



NANCY BARGMANN
DIRECTOR

State of California—Health and Human Services Agency
Department of Developmental Services
1215 O Street, Sacramento, CA 95814
www.dds.ca.gov



GAVIN NEWSOM
GOVERNOR

September 1, 2023

Suzanne Devitt, Board President
Valley Mountain Regional Center, Inc.
P.O. Box 692290
Stockton, CA 95269-2290

Dear Mrs. Devitt:

The Department of Developmental Services' (DDS) Audit Section has completed the audit of the Valley Mountain Regional Center (VMRC). The period of review was from July 1, 2020, through June 30, 2022, with follow-up as needed into prior and subsequent periods. The enclosed report discusses the areas reviewed along with the findings and recommendations. The audit report includes the response submitted by VMRC as Appendix A and DDS' reply on page 25.

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

Office of Legal Affairs
Department of Developmental Services
P.O. Box 944202
Sacramento, CA 94299-9974

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

Your invoice for the total amount of \$4,451.04 from the current audit findings is enclosed. When making payments to DDS, please refer to the invoice number to ensure that proper credit is given. If you have any questions regarding the payment process, please contact Diane Nanik, Chief, Accounting Section, at (916) 654-2932.

Suzanne Devitt, Board President
September 1, 2023
Page two

If you have any questions regarding the audit report, please contact Edward Yan,
Manager, Audit Section, at (916) 651-8207.

Sincerely,

DocuSigned by:

38BD4A5930324CE...

PETE CERVINKA
Chief Deputy Director
Data Analytics and Strategy

Enclosure(s)

cc: Tony Anderson, VMRC
Melissa Stiles, VMRC
Bob Sands, DHCS
Carla Castañeda, DDS
Brian Winfield, DDS
Hiren Patel, DDS
Jim Knight, DDS
Ernie Cruz, DDS
Aaron Christian, DDS
Ann Nakamura, DDS
Yasir Ali, DDS
Diane Nanik, DDS
Greg Nabong, DDS
Jonathan Hill, DDS
Edward Yan, DDS
Luciah Ellen Nzima, DDS
Daren Le, DDS

State of California
DEPARTMENT OF DEVELOPMENTAL SERVICES
1215 O Street, MS 10-20
Sacramento, CA 95814

Suzanne Devitt, Board President Valley Mountain Regional Center P.O. Box 692290 Stockton, CA 95269-2290	INVOICE No. INV14605 Date August 31, 2023
--	---

Headquarters

Please return copy of Invoice with your remittance and make payable to:		DEPARTMENT OF DEVELOPMENTAL SERVICES 1215 O Street, MS 10-20 Sacramento, CA 95814 Attn: Diane J. Nanik, Chief of Accounting
Vendor no. VMRC10000		

<p>For: Per final audit report dated August 31, 2023, please reimburse the Department of Developmental Services for the unresolved overpayment of \$4,451.04 for the Fiscal Years 2020 and 2021.</p> <p style="text-align: center; color: red;">DO NOT OFFSET THIS INVOICE WITH ANY VENDOR CLAIMS. THIS INVOICE MUST BE PAID IN FULL BY CHECK PAYABLE TO DDS.</p> <p style="margin-top: 20px;"> Amount Due </p>	\$4,451.04
---	-------------------

DDS ACCOUNTING OFFICE ONLY:

FY	INV DATE	INV No.	Rptg Structure	Svc Loc	Program	Approp. Ref	Fund	Amount
FY20/21 FY21/22	08/31/2023	INV14605	43009517	96000	9910	101	0001	\$4,451.04

California Code of Regulations
Title 17, Division 2
Chapter 1 - General Provisions
Subchapter 7 - Fiscal Audit Appeals
Article 2 - Administrative Review

§50730. Request for Administrative Review.

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

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

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

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

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

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

TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY.....	1
BACKGROUND	3
Authority	4
Criteria	4
Audit Period	4
OBJECTIVES, SCOPE, AND METHODOLOGY.....	5
I. Purchase of Service	6
II. Regional Center Operations	6
III. Targeted Case Management and Regional Center Rate Study.....	7
IV. Service Coordinator Caseload Survey.....	7
V. Early Intervention Program (Part C Funding).....	8
VI. Family Cost Participation Program	8
VII. Annual Family Program Fee	9
VIII. Parental Fee Program	9
IX. Procurement.....	10
X. Statewide/Regional Center Median Rates	11
XI. Other Sources of Funding from DDS.....	12
XII. Follow-up Review on Prior DDS Audit Findings.....	13
CONCLUSIONS	14
VIEWS OF RESPONSIBLE OFFICIALS	15
RESTRICTED USE	16
FINDINGS AND RECOMMENDATIONS	17
EVALUATION OF RESPONSE.....	25
ATTACHMENTS	A-D
REGIONAL CENTER'S RESPONSE	Appendix A

EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) conducted a fiscal compliance audit of Valley Mountain Regional Center (VMRC) to ensure VMRC is compliant with the requirements set forth in the Lanterman Developmental Disabilities Services Act and Related Laws/Welfare and Institutions (W&I) Code; the Home and Community-based Services (HCBS) Waiver for the Developmentally Disabled; California Code of Regulations (CCR), Title 17; Federal Office of Management and Budget (OMB) Circulars A-122 and A-133; and the contract with DDS. Overall, the audit indicated that VMRC maintains accounting records and supporting documentation for transactions in an organized manner.

The audit period was July 1, 2020, through June 30, 2022, with follow-up, as needed, into prior and subsequent periods. This report identifies some areas where VMRC's administrative and operational controls could be strengthened. In addition, VMRC has not addressed issues noted in the prior audit report. Therefore, VMRC must provide written updates every six months on the status of unresolved findings until VMRC's implementation of compliant controls and practices for those issues is complete.

Findings that need to be addressed.

Finding 1: Employee Compensated at an Incorrect Salary Rate

The review of 20 sampled employee files revealed VMRC paid one employee using an incorrect salary step increase for six pay periods, which resulted in overpayments totaling \$4,451.04. This is not in compliance with VMRC's Payroll Procedures, Section I, Part A and D.

Finding 2: Missing Documentation

The review of 105 sampled Purchase of Services (POS) vendor files revealed two DS 1890 forms and one transportation contract rate were missing. This is not in compliance with CCR, Title 17, Section 54332(a)(1) and (7), and Section 54310(a).

Finding 3: Missing State Equipment (Repeat)

The review of 40 sampled equipment items selected from VMRC's inventory listing revealed eight tablets could not be located. Although VMRC has taken corrective action to resolve the missing items noted in previous audits, this issue was also identified in four prior audit reports. This is not in compliance with the State Contract, Article IV, Section 4(a), and the State's Equipment Management Guidelines Section III (E).

