# AUDIT OF THE
# NORTH BAY REGIONAL CENTER
# FOR FISCAL YEARS 2003-04, 2004-05, and 2005-06

**Department of Developmental Services**

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

José C. Ortiz, Deputy Director, Administration Division
Arthur J. Lee, CPA, Manager, Audit Branch
Edward Yan, Chief of Regional Center Audits, Audit Branch
Luciah Ellen Nzima, Supervisor, Audit Branch

Audit Staff: Staci Yasui, Ahmad German, Mubashshir Ahmad,
Paramjit Judge, and Lynn Drab

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

# TABLE OF CONTENTS

# EXECUTIVE SUMMARY

The fiscal compliance audit of North Bay Regional Center (NBRC) revealed that NBRC was in substantial compliance with the requirements set forth in California Code of Regulations Title 17, the California Welfare and Institutions (W&I) Code, the Home and Community Based Services (HCBS) Waiver for the Developmentally Disabled, and the contract with the Department of Developmental Services (DDS). Overall, the audit indicated that NBRC maintains accounting records and supporting documentation for transactions in an organized manner. This report identifies some areas where NBRC's administrative and operational controls could be strengthened, but none of the findings were of a nature that would indicate systemic issues or constitute major concerns regarding NBRC's operations.

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

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

**Finding 1:** **Wellness Grant Not Encumbered**

The review of NBRC's Wellness program revealed that a project contract with Sonoma State University (SSU) was not signed and dated by NBRC and SSU prior to the end of fiscal year 2004-05 as required in DDS's award letter and NBRC's contract.

**Finding 2:** **Client Trust Disbursements not Supported**

A review of the client trust money management disbursements revealed that NBRC lacked supporting receipts for checks issued to vendors for the spending down of consumer funds. The review of the disbursements identified 10 out of 17 spend down checks did not have receipts to support purchases made by the vendors for the consumers. However, NBRC addressed and corrected this issue for four of the spend down checks by providing receipts.

**Finding 3:** **Consumer Trust Balances Over $2,000**

A sample review of the Client Trust accounts revealed six Client Trust balances exceeded the $2,000 resource limit. However, four of the trust accounts were addressed and corrected by NBRC. This is a violation of the Social Security Handbook, Section 2153.2.

**Finding 4:** **Over/Under-Stated Claims**

A detailed review of the Operational Indicator Reports revealed 16 payments to vendors in which NBRC over or under claimed expenses to the State. The payments were due to duplicate authorizations, overlapping authorizations, or incorrect rates. The total overpayment was $14,823.36 and total underpayment was $2,046. This is a violation of Title 17, Section 54326 (a)(10).

**Finding 5:** **Equipment**

**A.** **Separation of Duties**

The review of NBRC's internal control structure for the equipment area revealed a lack of separation of duties. The Payroll Coordinator is responsible for the purchasing and the receiving of equipment items in addition to his/her responsibility of conducting a physical inventory. This is not in compliance with the State's Equipment Management System Guidelines.

**B.** **State Tagging and Logging of New Acquisitions**

NBRC has not been promptly tagging and logging new equipment purchases that are sensitive or over $5,000 into the inventory listing. This is not in compliance with Article IV, Section 4, of the contract with DDS and the State's Equipment Management System Guidelines.

**C.** **State Equipment not Capitalized in the General Ledger**

Documentation provided by NBRC revealed that all new equipment purchased is expensed and no entry is made to capitalize equipment. This is not in compliance with the State's Equipment Management System Guidelines issued by DDS.

**D.** **Equipment Inventory**

NBRC did not maintain supporting documents to verify that a physical inventory of its property and equipment had been performed. In addition, NBRC has not been completing the required form 152 for the surveying of equipment. This is not in compliance with the State's Equipment Management System Guidelines issued by DDS.

**Finding 6:** **Missing Attendance Documentation**

The review of 53 Day Program vendor files revealed that NBRC reimbursed five Day Program vendors for services provided to consumers without attendance documentation. This is in violation of Title 17, section 50604 (d)(3)(B) which requires vendors to maintain support for billings/invoicing.

**Finding 7: Missing Documentation**

The review of the sampled vendor files revealed that NBRC did not have a contract on file for a transportation vendor and did not provide the Department of Social Services (DSS) approved prevailing rate letters for three residential vendors. In addition, NBRC did not submit a request to DDS to use the DSS approved rate.

**Finding 8: Missing Reviewer and Preparer Signatures**

The review of bank accounts revealed that NBRC's reconciliations were not signed and dated by the reviewer. All bank reconciliations completed from March 2004 to July 2006, were missing the reviewer's signature and date. In addition, the Uniform Fiscal System (UFS) reconciliations were found to be missing the signatures of the preparer and reviewer.

