives identified above. Accordingly, DDS examined transactions, on a test basis, to determine whether RCOC was in compliance with the Lanterman Act, CCR, title 17, HCBS Waiver for the Developmentally Disabled, and State Contract.

DDS' review of RCOC'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 2009-10, issued on August 10, 2011. It was noted that no management letter was issued for RCOC. 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 the RCOC. 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 W&I Code of regulations.
- 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 (SSA). 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 SSA in a timely manner. An interview with RCOC staff revealed that RCOC 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.
- DDS selected a sample of Uniform Fiscal Systems (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 RCOC'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 RCOC's operations and conducted tests to determine compliance with the State Contract. The tests included various expenditures claimed for administration to ensure that RCOC 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 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 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 RCOC'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. The following procedures were performed upon the study:

- Reviewed applicable TCM records and RCOC's Rate Study. DDS examined the month of May 2010 and traced the reported information to source documents.
- Reviewed RCOC's Case Management Time Study. DDS selected a sample of payroll time sheets for this review and compared it to the DS 1916 forms to ensure that the DS 1916 forms were properly completed and supported.

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).

However, under W&I Code, section 4640.6(i)(2), for the period commencing February 1, 2009, to June 30, 2010, inclusive, regional centers were no longer required to provide service coordinator caseload data to DDS annually. Regional centers were instead to maintain sufficient service coordinator caseload data to document compliance with the service coordinator-to-consumer ratio requirements in effect.

Therefore, DDS also reviewed the Service Coordinator Caseload Survey methodology used in calculating the caseload ratios to determine reasonableness and that supporting documentation is maintained to support the survey and the ratios as required by W&I Code, section 4640.6(e). This requirement is temporarily suspended for the February 2009 and 2010 caseload surveys which is reported in the month of March.

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 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 RCOC 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 RCOC is paying for only its assessed share of cost.

VII. 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 RCOC implemented the required RFP process by January 1, 2011, DDS performed the following procedures during the audit review:

- Reviewed the RCOC 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 complied 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 RCOC. 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 RCOC notified the vendor community and the public of contracting opportunities available.
- Reviewed the contracts to ensure that RCOC 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 RCOC 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 RCOC 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 RCOC'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 the State Contract requirements as amended.

VIII. Statewide/Regional Center Median Rates

The Statewide and Regional Center Median Rates were implemented on July 1, 2008, to ensure regional centers 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 regional centers demonstrate the exemption is necessary for the health and safety of the consumers.

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

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

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

IX. Other Sources of Funding from DDS

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

- Start-Up Funds, Community and Placement Program.
- Prevention Program.
- Family Resource Center (FRC).
- American Recovery and Reinvestment Act (ARRA) Funds.

X. Follow-up Review on Prior DDS Audit Findings

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

CONCLUSIONS

Based upon the audit procedures performed, DDS has determined that except for the items identified in the Findings and Recommendations Section, RCOC was in compliance with applicable sections of the CCR, title 17, the HCBS waiver, and the State Contract with DDS for the audit period, July 1, 2009, through June 30, 2011.

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 RCOC has not taken appropriate actions to resolve one prior audit issue.

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft report on February 14, 2013. The findings in the report were discussed at an exit conference with RCOC on February 15, 2013. At the exit conference, we stated that the final report will incorporate the view of the responsible officials.

RESTRICTED USE

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

FINDINGS AND RECOMMENDATIONS

Findings that need to be addressed.

Finding 1: Negotiated Rates Above the Statewide Median Rate

A sample review of 44 POS vendor contracts finalized after June 30, 2008, revealed two vendors, Elivira Walker, vendor number PM1343, service code 605, and Anaheim Hills Speech, vendor number PM1370, service code 028, were contracted above the Statewide median rate requirement implemented on July 1, 2008.

It was found that RCOC reimbursed Elivira Walker at a rate of \$106.70 per hour while the median rate was \$46.23 per hour, and Anaheim Hills Speech, at a rate of \$48.50 per hour while the median rate was \$18.00 per hour. This resulted in overpayments totaling \$3,222.79. (See Attachment A.)