Finding 4: Targeted Case Management (TCM) Rate Study (Repeat)

The review of the TCM Rate Study worksheets for May 2021 and May 2022 revealed VMRC under-reported operating expenses totaling \$2,305,986.63 in May 2021 and over-reported operating expenses totaling \$76,851.55 in May 2022. This is not in compliance with DDS' Instructions for the TCM Rate Study.

Finding 5: Operational Rent Survey Expenditures

The review of the Operational Rent Surveys reports revealed VMRC over-stated allowable utilities expenses by \$40,123.01 and \$1,394.16, and under-stated its allowable maintenance expenses by \$232,301.08 and \$118,344.05 for Fiscal Years (FYs) 2020-21 and 2021-22, respectively. This is not in compliance with DDS' Regional Center Requests for Increased Rent Funding Guidelines, Section 1.

Finding 6: Vendor Independent Audit Reports

A. Notification for Vendor Reports Not Conducted

The review of the vendor independent audit/review reports revealed VMRC did not notify vendors of their requirement to obtain an audit/review report for FY 2020-21. This is not in compliance with W&I Code, Section 4652.5(a)(1)(A)(B) and (b), CCR, Title 17, Section 54370(a), and VMRC's Annual Vendor Independent Audits and Reviews Procedures.

B. Vendor Audit Reports Not Submitted (Repeat)

The follow-up review of the prior audit report findings revealed VMRC has not forwarded the five reports it received in FY 2018-19 to DDS. This is not in compliance with the Welfare and Institutions Code, Section 4652.5 (d)(2) and VMRC's Annual Vendor Independent Audits and Reviews Procedures.

Finding 7: Bank Signature Cards - Lack of Signature Authority

The review of the bank signature cards revealed VMRC did not give DDS signatory authority to its bank accounts. VMRC stated it was an error on its part that DDS management was not given signatory authority when the bank signature cards were updated to reflect its new management. This is not in compliance with State Contract, Article II, Section 3(f) and (g).

BACKGROUND

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

DDS is also responsible for providing assurance to the Department of Health and Human Services, 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 Section conducts fiscal compliance audits of each RC no less than every two years and completes follow-up reviews in alternate years. Also, DDS requires RCs to contract with independent Certified Public Accountants (CPAs) to conduct an annual financial statement audit. The DDS audit is designed to wrap around the independent CPA's audit to ensure comprehensive financial accountability.

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

DDS and Valley Mountain Regional Center, Inc., entered into State Contract HD199021, effective July 1, 2019, through June 30, 2026. This contract specifies that Valley Mountain Regional Center, Inc., will operate an agency known as the VMRC to provide services to individuals with DD and their families in Amador, Calaveras, San Joaquin, Stanislaus, and Tuolumne Counties. The contract is funded by state and federal funds that are dependent upon VMRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted remotely and at VMRC from October 11, 2022, through November 23, 2022, by the Audit Section of DDS.

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 between DDS and VMRC.

CRITERIA

The following criteria were used for this audit:

- W&I Code,
- “Approved Application for the HCBS Waiver for the Developmentally Disabled,”
- CCR, Title 17,
- OMB Circulars A-122 and A-133, and
- The State Contract between DDS and VMRC, effective July 1, 2019.

AUDIT PERIOD

The audit period was July 1, 2020, through June 30, 2022, 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 RCs' fiscal, administrative, and program operations. The objectives of this audit were:

- To determine compliance with the W&I Code,
- To determine compliance with the provisions of the HCBS Waiver Program for the Developmentally Disabled,
- To determine compliance with CCR, Title 17 regulations,
- To determine compliance with OMB Circulars A-122 and A-133, and
- To determine that costs claimed were in compliance with the provisions of the State Contract between DDS and VMRC.

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. However, the procedures do not constitute an audit of VMRC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that VMRC was in compliance with the objectives identified above. Accordingly, DDS examined transactions on a test basis to determine whether VMRC was in compliance with the W&I Code; the HCBS Waiver for the Developmentally Disabled; CCR, Title 17; OMB Circulars A-122 and A-133; and the State Contract between DDS and VMRC.

DDS' review of VMRC'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 CPA firm for FY 2020-21, issued on March 24, 2022. This review was performed to determine the impact, if any, upon the DDS audit and, as necessary, develop appropriate audit procedures. The audit report noted VMRC estimates its unfunded projected pension obligation using the actuarial report provided by CalPERS, which used the Governmental Accounting Standard Board Statement No. 68 methods and actuarial assumptions instead of the Financial Accounting Standards Board methods and actuarial assumptions used by nonprofit organizations. However, a follow-up review of the issue found that VMRC's financial statements were presented fairly, in all material respects and in accordance with accounting principles generally accepted in the United States of America. Therefore, there was no impact upon the DDS audit.

The audit procedures performed included the following:

I. Purchase of Service

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

- DDS tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.
- DDS selected a sample of invoices for service providers with daily and hourly rates, standard monthly rates, and mileage rates to determine if supporting attendance documentation was maintained by VMRC. The rates charged for the services provided to individual consumers were reviewed to ensure compliance with the provision of the W&I Code; the HCBS Waiver for the Developmentally Disabled; CCR, Title 17, OMB Circulars A-122 and A-133; and the State Contract between DDS and VMRC.
- DDS analyzed all of VMRC's bank accounts to determine whether DDS had signatory authority, as required by the State Contract with DDS.
- DDS selected a sample of bank reconciliations for Operations (OPS) accounts and Consumer Trust bank accounts to determine if the reconciliations were properly completed on a monthly basis.

II. Regional Center Operations

DDS selected a sample of OPS claims billed to DDS to determine compliance with the State Contract. The sample included various expenditures claimed for administration that were reviewed to ensure VMRC's accounting staff properly input data, transactions were recorded on a timely basis, and expenditures charged to various operating areas were valid and reasonable. The following procedures were performed:

- A sample of the personnel files, timesheets, payroll ledgers, and other support documents were selected to determine if there were any overpayments or errors in the payroll or the payroll deductions.
- A sample of OPS expenses, including, but not limited to, purchases of office supplies, consultant contracts, insurance expenses, and lease agreements were tested to determine compliance with CCR, Title 17, and the State Contract.

- A sample of equipment was selected and physically inspected to determine compliance with requirements of the State Contract.
- DDS reviewed VMRC'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 TCM Rate Study determines the DDS rate of reimbursement from the federal government. The following procedures were performed upon the study:

- Reviewed applicable TCM records and VMRC's Rate Study. DDS examined the months of May 2021 and May 2022 and traced the reported information to source documents.
- Reviewed VMRC's TCM Time Study. DDS selected a sample of payroll timesheets for this review and compared timesheets to the Case Management Time Study Forms (DS 1916) to ensure that the forms were properly completed and supported.