**Finding 9: Uniform Fiscal System (UFS) Reconciliations (Repeat)**

The review of UFS reconciliations revealed that NBRC does not properly complete the monthly UFS reconciliations which reconcile the Client Trust Status Listing (CTSL) balance to the General Ledger cash account balance. As a result, the cash per bank does not reconcile to the balance per the CTSL. This issue was identified in the prior audit.

In addition, further review indicated that NBRC did not have any written policies and procedures to ensure that UFS reconciliations are completed in an accurate and timely manner.

**Finding 10: Services Claimed for a Deceased Consumer**

The review of the deceased consumer files revealed that NBRC paid a full month of Supported Living Services totaling $3,965.63 for a consumer who died on August 7, 2003. This is in violation of the Title 17, Section 54326 (a) (10).

**Finding 11:** **Vendor Training Income Not Offset to State Claims**

The review of NBRC's General Ledger accounts revealed an account which was used to record enrollment fees collected from attendees for vendor training sessions conducted by NBRC. It was stated by NBRC that it is a non-claimable account and the income generated is not considered State income. However, since the training sessions were conducted by NBRC staff using State resources, these funds should have been used to offset the State claims. As of June 2006, this account had a total balance of $12,028.15.

**Finding 12:** **Missing Hold Harmless Clause**

The review of NBRC's facility lease agreement with CW Roland/I.B. Miller for the Santa Rosa office did not include the "Hold Harmless" clause, as required by the State contract, Article VII, (1).

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

**Finding 13:** **Lack of Signatory Authority**

The review of bank signature cards for NBRC's bank accounts found that it lacked the required DDS's signatory authority. In addition, it was found that the bank signature cards were not updated to reflect personnel changes at NBRC. This is in violation of the State Contract, Article III, Section 3 (f).

NBRC took the corrective steps to comply with the contract language by giving DDS signatory authority on the bank accounts and updating the bank signature cards to reflect current NBRC staff after the end of fieldwork.

**Finding 14:** **Medi-Cal Provider Agreement Forms**

The file review of 107 Day program, Transportation, and Residential vendor files revealed that Medi-Cal Provider Agreement forms for 33 vendors were found to be not properly completed by NBRC. The forms either were missing the service code and/or vendor number or had multiple vendor numbers and/or multiple service codes. This is a violation of Title 17, Section 54326 (a)(16).

NBRC took the corrective steps by providing DDS with the missing and incomplete Medi-Cal Provider Agreement forms after the end of fieldwork.

# BACKGROUND

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

DDS is also responsible for providing assurance to the Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS) that services billed under California's Home and Community-Based Services (HCBS) Waiver program are provided and that criteria set forth for receiving funds have been met. As part of DDS's program for providing this assurance, the Audit Branch conducts fiscal compliance audits of each regional center no less than every two years and completes follow-up reviews in alternate years. Also, DDS requires regional centers to contract with independent Certified Public Accountants (CPA) to conduct an annual financial statement audit. The DDS audit is designed to wrap around the independent CPA's audit to ensure comprehensive financial accountability.

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

DDS and North Bay Developmental Disabilities Services, Inc., entered into two contracts: HD999011, effective July 1, 1999, through June 30, 2004; and HD049011, effective July 1, 2004 through June 30, 2009. These contracts specify that North Bay Developmental Services, Inc., will operate an agency known as the North Bay Regional Center (NBRC) to provide services to persons with DD and their families in the Napa, Sonoma, and Solano Counties. The contracts are funded by state and federal funds that are dependent upon NBRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at NBRC from July 31, 2006 through August 25, 2006, and was conducted by DDS's Audit Branch.

## AUTHORITY

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

## CRITERIA

The following criteria were used for this audit:

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

## AUDIT PERIOD

The audit period was from July 1, 2003, through June 30, 2006, with follow-up as needed into prior and subsequent periods.

# OBJECTIVES, SCOPE, AND METHODOLOGY

This audit was conducted as part of the overall DDS monitoring system that provides information on regional centers' fiscal, administrative, and program operations. The objectives of this audit are:

- To determine compliance to Title 17, California Code of Regulations (Title 17),
- To determine compliance to the provisions of HCBS Waiver for the Developmentally Disabled, and
- To determine that costs claimed were in compliance to the provisions of NBRC's contract with DDS.

The audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. However, the procedures do not constitute an audit of NBRC's financial statements. We limited our scope to planning and performing audit procedures necessary to obtain reasonable assurance that NBRC was in compliance with the objectives identified above. Accordingly, we examined transactions, on a test basis, to determine whether NBRC was in compliance with Title 17, HCBS Waiver for the Developmentally Disabled, and the contract with DDS.