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

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

Recommendation:

RCOC must reimburse to DDS the \$3,222.79 in total overpayments made to the two vendors. RCOC must also renegotiate the rates for consistency with the Statewide/RCOC median rates and provide DDS with written confirmation of the rate change. In addition, RCOC must comply with the W&I Code, section 4691.9 and ensure that all rates negotiated after June 30, 2008, are below the Statewide/RCOC median rates.

Finding 2: Family Cost Participation Program (FCPP)

A. Overstated Share of Cost

A review of 47 sampled FCPP consumer files revealed that RCOC has been paying for the cost of services that are the responsibility of the families under the requirements of the FCPP for three of the 47 sampled consumers participating in the program. This was due to RCOC's failure to assess the parents' share of cost at maximum when no income documentation was provided within 10 working days from the date the parents' signed the IPP. As a result, RCOC made overpayments to vendors, which totaled \$2,831.82. (See Attachment B.)

CCR, title 17, section 50255(a), states:

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

RCOC has provided subsequent information in its response to the Draft Report which indicated the consumers were Medi-Cal eligible and not required to participate in FCPP. Based on the new information, DDS considers this issue resolved.

Recommendation:

RCOC must reimburse to DDS a total of \$2,831.82 in overpayments that resulted from incorrectly paying for the family's share of costs. In addition, RCOC should ensure that only the costs RCOC is responsible for is entered into the Uniform Fiscal System to prevent the possibility of any overpayments.

B. Late Assessments

A review of 47 sampled FCPP consumer files revealed eight instances where RCOC did not assess the parents' share of cost at the maximum amount when parents failed to provide income documentation within 10 working days from the date of the parents' signatures on the IPP. This was an oversight by RCOC's employees. (See Attachment C.)

W&I Code, section 4783(g)(4) states in relevant part:

“(4) Parents who have not provided copies of income documentation pursuant to paragraph (2) shall be assessed the maximum cost participation based on the highest income level adjusted for family size until such time as the appropriate income documentation is provided...”

Recommendation:

RCOC must ensure parents' share of cost is assessed at the maximum amount when parents have failed to provide income documentation within 10 working days from the date of the parents' signatures on the IPP.

Finding 3: Lack of Signatory Authority (Repeat)

A review of the bank accounts revealed RCOC's Self-Funded Dental Account, continues to lack the required DDS signatory authority. This issue was identified in two previous audit reports. RCOC stated in its previous responses that it had taken corrective action by adding DDS on to the signature cards; however, a review of the bank signature cards and a discussion with RCOC's management revealed that DDS still does not have signature authority to this account.

RCOC no longer utilizes the Self-Funded Dental Account and will close this account once all the outstanding checks have cleared. A new account called the Automatic Data Processing (ADP) Flex Account was created to replace the Self-Funded Dental Account. A review of the signature cards of this new account found that DDS has the required signatory authority on the ADP Flex Account.

State Contract, Article III, section 3(f) states in part:

“All bank accounts and any investment vehicles containing funds from this contract and used for regional center operations, employee salaries and benefits or for consumers' services and supports, shall be in the name of the State and Contractor.”

Also, State Contract, Article III, section 3(g) states in part:

“For the bank account(s) above referenced, there shall be prepared three (3) alternative signature cards with riders attached to each indicating their use.”

Recommendation:

RCOC must take this issue seriously and comply with the DDS contract, Article III, section 3, which requires signatory authority be given to both DDS and RCOC for all bank accounts identified as having State funds. In addition, RCOC must provide DDS with documentation indicating that all outstanding checks have been cleared and the Self-Funded Dental Account has been closed.

Finding 4: Equipment Inventory

A review of the equipment inventory revealed RCOC did not follow the State's Equipment Management System Guidelines issued by DDS for the surveying of equipment. RCOC failed to complete the Property Survey Report form (STD. 152) that required submission to the Department of General Services (DGS) for the surveying of 80 inventory items. The 80 items were found to have been

donated to Goodwill. RCOC acknowledged that it had donated the items to Goodwill without completing the STD. 152 forms and that it could not provide the state tags or serial numbers for the donated items.

SAM, section 8640 states:

“Departments will prepare Property Survey Reports, STD. 152, when disposal of property occurs...”