IV. Service Coordinator Caseload Survey

Under the W&I Code, Section 4640.6(e), RCs are required to provide service coordinator caseload data to DDS. The following average service coordinator-to-consumer ratios apply per W&I Code Section 4640.6(c)(1)(2)(3)(A)(B)(C):

- “(c) Contracts between the department and regional centers shall require regional centers to have service coordinator-to-consumer ratios, as follows:
- (1) An average service coordinator-to-consumer ratio of 1 to 62 for all consumers who have not moved from the developmental centers to the community since April 14, 1993. In no case shall a service coordinator for these consumers have an assigned caseload in excess of 79 consumers for more than 60 days.
 - (2) An average service coordinator-to-consumer ratio of 1 to 45 for all consumers who have moved from a developmental center to the community since April 14, 1993. In no case shall a service coordinator for these consumers have an assigned caseload in excess of 59 consumers for more than 60 days.
 - (3) Commencing January 1, 2004, the following coordinator-to-consumer ratios shall apply:
 - (A) All consumers three years of age and younger and for

consumers enrolled in the Home and Community-based Services Waiver program for persons with developmental disabilities, an average service coordinator-to-consumer ratio of 1 to 62.

- (B) 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, an average service coordinator-to-consumer ratio of 1 to 62.
- (C) All consumers who have not moved from the developmental centers to the community since April 14, 1993, and who are not described in subparagraph (A), an average service coordinator-to-consumer ratio of 1 to 66.”

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

V. Early Intervention Program (EIP; Part C Funding)

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

VI. Family Cost Participation Program (FCPP)

The FCPP was created for the purpose of assessing consumer costs to parents based on income level and dependents. The family cost participation assessments are only applied to respite, day care, and camping services that are included in the child’s Individual Program Plan (IPP)/Individualized Family Services Plan (IFSP). To determine whether VMRC was in compliance with CCR, Title 17, and the W&I Code, Section 4783, DDS performed the following procedures during the audit review:

- Reviewed the list of consumers who received respite, day care, and camping services, for ages 0 through 17 years who live with their parents and are not Medi-Cal eligible, to determine their contribution for the FCPP.
- Reviewed the parents’ income documentation to verify their level of participation based on the FCPP Schedule.
- Reviewed copies of the notification letters to verify that the parents were notified of their assessed cost participation within 10 working days of receipt of the parents’ income documentation.

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

VII. Annual Family Program Fee (AFPF)

The AFPF was created for the purpose of assessing an annual fee of up to \$200 based on the income level of families with children between the ages of 0 through 17 years receiving qualifying services through the RC. The AFPF fee shall not be assessed or collected if the child receives only respite, day care, or camping services from the RC and a cost for participation was assessed to the parents under FCPP. To determine whether VMRC was in compliance with the W&I Code, Section 4785, DDS requested a list of AFPF assessments and verified the following:

- The adjusted gross family income is at or above 400 percent of the federal poverty level based upon family size.
- The child has a DD or is eligible for services under the California Early Intervention Services Act.
- The child is less than 18 years of age and lives with his or her parent.
- The child or family receives services beyond eligibility determination, needs assessment, and service coordination.
- The child does not receive services through the Medi-Cal program.
- Documentation was maintained by the RC to support reduced assessments.

VIII. Parental Fee Program (PFP)

The PFP was created for the purpose of prescribing financial responsibility to parents of children under the age of 18 years who are receiving 24-hour, out-of-home care services through an RC or who are residents of a state hospital or on leave from a state hospital. Parents shall be required to pay a fee depending upon their ability to pay, but not to exceed (1) the cost of caring for a child without DD at home, as determined by the Director of DDS, or (2) the cost of services provided, whichever is less. To determine whether VMRC is in compliance with the W&I Code, Section 4782, DDS requested a list of PFP assessments and verified the following:

- Identified all children with DD who are receiving the following services:
 - (a) All 24-hour, out-of-home community care received through an RC for children under the age of 18 years;

(b) 24-hour care for such minor children in state hospitals. Provided, however, that no ability to pay determination shall be made for services required by state or federal law, or both, to be provided to children without charge to their parents.

- Provided DDS with a listing of new placements, terminated cases, and client deaths for those clients. Such listings shall be provided not later than the 20th day of the month following the month of such occurrence.
- Informed parents of children who will be receiving services that DDS is required to determine parents' ability to pay and to assess, bill, and collect parental fees.
- Provided parents a package containing an informational letter, a Family Financial Statement (FFS), and a return envelope within 10 working days after placement of a minor child.
- Provided DDS a copy of each informational letter given or sent to parents, indicating the addressee and the date given or mailed.

IX. Procurement

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

- Reviewed VMRC's contracting process to ensure the existence of a Board-approved procurement policy and to verify that the RFP process ensures competitive bidding, as required by Article II of the State Contract, as amended.
- Reviewed the RFP contracting policy to determine whether the protocols in place included applicable dollar thresholds and comply with Article II of the State Contract, as amended.
- Reviewed the RFP notification process to verify that it is open to the public and clearly communicated to all vendors. All submitted proposals are evaluated by a team of individuals to determine whether proposals are properly documented, recorded, and authorized by appropriate officials at VMRC. The process was reviewed to ensure that the vendor selection

process is transparent and 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, written documentation is retained as justification for such a selection.

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

- Selected a sample of Operations, Community Placement Plan (CPP), and negotiated POS contracts subject to competitive bidding to ensure VMRC notified the vendor community and the public of contracting opportunities available.
- Reviewed the contracts to ensure that VMRC has adequate and detailed documentation for the selection and evaluation process of vendor proposals and written justification for final vendor selection decisions and that those contracts were properly signed and executed by both parties to the contract.

In addition, DDS performed the following procedures:

- To determine compliance with the W&I Code, Section 4625.5 for contracts in place as of March 24, 2011: Reviewed to ensure VMRC 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 VMRC Board-approved Operations, Start-Up, and POS vendor contracts of \$250,000 or more, to ensure the inclusion of a provision for fair and equitable recoupment of funds for vendors that cease to provide services to consumers; verified that the funds provided were specifically used to establish new or additional services to consumers, the usage of funds is of direct benefit to consumers, and the contracts are supported with sufficiently detailed and measurable performance expectations and results.

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

X. Statewide/Regional Center Median Rates

The Statewide and RC Median Rates were implemented on July 1, 2008, and amended on December 15, 2011 and July 1, 2016, to ensure that RCs are not negotiating rates higher than the set median rates for services. Despite the

median rate requirement, rate increases could be obtained from DDS under health and safety exemptions where RCs demonstrate the exemption is necessary for the health and safety of the consumers.