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

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

- 2003-04 issued November 3, 2004
- 2004-05 issued October 26, 2005

In addition, we reviewed associated management letters that were issued by the independent accounting firm for FYs 2003-04 and 2004-05. This review was performed to determine the impact, if any, upon our audit and as necessary, develop appropriate audit procedures.

The audit procedures performed included the following:

## I. Purchase of Service

We selected a sample of Purchase of Service (POS) claimed and billed to DDS. The sample included consumer services, vendor rates, and consumer trust accounts. The sample also included consumers who were eligible for HCBS Waiver. For POS the following procedures were performed:

- We tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.

- We selected a sample of invoices for service providers with daily and hourly rates, standard monthly rates, and mileage rates to determine if supporting attendance documentation was maintained by NBRC. The rates charged for the services provided to individuals were reviewed to ensure that the rates paid were set in accordance with the provisions of Title 17.

- We selected a sample of individual trust accounts to determine if there were any unusual activities and if any individual account balances were not above $2,000 for over six months as required by the Social Security Administration (SSA). We also reviewed these accounts to ensure that the interest earnings were distributed quarterly, personal and incidental funds were paid before the tenth of each month, and proper documentation for expenditures are maintained.

- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, is not used by NBRC. An interview with NBRC staff revealed that NBRC has procedures in place to determine the correct recipient of unidentified consumer trust funds. If the correct recipient cannot be determined, the funds are returned to SSA (or other source) in a timely manner.

- We selected a sample of Uniform Fiscal Systems (UFS) reconciliations to determine if any accounts were out-of-balance or if there were any outstanding reconciling items.

- We analyzed all of NBRC's bank accounts to determine if DDS had signatory authority as required by the contract with DDS.

- We selected a sample of bank reconciliations for Operations and Consumer Trust bank accounts to determine if the reconciliations are properly completed on a monthly basis.

## II. Regional Center Operations

We audited NBRC operations and conducted tests to determine compliance to the contract with DDS. The tests included various expenditures claimed for administration to ensure that the accounting staff was properly inputting data, the transactions were being recorded on a timely basis, and the expenditures charged to various operating areas were valid and reasonable. These tests included the following:

- A sample of the personnel files, time sheets, payroll ledgers and other support documents was selected to determine if there were any overpayments or errors in the payroll or the payroll deductions.

- A sample of operating expenses, including, but not limited to, purchases of office supplies, consultant contracts, insurance expenses, and lease agreements, was tested to determine compliance to Title 17 and the contract with DDS.

- A sample of equipment was selected and physically inspected to determine compliance with requirements of the contract with DDS.

- We reviewed NBRC's policies and procedures for compliance to the Title 17 Conflict of Interest requirements and selected a sample of personnel files to determine if the policies and procedures were followed.

## III. Targeted Case Management and Regional Center Rate Study

The Targeted Case Management (TCM) rate study is the study that determines DDS rate of reimbursement from the Federal Government. The following procedures were performed upon the study:

- Reviewed applicable TCM records and NBRC's Rate Study. We examined the month of May 2004 and traced the reported information to source documents.

- Reviewed NBRC's Case Management Time Study. We selected a sample of payroll time sheets for this review and compared to the DS1916 forms to ensure that the DS1916 forms were properly completed and supported.

## IV. Service Coordinator Caseload Survey

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

However, for the period commencing January 1, 2004 to June 30, 2007, inclusive, the following service coordinator-to-consumer ratios apply:

A. For all consumers that are three years of age and younger and for consumers that are enrolled on HCBS Waiver, the required average ratio shall be 1:62.

B. For all consumers who have moved from a developmental center to the community since April 14, 1993, and have lived in the community continuously for at least 12 months, the required average ratio shall be 1:62.

C. For all consumers who have not moved from the developmental centers to the community since April 14, 1993, and who are not covered under A above, the required average ratio shall be 1:66.

We performed the following procedure upon NBRC's caseload survey.

Reviewed the Service Coordinator Caseload Survey methodology used in calculating the caseload ratio to determine reasonableness and that supporting documentation is maintained to support the survey and the ratios as required by W&I Code, Section 4640.6

## V. Early Intervention Program (Part C Funding)

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

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

## VI. Other Sources of Funding

Regional centers may receive many other sources of funding. For the other sources of funding identified for NBRC, we performed sample tests to ensure that the accounting staff was inputting data properly and transactions were properly recorded and claimed. In addition, tests were performed to determine if the expenditures were reasonable and supported by documentation. The other sources of funding identified for this audit are:

- Family Resource Center Program.