State’s Equipment Management System Guidelines, section III(E) states:

“RCs shall work directly with their regional Department of General Services’ (DGS) office to properly dispose of state-owned equipment. RCs will complete a Property Survey Report (Std. 152) for all state-owned equipment subject to disposal. DGS must review and approve the Std. 152 before the equipment is actually disposed. A copy of the Std. 152 will be forwarded to CSS after the items have been disposed and all required approvals and certifications have been obtained.”

Recommendation:

RCOC must adhere to the SAM and the State’s Equipment Management System Guidelines when disposing State property. In addition, RCOC must conduct a current inventory of its equipment to ensure items donated no longer appear on its inventory list.

Finding 5: Missing “Hold Harmless” Clause (Repeat)

The review of RCOC’s three current lease agreements for real properties revealed the lease agreement at Garden Grove did not include the “Hold Harmless” clause as required by the contract with DDS. This finding was identified in the three prior DDS audit reports. RCOC stated in its response that it has been unsuccessful in trying to obtain an amendment for the lease agreement.

State Contract, Article VII, section (1) states:

“The contract shall include in all new leases or rental agreements for real property a clause that holds the State harmless for such leases.”

Recommendation:

RCOC must continue to negotiate with the landlord to have the current lease agreement amended to include the “Hold Harmless” clause as required by the State contract. RCOC should ensure that as the office lease for Garden Grove is due for renewal, it will negotiate to include the “Hold Harmless” clause.

EVALUATION OF RESPONSE

As part of the audit report process, RCOC has been provided with a draft report and was requested to provide a response to each finding. RCOC's response dated March 6, 2013, is provided as Appendix A. This report includes the complete text of the findings in the Findings and Recommendations section as well as a summary of the findings in the Executive Summary section.

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

Finding 1: Negotiated Rates Above the Statewide Median Rate

RCOC affirmed that the two vendors identified were vendored after the June 30, 2008. As such, these vendors are subject to the Statewide/RCOC median rates. RCOC indicated that Elvira Walker is no longer a RCOC vendor. In addition, RCOC had informed Anaheim Hills Speech on March 5, 2013, that its rate will change to comply with the median rates and requested reimbursement.

Since RCOC did not dispute the finding, RCOC must reimburse to DDS the \$3,222.79 in total overpayments made to the two vendors. In addition, RCOC must also provide DDS documentation indicating the rate for Anaheim Hills Speech is consistent with the Statewide/RCOC median rates.

Finding 2: Family Cost Participation Program (FCPP)

A. Overstated Share of Cost

RCOC disagrees with the finding. RCOC provided subsequent information which indicated the consumers were Medi-Cal eligible prior to receiving FCPP services. The consumers were re-assessed once they were determined to be Medi-Cal eligible. Although DDS' finding was accurate based on the information available during the fieldwork phase of the audit, this subsequent information provided by RCOC revealed these consumers were not eligible for FCPP. As such, DDS considers the \$2,831.82 in overpayments resolved.

While the overpayments have been resolved, DDS recommends RCOC consistently verify Medi-Cal eligibility of all its consumers in a timely manner and ensure that only the costs RCOC is responsible for is entered into the UFS to prevent the possibility of any overpayments.

B. Late Assessments

RCOC concurs with the finding and provided a copy of its updated FCPP procedure to indicate that assessments will be made within 10 days of the completed IPP, with or without income information. DDS will conduct a follow-up during the next scheduled audit to ensure procedures are being followed.

Finding 3: Lack of Signatory Authority (Repeat)

RCOC has resolved this issue submitting documentation showing the Self-Funded Dental account has been closed. DDS considers this issue resolved.

Finding 4: Equipment Inventory

RCOC states the finding is incorrect and that only two items were not properly surveyed. RCOC submitted supporting documentation which revealed 17 out of the 80 items donated to Goodwill that had state tags were properly surveyed. The remaining items donated were not of high value or sensitive in nature, and did not require state tags per the State's Equipment Management System Guidelines.

DDS agrees with RCOC's response that 17 out of the 80 items donated to Goodwill required State Tags and that RCOC failed to complete the survey for two items, a teleconference projector (State Tag Number 333427) and a projector (State Tag Number 350402).