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

- Reviewed sample vendor files to determine whether VMRC is using appropriately vendorized service providers and correct service codes, and that VMRC is paying authorized contract rates and complying with the median rate requirements of W&I Code, Section 4691.9.
- Reviewed vendor contracts to ensure that VMRC is reimbursing vendors using authorized contract median rates and verified that rates paid represented the lower of the statewide or RC median rate set after June 30, 2008. Additionally, DDS verified that providers vendorized before June 30, 2008, did not receive any unauthorized rate increases, except in situations where required by regulation, or health and safety exemptions were granted by DDS.
- Reviewed vendor contracts to ensure that VMRC did not negotiate rates with new service providers for services which are higher than the RC'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. DDS also ensured that units of service designations conformed with existing RC designations or, if none exists, ensured that units of service conformed to a designation used to calculate the statewide median rate for the same service code.

XI. Other Sources of Funding from DDS

RCs may receive other sources of funding from DDS. DDS performed sample tests on identified sources of funds from DDS to ensure VMRC'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:

- CPP;
- Part C – Early Start Program;
- Foster Grandparent (FGP);
- Senior Companion (SC); and

- Self Determination.

XII. 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 VMRC and reviewed supporting documentation to determine the degree of completeness of VMRC'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, VMRC was in compliance with applicable sections of the W&I Code; the HCBS Waiver for the Developmentally Disabled; CCR, Title 17; OMB Circulars A-122 and A-133; and the State Contract between DDS and VMRC for the audit period, July 1, 2020, through June 30, 2022.

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

From the review of the seven prior audit findings, it has been determined that VMRC has taken appropriate corrective action to resolve four findings.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued the draft audit report on April 17, 2023. The findings in the draft audit report were discussed at a formal exit conference with VMRC on April 20, 2023. The views of VMRC's responsible officials are included in this final audit report.

RESTRICTED USE

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

FINDINGS AND RECOMMENDATIONS

Findings that need to be addressed.

Finding 1: Employee Compensated at an Incorrect Salary Rate

The review of 20 sampled employee files revealed VMRC paid one employee using an incorrect salary step increase for six pay periods. This resulted in overpayments totaling \$4,451.04. This occurred due to VMRC incorrectly applying a higher salary step increase (DM-RD 7) of \$4,451.04 instead of a lower salary step increase (DM-RD 3) of \$3,440.80 when the employee was promoted. The overpayments were from January 2021 through April 2021. (See Attachment A)

VMRC's Payroll Procedures, Section I, Part A and D states:

"A. Employee Status Form Changes

A 'Personnel Action' form is used to record information such as the employee's position, step level, and compensation. The Company has a 7-8 step level system with pre-determined pay rates for each level of every position. The majority of employees starts at level 1 and receives their first rate/step increase at the end of the 9-months training period. Employees who start at a higher step due to their experience get their first rate/step increase after 1 year of service. Each step increase results in a fixed 5% pay raise and takes place yearly on the employee's service anniversary date unless there has been a formal evaluation/plan of correction indicating otherwise. For instance, for union employees, the union contract is negotiated every three years with wage and benefit re-openers every year. Therefore, an employee may receive an increase in pay due to changes in their union contract which is separate from their annual step up in pay.

Periodically the HR Assistant or Director of HR runs a report monthly that flags the employees due for an increase. She contacts the employee's supervisor the month prior to the scheduled increase to verify that the employee is eligible for the increase. If not, she notifies the Director of HR, who then contacts the manager to verify that the union contract is being followed. Once approval for the step increase is received, the HR Assistant completes a personnel action (PA) form and submits it to Tony Anderson for approval. In the absence of supervisor's evaluation by the due date, the Director of HR would authorize the increase as prescribed by the union contract. Signed PA forms are returned to the General

Ledger Manager who verifies the rate has been changed and files the signed original in the personnel file...”

Recommendation:

VMRC must reimburse to DDS the overpayments totaling \$4,451.04. In addition, VMRC must provide written assurance to DDS within its six-month update discussed further below of VMRC’s verification that all employee salaries reflect the correct salary step increase when making the most recent salary change to each employee’s Personnel Action forms.

Finding 2: Missing Documentation

The review of 105 sampled POS vendor files revealed two DS 1890 forms and one transportation contract rate were missing. VMRC stated that the forms were misplaced and that it will contact its vendors to obtain new DS 1890 forms and the missing contract rate. (See Attachment B)

CCR, Title 17, Section 54332(a)(1) and (7), states in part:

“(a) The vendoring regional center shall maintain a file for each vendor which includes copies of:

- (1) The vendor application as described in Section 54310(a) of these regulations;
- (7) Notification of established rate and all documentation submitted pursuant to Sections 57422, 57433 through 57439, 58020, and 58033 through 58039 of these regulations, for a rate determination, if applicable;”

CCR, Title 17, Section 54310(a), states:

“(a) An applicant who desires to be vendored shall submit Form DS 1890 (7/2011), entitled Vendor Application, and the information specified in (1) through (10) below, to the vendoring regional center.”

Recommendation:

VMRC must provide the two DS 1890 forms and the contract rate to DDS. In addition, VMRC should ensure it maintains a copy of each document required per CCR, Title 17, Section 54332(a).

Finding 3: Missing State Equipment (Repeat)

The review of 40 sampled items selected from VMRC's inventory listing revealed eight tablets could not be located. VMRC stated the tablets were assigned to employees working offsite and that it would provide pictures of the tablets along with its state-issued tag. However, the pictures have not been provided as of the date of this report. This issue was also identified in four prior audit reports, although the missing items noted in previous audits have been addressed. (See Attachment C)

State Contract, Article IV, Section 4(a) 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.”

State's Equipment Management Guidelines Section III (E) states:

“RCs will conform with the following guidelines for any state-owned equipment that is junked, recycled, lost, stolen, donated destroyed, traded-in, transferred or otherwise removed from the control of the RC. 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 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. Another copy of the Std. 152 shall be forwarded to the RC Accounting Unit for posting. The RC will retain copies of all completed Std. 152s for audit purposes.”

Recommendation:

VMRC must locate the eight missing tablets or complete Form Std. 152 if the items are lost. In addition, VMRC must follow the State Equipment Management Guidelines to ensure all state-owned equipment is properly safeguarded and accounted for. Also, VMRC must provide written updates every six months to DDS on the status of this unresolved finding, until VMRC's implementation of compliant controls and practices for equipment management is complete.

Finding 4: Targeted Case Management (TCM) Rate Study (Repeat)

The review of the TCM Rate Study worksheets for May 2021 and May 2022 revealed operational expenses included on Attachment B did not reconcile to the Year-End General Ledgers. VMRC under-stated its operating expenses by \$2,305,986.63 for May 2021 and over-stated operating expenses totaling \$76,851.55 for May 2022. This occurred due to VMRC not verifying TCM Rate Study worksheets to ensure reconciliation to the Year-End General Ledgers. This issue was also identified in the prior audit report, after which VMRC revised the TCM Rate Study worksheets noted in the previous audit.

Instructions for the TCM Rate Study, Attachment B, state:

“ADMINISTRATIVE SURVEY-Computation of Applicable Operating Expenses

Operating Expenses:

1. On the worksheet below, enter the actual 2017-18 FY operating expenses, including outstanding encumbrances and accounts payable that will be paid during the current fiscal year for each program per your UFS GL 310 Budget Report-Detail.”

Recommendation:

VMRC must revise its TCM Rate Study for both fiscal years and submit the worksheets to the DDS Federal Program Operations Section. In addition, VMRC must follow the instructions when completing future TCM Rate Study worksheets and ensure that the expenses reported on the TCM Rate Study reconcile to VMRC’s actual expenses reported on the Year-End General Ledgers. Also, VMRC should seek technical assistance from DDS Federal Program Operations Section prior to submitting its next TCM Rate Study.

Finding 5: Operational Rent Survey Expenditures

The review of the Operational Rent Survey reports revealed VMRC overstated allowable utilities expenses by \$40,123.01 and \$1,394.16 for FYs 2020-21 and 2021-22, respectively. In addition, allowable maintenance expenses were understated by \$232,301.08 and \$118,344.05 for FYs 2020-21 and 2021-22, respectively. This occurred due to VMRC improperly entering allowable utilities and maintenance costs into the Operational Rent Survey reports.

DDS' Regional Center Requests for Increased Rent Funding Guidelines, Section 1, states in part:

“Lease expenses include base rent, utilities expenses, and facility maintenance expenses as detailed in the “Guidelines for Allowable Rent Expenditures...Information collected via the survey tool will include:

- Allowable maintenance and utility costs if not included in lease.”

Recommendation:

VMRC should revise its Operational Rent Survey reports to ensure its allowable utilities and maintenance costs are accurately reported. In addition, VMRC should ensure that its future reported amounts are supported to prevent the possibility of overstating and/or understating its utilities and maintenance costs.

Finding 6: Vendor Independent Audit Reports

A. Notification for Vendor Reports Not Conducted

The review of the vendor independent audit/review reports revealed VMRC did not notify vendors of their requirement to obtain an audit/review report for FY 2020-21. In addition, VMRC did not receive any audit/review reports from the vendors that are required to obtain an independent audit or independent review of its financial statements relating to payments made by regional centers. VMRC stated it was an oversight on its part since its Administrative Assistant of Resource Development (AA-RD) employee responsible for tracking the reports was no longer employed with VMRC.

W&I Code, Section 4652.5(a)(1)(A)(B) and (b) states:

“(a)(1) An entity that receives payments from one or more regional centers shall contract with an independent accounting firm to obtain an independent audit or independent review report of its financial statements relating to payments made by regional centers, subject to both of the following:

- (A) If the amount received from the regional center or regional centers during each state fiscal year is more than or equal to five hundred thousand dollars (\$500,000), but less than two million dollars (\$2,000,000), the entity shall obtain an independent

review report of its financial statements for the entity's fiscal year that includes the last day of the most recent state fiscal year. Consistent with Subchapter 21 (commencing with Section 58800) of Chapter 3 of Division 2 of Title 17 of the California Code of Regulations, this subdivision shall also apply to work activity program providers receiving less than five hundred thousand dollars (\$500,000).

(B) If the amount received from the regional center or regional centers during each state fiscal year is equal to or more than two million dollars (\$2,000,000), the entity shall obtain an independent audit of its financial statements for the entity's fiscal year that includes the last day of the most recent state fiscal year.

(b) An entity subject to subdivision (a) shall provide copies of the independent audit or independent review report required by subdivision (a), and accompanying management letters, to the vendoring regional center within nine months of the end of the entity's fiscal year.”

CCR, Title 17, Section 54370(a) states:

“(a) The vendoring regional center shall be responsible for ensuring that vendors within its service catchment area comply with the vendorization requirements.”

VMRC’s Annual Vendor Independent Audits and Reviews Procedures states in part:

“AA-RD will use sorted lists to send vendors a letter notifying them of the requirements as it pertains to their entity or entities.

AA-RD will use the sorted lists to develop an excel spreadsheet for tracking and follow-up purposes.”

Recommendation:

VMRC must follow its Annual Vendor Independent Audits and Reviews Procedures to ensure it notifies vendors of their requirement to obtain an audit/review report. Failure to receive these reports limits VMRC’s ability to detect vendor issues that may adversely affect services. In addition, VMRC must provide written updates every six months to DDS on its

efforts to remedy this finding, until VMRC's implementation of compliant controls and practices for this issue is complete.

B. Vendor Audit Reports Not Submitted (Repeat)

The follow-up review of the prior audit report findings revealed VMRC has not forwarded the five reports it received in FY 2018-19 to DDS as stated in its response. VMRC stated that it was not able to locate the reports since the employee responsible for tracking the reports no longer is employed with VMRC. (See Attachment D)

Welfare and Institutions Code, Section 4652.5 (d)(2), states:

“A regional center shall submit copies of all independent audit reports that it receives to the department for review. The department shall compile data, by regional center, on vendor compliance with audit requirements and opinions resulting from audit reports and shall annually publish the data in the performance dashboard developed pursuant to Section 4572.”

VMRC's Annual Vendor Independent Audits and Reviews Procedures states in part:

“AA-RD will forward all vendor Certified Public Accountant reports (\$2 million and over) to DDS: ddsvendorcpareports@dds.ca.gov.”

Recommendation:

VMRC must locate or obtain copies of the five vendor independent audit reports and forward them to DDS, per Welfare and Institutions Code, Section 4652.5(d)(2), as stated in its response, dated February 4, 2022. In addition, VMRC must provide written updates every six months to DDS on the status of this unresolved finding, until VMRC's implementation of compliant controls and practices for this issue is complete.

Finding 7: Bank Signature Cards - Lack of Signature Authority

The review of the bank signature cards revealed VMRC did not give DDS signatory authority to all bank accounts that are identified as containing State funds. VMRC stated it was an error on its part that DDS management was not given signatory authority when the bank signature cards were updated to reflect its new management. In addition, VMRC stated that its bank currently is contacting DDS management for their signatures.