Finding 5: Missing "Hold Harmless" Clause (Repeat)

RCOC indicates that the landlord refuses to accept the Hold Harmless clause. This issue will continue to remain unresolved until RCOC negotiates the Hold Harmless clause into the lease agreement.

**Regional Center of Orange County
Negotiated Rates Above the Statewide Median Rate
Fiscal Years 2009-10 and 2010-11**

	Unique Client Identification Number	Vendor Number	Vendor Name	Service Code	Authorization Number	Payment Period	Over Payments
1	6870001	PM1343	Elivira Walker	605	10377777	200907	\$120.94
2	6870001	PM1343	Elivira Walker	605	10386437	200908	\$181.41
3	6870001	PM1343	Elivira Walker	605	10386437	200909	\$423.29
4	6871532	PM1343	Elivira Walker	605	10376144	200909	\$181.41
5	6871532	PM1343	Elivira Walker	605	10394866	200911	\$120.94
6	6871532	PM1343	Elivira Walker	605	10394866	200912	\$120.94
7	6871532	PM1343	Elivira Walker	605	10394866	201001	\$120.94
8	6815415	PM1370	Anaheim Hills Speech	028	10373592	200907	\$122.00
9	6875415	PM1370	Anaheim Hills Speech	028	10373175	200907	\$91.50
10	6876003	PM1370	Anaheim Hills Speech	028	10376281	200907	\$122.00
11	6877993	PM1370	Anaheim Hills Speech	028	10353823	200907	\$91.50
12	6887110	PM1370	Anaheim Hills Speech	028	10357180	200907	\$91.50
13	6894928	PM1370	Anaheim Hills Speech	028	10367600	200907	\$122.00
14	7900133	PM1370	Anaheim Hills Speech	028	10362934	200907	\$61.00
15	6815415	PM1370	Anaheim Hills Speech	028	10373592	200908	\$122.00
16	6876003	PM1370	Anaheim Hills Speech	028	10376281	200908	\$122.00
17	6877993	PM1370	Anaheim Hills Speech	028	10353823	200908	\$122.00
18	6887110	PM1370	Anaheim Hills Speech	028	10357180	200908	\$61.00
19	6894928	PM1370	Anaheim Hills Speech	028	10367600	200908	\$91.50
20	7900133	PM1370	Anaheim Hills Speech	028	10362934	200908	\$152.50
21	6815415	PM1370	Anaheim Hills Speech	028	10373592	200909	\$91.50
22	6876003	PM1370	Anaheim Hills Speech	028	10376281	200909	\$122.00
23	6877993	PM1370	Anaheim Hills Speech	028	10353823	200909	\$61.00
24	6887110	PM1370	Anaheim Hills Speech	028	10357180	200909	\$122.00
25	7900133	PM1370	Anaheim Hills Speech	028	10362934	200909	\$61.00
26	6877993	PM1370	Anaheim Hills Speech	028	10353823	200910	\$122.92
Total Overstated Claims							\$3,222.79

**Regional Center of Orange County
Family Cost Participation Program (FCPP) - Overstated Share of Cost
Fiscal Years 2009-10 and 2010-11**

Unique-Client Identification Number	IPP Date	Assessment Date	Vendor Number	Vendor Name	Service Month	Service Code	Authorization	Over Payments
1	12/8/2009	1/12/2010	VM5460	Dana Dear	Mar-11	420	10368084	\$31.17
					Apr-11	420	10368084	\$31.17
2	8/4/2009	10/6/2009	V48375	Jean Metz	Dec-09	420	10163222	\$623.40
					Mar-10	420	10163222	\$935.10
					Jun-10	420	10163222	\$841.98
3	8/17/2010	9/29/2010	VM5879	Catherine Wu	Nov-10	420	11400130	\$184.50
					Dec-10	420	11400130	\$61.50
					Jan-11	420	11400130	\$123.00
Total Overstated Share of Cost								\$2,831.82

**Regional Center of Orange County
Family Cost Participation Program (FCPP) - Late Assessments
Fiscal Years 2009-10 and 2010-11**