State Contract, Article III, Section 3(f) and (g) states:

- “f. All bank accounts and any investment vehicle 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....

- g. For the bank account(s) above referenced, there shall be prepared three (3) alternative signature cards with riders attached to each indicating their use. In addition to the preparation of signature cards and riders, Contractor and the bank(s) shall enter into a written agreement specifying the bank(s)’ responsibilities relative to said bank account(s). The signature cards, riders and agreement specified herein shall be prepared and administered in accordance with the format and procedure specified by the State.”

Recommendation:

VMRC must ensure that signatory authorization is given to DDS management for all bank accounts that are identified as having State funds, as required by the contract with DDS.

EVALUATION OF RESPONSE

As part of the audit report process, VMRC was provided with a draft audit report and requested to provide a response to the findings. VMRC's response dated May 20, 2023, is provided as Appendix A.

DDS' Audit Section has evaluated VMRC's response and will confirm the appropriate corrective actions have been taken during the next scheduled audit.

Finding 1: Employee Compensated at an Incorrect Salary Rate

VMRC agrees to reimburse DDS the overpayments totaling \$4,451.04. In addition, VMRC stated that going forward, it will verify all employee salaries to ensure it applies the correct salary step increases when salary changes are made to employees' Personnel Action forms.

Finding 2: Missing Documentation

VMRC stated that it will provide the missing DS 1890 forms and the contract rate to DDS. In addition, VMRC indicated that going forward, it will review its vendor files to ensure copies of these documents are on file as required per CCR, Title 17, Section 54332(a).

Finding 3: Missing State Equipment (Repeat)

VMRC stated it obtained authorization from DGS to dispose the eight missing tablets. However, VMRC did not provide DDS the approved Form Std. 152 from DGS indicating that the missing items have been removed from its inventory listing. Since this issue was identified in the past four audit reports, VMRC must provide the Form Std. 152 to DDS within 60 days after the issuance of this report.

Finding 4: Targeted Case Management (TCM) Rate Study (Repeat)

VMRC stated it will correct the TCM Rate Study worksheets and will ensure it reports the correct expenses going forward. However, since this issue was identified in the prior audit report, VMRC must provide copies of the corrected worksheets within 60 days after the issuance of this report. In addition, VMRC should seek technical assistance from DDS Federal Program Operations Section prior to submitting its next TCM Rate Study.

Finding 5: Operational Rent Survey Expenditures

VMRC agreed with the finding that it over-reported its allowable utilities by \$40,123.01 and \$1,394.16 and under-reported its maintenance expenses

by \$232,301.08 and \$118,344.05 for FYs 2020-21 and 2021-22, respectively. VMRC stated that variances should be expected since the Operational Rent Surveys are estimates of future utilities and maintenance costs. DDS agrees there may be variances in calculating the rent survey costs. However, VMRC should ensure allowable utilities and maintenance costs are accurately reported and reflective of the actual cost reported to DDS.

Finding 6: Vendor Independent Audit Reports

A. Notification for Vendor Reports Not Conducted

VMRC agrees with DDS' recommendation to provide updates to DDS every six months. VMRC stated it revised its Annual Vendor Independent Audits and Review Procedures to assure its vendors submit their audit/review reports in the timeliness manner possible and will update DDS of its newly implemented procedures on October 15, 2023, and April 15, 2024. In addition, VMRC stated it will generate a listing of vendors that have not submit their audit/review reports and send reminder notifications semiannually.

B. Vendor Audit Reports Not Submitted (Repeat)

VMRC stated it will forward the five audit reports it received in FY 2018-19 to DDS. However, since this issue was identified in the prior audit report, VMRC must provide the five vendor independent audit reports to DDS within 60 days after the issuance of this report.

Finding 7: Bank Signature Cards - Lack of Signature Authority

VMRC stated its bank representatives are currently updating its bank signature cards. VMRC must forward the updated bank signature cards to DDS within 60 days after the issuance of this report.

**Valley Mountain Regional Center
Employee Compensated at an Incorrect Salary Rate
Fiscal Years 2020-21 and 2021-22**

No.	Employee ID	Check Date of Pay Period	Hours Worked in Pay Period	Salary Rate Paid	Correct Salary Rate	Overpayment
1	1708	1/22/2021	80	\$4,182.64	\$3,440.80	\$741.84
2	1708	2/5/2021	80	\$4,182.64	\$3,440.80	\$741.84
3	1708	2/19/2021	80	\$4,182.64	\$3,440.80	\$741.84
4	1708	3/5/2021	80	\$4,182.64	\$3,440.80	\$741.84
5	1708	3/19/2021	80	\$4,182.64	\$3,440.80	\$741.84
6	1708	4/2/2021	80	\$4,182.64	\$3,440.80	\$741.84
Total Overpayments:						\$4,451.04

**Valley Mountain Regional Center
Missing Documentation
Fiscal Years 2020-21 and 2021-22**

No.	Vendor Number	Vendor Name	Service Code	Sub Code
DS 1890 Form (Vendor Application)				
1	PK5499	Taft College	63	Blank
2	Z15531	City Of Modesto	895	Blank
Contract Rate				
3	HV0142	Storer Transportation	875	ASD

**Valley Mountain Regional Center
Missing State Equipment
Fiscal Years 2020-21 and 2021-22**

No.	State Tag Number	Item Description	Serial Number	Acquisition Cost
1	385729	Tablet: Surface IV	20821162553	\$1,049.16
2	385732	Tablet: Surface IV	20016562553	\$1,049.16
3	385779	Tablet: Apple iPad Pro 128GB	SDLXT81E9GMW3	\$1,051.18
4	391404	Tablet: Surface Pro	25746474953	\$1,176.09
5	391465	Tablet: Surface Pro	65822582353	\$1,646.05
6	391498	Tablet: Surface Pro	42097684753	\$1,471.72
7	396348	Tablet: iPad Pro	358713098420447	\$1,058.49
8	396356	Tablet: iPad Pro	358713095046856	\$1,058.49

**Valley Mountain Regional Center
Vendor Audit Reports Not Submitted
Fiscal Years 2020-21 and 2021-22**

No.	Fiscal Year	Vendor No.	Vendor Name	Audit Report Submitted to DDS
1	2018-19	HV0151	Central Valley Training	No
2	2018-19	PV1282	Communication Station Inc	No
3	2018-19	HV0315	Hana Hou Alliance, LLC	No*
	2018-19	HV0396	Person Centered Services	No*
4	2018-19	H29188	Howard Training Center	No
5	2018-19	HV0092	Service First Of N Cal	No

Legend:

No* = The entities would submit only one audit report since the facilities are under one owner.

APPENDIX A

VALLEY MOUNTAIN REGIONAL CENTER'S RESPONSE TO THE AUDIT FINDINGS

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



Helping People with Developmental Disabilities Reach Their Maximum Potential

702 N. Aurora Street
P.O. Box 692290
Stockton, CA 95269-2290
(209) 473-0951
FAX (209) 473-0256

1820 Blue Gum Avenue
Modesto, CA 95358
(209) 529-2626
FAX (209) 557-2173

704 Mountain Ranch Rd. Suite 203
San Andreas, CA 95249
(209) 754-1871
FAX (209) 754-3211

May 20, 2023

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

RE: Draft Audit Report for Fiscal Years 2020-2021 and 2021-2022

Dear Mr. Yan:

We are in receipt of your draft report entitled "Audit of the Valley Mountain Regional Center for the Fiscal Years 2020-2021 and 2021-2022" dated April 17, 2023. We welcome the opportunity to respond to the issues included in the draft report. Listed below are the findings and recommendations from the draft report in addition to our responses to the issues presented.

Sincerely,

Melissa Stiles, CFO
Valley Mountain Regional Center

Valley Mountain Regional Center
DDS Audit Years 2020-21 and 2021-22
Response to Findings
May 20, 2023

Finding 1: Employee Compensated at an incorrect Salary Rate

The review of 20 sampled employee files revealed VMRC paid one employee using an incorrect salary step increase for six pay periods. This resulted in overpayments totaling \$4,451.04. This occurred due to VMRC incorrectly applying a higher salary step increase (DM-RD 7) of \$4,451.04 instead of a lower salary step increase (DM-RD 3) of \$3,440.80 when the employee was promoted. The overpayments were from January 2021 through April 2021. (See Attachment A)

VMRC's Payroll Procedures, Section I, Part A and D states:

"A. Employee Status Form Changes

A 'Personnel Action' form is used to record information such as the employee's position, step level, and compensation. The Company has a 7-8 step level system with pre-determined pay rates for each level of every position. The majority of employees starts at level 1 and receives their first rate/step increase at the end of the 9-months training period. Employees who start at a higher step due to their experience get their first rate/step increase after 1 year of service. Each step increase results in a fixed 5% pay raise and takes place yearly on the employee's service anniversary date unless there has been a formal evaluation/plan of correction indicating otherwise. For instance, for union employees, the union contract is negotiated every three years with wage and benefit re-openers every year. Therefore, an employee may receive an increase in pay due to changes in their union contract which is separate from their annual step up in pay.

Periodically the HR Assistant or Director of HR runs a report monthly that flags the employees due for an increase. She contacts the employee's supervisor the month prior to the scheduled increase to verify that the employee is eligible for the increase. If not, she notifies the Director of HR, who then contacts the manager to verify that the union contract is being followed. Once approval for the step increase is received, the HR Assistant completes a personnel action (PA) form and submits it to Tony Anderson for approval. In the absence of supervisor's evaluation by the due date, the Director of HR would authorize the increase as prescribed by the union contract. Signed PA forms are returned to the General Ledger Manager who verifies the rate has been changed and files the signed original in the personnel file..."

Recommendation: VMRC must reimburse DDS the overpayments totaling \$4,451.04. In addition, VMRC must verify all employee salaries to ensure it applies the correct salary step increase when making salary changes to employees' Personal Action forms.

Response: VMRC will reimburse DDS the overpayments totaling \$4,451.04. In addition, VMRC will verify all employee salaries to ensure it applies the correct salary step increase when making salary changes to employees' Personal Action forms.

Finding 2: Missing Documentation

The review of 105 sampled POS vendor files revealed two DS 1890 forms and one transportation contract rate were missing. VMRC stated that the forms were misplaced and that it will contact its vendors to obtain new DS 1890 forms and the missing contract rate.

CCR, Title 17, Section 54332(a)(1) and (7), states in part:

“(a) The vendoring regional center shall maintain a file for each vendor which includes copies of:

(1) The vendor application as described in Section 54310(a) of these regulations;

(7) Notification of established rate and all documentation submitted pursuant to Sections 57422, 57433 through 57439, 58020, and 58033 through 58039 of these regulations, for a rate determination, if applicable;”

CCR, Title 17, Section 54310(a), states:

“(a) An applicant who desires to be vendored shall submit Form DS 1890 (7/2011), entitled Vendor Application, and the information specified in (1) through (10) below, to the vendoring regional center.”

Recommendation: VMRC must provide the two DS 1890 forms and the contract rate to DDS. In addition, VMRC should review its vendor files to ensure it maintains a copy of each document required per CCR, Title 17, Section 54332(a).

Response: VMRC will provide the two DS 1890 forms and the contract rate to DDS. In addition, VMRC will review its vendor files to ensure it maintains a copy of each document required per CCR, Title 17, Section 54332(a).

Finding 3: Missing Equipment (Repeat)

The sampled review of 40 items selected from VMRC’s inventory listing 8 items were missing. VMRC stated the tablets were assigned to employees that work offsite and that it was unable to obtain pictures of the tablets and tags. This issue was also identified in the three prior audit reports. (VMRC addressed the missing items noted in previous audits.)

State Contract, Article IV, Section 4(a) 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.”

State’s Equipment Management Guidelines Section III € states:

“RCs will conform with the following guidelines for any state-owned equipment that is junked, recycled, lost, stolen, donated destroyed, traded-in, transferred or otherwise removed from the control of the RC.

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 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. Another copy of the Std. 152 shall be forwarded to the RC Accounting Unit for posting. The RC will retain copies of all completed Std. 152s for audit purposes.”

Recommendation: VMRC must reach out to the employees and verify the tablets are in their possession to ensure they are properly safeguarded. If the tablets are not in the employees' possession VMRC must take proper measures and complete form Std. 152, as required by State's Equipment Management System Guidelines.

Response: VMRC has obtained authorization from the Department of General Services to dispose of the inventory item and has removed the item from its inventory list. (Please see Attachment A for supporting documentation.)

Finding 4: Targeted Case Management (TCM) Rate Study

The review of the TCM Rate Study worksheets for May 2021 and May 2022 revealed the expenses included in the Administrative Survey - Computation of Applicable Operating Expenses did not reconcile to the Year-End General Ledgers. VMRC under-reported operating expenses totaling \$2,305,986.63 in May 2021 and over-reported operating expenses on the rate study totaling \$76,851.55 in May 2022.

Instructions for the TCM Rate Study, Attachment B, state:

"ADMINISTRATIVE SURVEY-Computation of Applicable Operating Expenses
Operating Expenses:

1. On the worksheet below, enter the actual 2021-22 FY operating expenses, including outstanding encumbrances and accounts payable that will be paid during the current fiscal year for each program per your UFS GL 310 Budget Report-Detail."