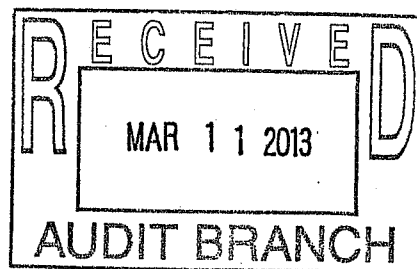
	Unique Client Identification Number	IPP Date	Assessment Date
1	6815433	12/8/2009	1/12/2010
2	6856266	8/4/2009	10/6/2009
3	6814389	8/17/2010	9/29/2010
4	6890308	6/17/2009	7/22/2009
5	6829710	9/18/2009	10/21/2009
6	7318069	7/26/2010	8/24/2010
7	6898178	4/15/2011	5/27/2011
8	6821070	8/10/2010	9/15/2010

APPENDIX A

REGIONAL CENTER OF ORANGE COUNTY

**RESPONSE
TO AUDIT FINDINGS**

(Certain documents provided by the Regional Center of Orange County as attachments to its response are not included in this report due to the detailed and sometimes confidential nature of the information.)



March 6, 2013

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

Dear Mr. Yan:

The Regional Center of Orange County's (RCOC's) response to the draft report of the audit conducted by the Department of Developmental Services (DDS) for the fiscal years ended June 30, 2010 and 2011 is as follows.

There were no findings or exceptions noted in the following areas:

- Purchase of Service payments,
- Individual trust accounts over the \$2,000 resource limit,
- Uniform Fiscal Systems reconciliations,
- Bank reconciliations,
- Personnel files,
- Time sheets,
- Payroll ledgers,
- Conflict of Interest,
- Targeted Case Management and Regional Center Rate Study,
- Service Coordinator Caseload Survey calculations,
- Early Intervention Program (Part C funding),
- Procurement,
- Board approval of contracts over \$250,000, and
- Start Up programs.

There were findings in the following four areas.

DDS Finding 1 and Recommendation: Negotiated Rates Above the Statewide Median Rate

“A sample review of 44 POS vendor contracts finalized after June 30, 2008, revealed two vendors, Elivira [Elvira] Walker, vendor number PM1343, service code 605, and Anaheim Hills Speech, vendor number PM1370, service code 028, were contracted above the Statewide median rate requirement implemented on July 1, 2008... This resulted in overpayments totaling \$3,222.79.

RCOC must reimburse to DDS the \$3,222.79 in total overpayments made to the two vendors. RCOC must also renegotiate the rates for consistency with the Statewide/RCOC median rates and provide DDS with written confirmation of the rate change. In addition, RCOC must comply with the W&I Code, section 4691.9 and ensure that all rates negotiated after June 30, 2008, are below the Statewide/RCOC median rates.”

RCOC's Response to Finding 1

RCOC vendored the two programs mentioned above on July 21, 2008 and August 20, 2008, respectively; DDS issued the median rates on September 17, 2008. Elvira Walker is no longer a RCOC vendor. RCOC informed Anaheim Hills Speech on March 5, 2013, that its rate will change to comply with median rates and requested reimbursement.

DDS Finding 2 and Recommendation: Family Cost Participation Program (FCPP)

A. Overstated Share of Cost

“A review of 47 sampled FCPP consumer files revealed that RCOC has been paying for the cost of services that are the responsibility of the families under the requirements of the FCPP for three of the 47 sampled consumers participating in the program. This was due to RCOC's failure to assess the parents' share of cost at maximum when no income documentation was provided within 10 working days from the date the parents' signed the IPP. As a result, RCOC made overpayments to vendors, which totaled \$2,831.82.”

“RCOC must reimburse to DDS a total of \$2,831.82 in overpayments that resulted from incorrectly paying for the family's share of costs. In addition, RCOC should ensure that only the costs RCOC is responsible for is [sic] entered into the Uniform Fiscal System to prevent the possibility of any overpayments.”

B. Late Assessments

“A review of 47 sampled FCPP consumer files revealed eight instances where RCOC did not assess the parents' share of cost at the maximum amount when parents failed to provide income documentation within 10 working days from the date of the parents' signatures on the IPP. This was an oversight by RCOC's employees.”

RCOC's Response to Finding 2

A. Overstated Share of Cost

When the three consumers identified above were re-assessed, Medi-Cal eligibility was confirmed; and as a result, they were not required to participate in FCPP.