Recommendation: VMRC must follow the instructions for the TCM Rate Study and ensure that the expenses reported on the TCM Rate Study reconcile to VMRC's actual expenses reported on the Year-End General Ledger before forwarding the TCM Rate Study to the DDS Federal Program Operations

Response: VMRC will correct the reports in question and will ensure that we report the correct information going forward.

Finding 5: Operational Rent Survey Expenditures

The review of the Operational Rent Survey reports revealed VMRC overstated allowable utilities expenses by \$40,123.01 and \$1,394.16 for FYs 2020-21 and 2021-22, respectively. In addition, allowable maintenance expenses were understated by \$232,301.08 and \$118,344.05 for FYs 2020-21 and 2021-22, respectively. This occurred due to VMRC improperly entering allowable utilities and maintenance costs into the Operational Rent Survey reports.

Guidelines, Section 1 states in part:

- "Lease expenses include base rent, utilities expenses, and facility maintenance expenses as detailed in the "Guidelines for Allowable Rent Expenditures...Information collected via the survey tool will include:
- Allowable maintenance and utility costs if not included in lease."

Recommendation: VMRC should revise the Operational Rent Survey Reports to ensure its allowable utilities and maintenance costs are accurately reported. VMRC should ensure that the reported amounts are supported to prevent the possibility of overstating and/or understating its utilities and maintenance costs.

Response: Operational Rent Survey projects an estimate of future utilities and maintenance costs. Since this is an estimate, a variance is expected. VMRC agrees with the finding that we over-reported our estimated utilities by \$40,123.01 and \$1,394.16 for FYs 2020-21 and 2021-22, respectively. VMRC agrees with the finding that our maintenance expenses were understated by \$232,301.08 and \$118,344.05 for FYs 2020-21 and 2021-22, respectively. Again, this is an estimate of what we project the expenses for the upcoming fiscal year, therefor actual cost will be different.

Finding 6: Vendor Independent Audit Reports

The sampled review of the vendor independent audit reports revealed five of the 10 sampled vendor independent audit reports received by VMRC were not forwarded to DDS. VMRC is aware of the requirement and stated that this was an oversight on its part.

Welfare and Institutions Code, Section 4652.5 (d)(2), states:

“A regional center shall submit copies of all independent audit reports that it receives to the department for review. The department shall compile data, by regional center, on vendor compliance with audit requirements and opinions resulting from audit reports and shall annually publish the data in the performance dashboard developed pursuant to Section 4572.”

Recommendation: VMRC must forward the vendor independent audit reports to DDS for review..

Response: VMRC will forward the vendor independent audit reports to DDS for review. “Notification” occurs at the execution of the purchase of service contract. Standard contract language for VMRC contracts which are anticipated to be over \$500,00 or \$2,000,000 in annual expenditures is as follows:

P 11-12 Item 12:

12. Audit or Review by Independent Accounting Firm. Contractor shall contract with an independent accounting firm for an audit or review of Contractor’s financial statements, subject to the following:

- A. When the amount received by Contractor from Center and/or any other regional center, during each state fiscal year, is more than or equal to Five Hundred Thousand Dollars (\$500,000), but less than Two Million Dollars (\$2,000,000), Contractor shall obtain an independent review report of its financial statements for the fiscal year that includes the last day of the most recent state fiscal year. Consistent with Subchapter 21 (commencing with Section 58800) of Title 17, this requirement shall also apply to work activity program providers receiving less than Five Hundred Thousand Dollars (\$500,000).
- B. When the amount received by Contractor from Center and/or any other regional center, during each state fiscal year, is equal to or more than Two Million Dollars (\$2,000,000), Contractor shall obtain an independent audit of its financial statements for the fiscal year that includes the last day of the most recent state fiscal year.
- C. Independent review of financial statements must be performed by an independent accounting firm and shall cover, at a minimum, all of the following:
 - 1) An inquiry into Contractor's accounting principles and practices and methods used in applying them;

- 2) An inquiry into Contractor's procedures for recording, classifying, and summarizing transactions and accumulating information;
 - 3) Analytical procedures designed to identify relationships or items that appear to be unusual;
 - 4) An inquiry about budgetary actions taken at meetings of the board of directors or other comparable meetings;
 - 5) An inquiry about whether the financial statements have been properly prepared in conformity with generally accepted accounting principles and whether any events subsequent to the date of the financial statements would have a material effect on the statements under review; and
 - 6) Working papers prepared in connection with a review of financial statements describing items covered as well as any unusual items, including their disposition.
- D. Independent review report shall cover, at a minimum, all of the following:
- 1) Certification that the review was performed in accordance with standards established by the American Institute of Certified Public Accountants;
 - 2) Certification that the statements are the representations of management;
 - 3) Certification that the review consisted of inquiries and analytical procedures that are lesser in scope than those of an audit; and
 - 4) Certification that the accountant is not aware of any material modifications that need to be made to the statements for them to be in conformity with generally accepted accounting principles.
- E. Contractor shall provide copies of the independent audit or independent review report and accompanying management letters to Center within thirty (30) days after completion of the audit or review. Center shall review and require resolution by Contractor of issues identified in the report that have an impact on Center services. Center shall take appropriate action, up to termination of vendorization, for lack of adequate resolution of issues. Center shall notify DDS of all qualified opinion reports, or reports noting significant issues that directly or indirectly impact Center services, within thirty (30) days after receipt, which notification shall include a plan for resolution of the issues.

To assure that VMRC providers who meet the threshold that would require a financial statement submit their statements in the timeliest manner possible, VMRC will semi-annually issue the attached "reminder" request (see two sample letters).

VMRC will follow our Annual Vendor Independent Audits and Reviews Procedures (with some revisions) to notify and obtain the financial statements. VMRC will twice annually generate a listing of providers who received audit reminder letters but have not responded to be provided to VMRC's Quality Assurance team. The QA team will follow up with each provider within 30 days of receiving the "master list" of providers. The QA team will support the team by generating written "Technical Support Plans" that outline the timeframe for the provider to submit.

As a condition of the Department's Audit Report for fiscal year 20-21, VMRC will provide updates to the department every six months beginning October 15, 2023 and resuming on April 15, 2024.

Finding 7: Bank Signature Cards - Lack of Signature Authority

The review of the bank signature cards revealed VMRC did not give DDS signatory authority to all bank accounts that are identified as containing State funds. VMRC stated it was an error on its part that DDS management was not given signatory authority when the bank signature cards were updated to reflect its new management. In addition, VMRC stated that its bank is currently contacting DDS management for their signatures.

Response: VMRC's bank representatives are completing the bank signature cards.