B. Late Assessments

RCOC has changed its procedures to notice the family at the beginning of the month in which the Individual Program Plan is scheduled instead of waiting for notification from the Service Coordinator that the meeting was conducted. This will reduce the number of late assessments.

DDS Finding 3 and Recommendation: Lack of Signatory Authority (Repeat)

"A review of the bank accounts revealed RCOC's Self-Funded Dental Account, continues to lack the required DDS signatory authority. This issue was identified in two previous audit reports..."

"RCOC must take this issue seriously and comply with the DDS contract, Article III, section 3, which requires signatory authority be given to both DDS and RCOC for all bank accounts identified as having State funds. In addition, RCOC must provide DDS with documentation indicating that all outstanding checks have been cleared and the Self-Funded Dental Account has been closed."

RCOC's Response to Finding 3

The Self-Funded Dental account has been closed.

DDS Finding 4 and Recommendation: Equipment Inventory

"A review of the equipment inventory revealed RCOC did not follow the State's Equipment Management System Guidelines issued by DDS for the surveying of equipment. RCOC failed to complete the Property Survey Report form (STD. 152) that required submission to the Department of General Services (DGS) for the surveying of 80 inventory items. The 80 items were found to have been donated to Goodwill. RCOC acknowledged that it had donated the items to Goodwill without completing the STD. 152 forms and that it could not provide the state tags or serial numbers for the donated items."

"RCOC must adhere to the SAM and the State's Equipment Management System Guidelines when disposing [of] State property. In addition, RCOC must conduct a current inventory of its equipment to ensure items donated no longer appear on its inventory list."

RCOC's Response to Finding 4

DDS' finding is not correct. RCOC completed the Survey Report with the exception of two items: a teleconference camera and a portable projector. The camera sat on top of a television

that was part of an old, free-standing teleconferencing system that was donated to Goodwill. When the TV, which was properly surveyed, was donated, RCOC failed to also survey the camera which was on top of the TV.

DDS correctly states that RCOC donated 80 items to Goodwill. However, prior to donating the items to Goodwill, RCOC prepared the Survey Report for the 17 items that had State inventory tags, waited for approval, and then removed the State tags. For each of those 17 items, RCOC provided to DDS the State tag numbers and STD. 152 forms. Goodwill counted the TV and video camera as one item; RCOC did not complete the Survey Report for the video camera.

RCOC also could not account for a projector that was not assigned to one location or user but was a loaner and provided on-demand as a projector was needed.

For months, prior to the move from 801 Civic Center to Tustin Avenue, RCOC disposed of outdated inventory items. Some of those items were State tagged. Although RCOC should be able to account for every item on the State inventory, due to the high volume of items that were handled prior to the move, more employees were involved. RCOC has not changed its procedures; but, it has reduced the number of employees who have access to and maintain the State inventory.

DDS Finding 5 and Recommendation: Missing "Hold Harmless" Clause (Repeat)

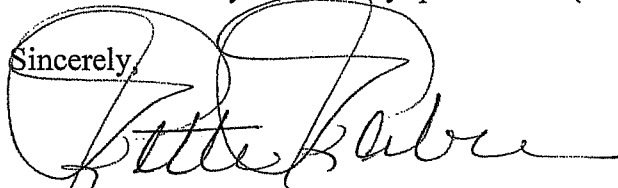
"The review of RCOC's three current lease agreements for real properties revealed the lease agreement at Garden Grove did not include the "Hold Harmless" clause as required by the contract with DDS. This finding was identified in the three prior DDS audit reports..."

"RCOC must continue to negotiate with the landlord to have the current lease agreement amended to include the "Hold Harmless" clause as required by the State contract. RCOC should ensure that as the office lease for Garden Grove is due for renewal, it will negotiate to include the "Hold Harmless" clause."

RCOC's Response to Finding 5

As stated in RCOC's three prior responses, this is part of lease negotiations and landlords often refuse to accept the "Hold Harmless" clause.

Please call me if you have any questions at (714) 796-5296.

Sincerely,


Bette Baber
CFO

c: Larry Landauer
Marta Vasquez
Raudel Perez
Veronica Flores
Greg Shimada