- Start Up Programs.

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

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

# CONCLUSIONS

Based upon the audit procedures performed, we have determined that except for the items identified in the Findings and Recommendations Section, NBRC was in substantial compliance to applicable sections of Title 17, HCBS waiver, and the terms of NBRC's contract with DDS for the audit period July 1, 2003, through June 30, 2006.

Except for those items described in the Findings and Recommendations Section, the costs claimed during the audit period were for program purposes and adequately supported.

From the review of prior audit issues, it has been determined that NBRC has taken appropriate corrective actions to resolve all prior audit issues, except for item nine which is contained in the Findings and Recommendations Section and listed as an repeat finding.

# VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft report on July 20, 2007. The findings in the report were discussed at an exit conference with NBRC on August 14, 2007. At the exit conference, we stated that the final report will incorporate the views of responsible officials.

# RESTRICTED USE

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

ARTHUR J. LEE, CPA
Manager
Audit Branch

# FINDINGS AND RECOMMENDATIONS

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

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

**Finding 1:** **Wellness Grant Not Encumbered**

The review of the Wellness Program revealed that NBRC did not properly encumber the funds for a contract with Sonoma State University (SSU) for fiscal year 2004-05. The contract was for SSU to conduct collaborative autism training and support and the total amount of the contract was for $61,050. NBRC and SSU signed a contract in December 2005, which is six months after the end of the fiscal year 2004-05 (June 30, 2005). Because the contract was not signed until after the close of the fiscal year end, there was no legal authority to encumber fiscal year 2004-05 funds for this contract. As a result, the funds for this contract were not properly encumbered.

The State Contract, Article III, Section 4 states:

"Any funds which have not been encumbered for services provided or purchased during the term of the contract shall revert to the State."

In addition, DDS award letter for this contract dated February 9, 2005, states:

"Funds for your Wellness Initiative Projects is approved, with the following stipulations:

- Funds must be encumbered by June 30, 2005, and expended by May 15, 2007."

**Recommendation:**

NBRC should revert to DDS the $61,050 of Wellness funds because the contract was not signed and dated prior to the close of the fiscal year. NBRC should also establish policies and procedures to ensure that contracts are properly signed and funds encumbered prior to the close of the fiscal year.

**Finding 2:** **Client Trust Disbursements not Supported**

A review of the client trust money management disbursements revealed that NBRC did not have supporting receipts for checks issued to vendors for the consumer's personal spending. The checks were disbursed when the consumer's resources were close to or over the $2,000 resource limit. The funds disbursed to the consumers were used for the purchase of personal items, however, the review of the disbursements identified 10 out of 17 spend down checks did not have receipts to support purchases made by the vendors for the consumers. After the audit fieldwork, NBRC provided receipts for four of the 10 spend down checks. This resulted in six spend down checks that did not have supporting documentation. (See Attachment A.)

Without supporting receipts, there is no evidence to ensure that the disbursements from the client trust funds are appropriate. In addition, the client trust funds account for benefits received from Social Security Administration. Social Security Handbook Chapter: 16, Sections 1623.1 and 1623.3 states that:

"Representative payees shall explain how Social Security benefits and/or SSI payments were used during the 12 months report period. Payees should keep records throughout the year so that an accurate accounting of benefits can be provided."

**Recommendation:**

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

**Finding 3:** **<u>Consumer Trust Balances Over $2,000</u>**

The review of 38 Client Trust accounts revealed six trust balances exceeded the $2,000 resource limit, a violation of Social Security guidelines. During the audit, NBRC addressed and corrected four of the trust accounts. This results in two trust accounts that continue to have balances that exceed the allowable limit. By exceeding the asset limit, consumers are at risk of losing SSI benefits that are used to offset the costs of residential services. Any residential costs not offset by SSI benefits are charged in full to the State. Consequently, not managing the consumer's trust balances within the asset limit exposes the State to an increased share of residential service costs. (See Attachment B.)

Social Security Regulations, Section 2153.2 states:

"As of January 2003, the applicable limits are:

A. $2,000 for an individual without a spouse…"

**Recommendation:**

NBRC should develop and implement procedures to monitor consumer trust accounts to ensure that the balances remain within the limits established by the Social Security Administration.

**Finding 4:** **Over/Under-Stated Claims**

A detailed review of NBRC's Operational Indicator Reports revealed 16 payments to vendors in which NBRC over or under claimed expenses to the State. The payments were due to either duplicate, overlapping authorizations, or incorrect rates. It was found that 13 of the 16 were overpayments due to duplicate or overlapping authorizations. While the remaining three were underpayments due to incorrect rates being used. The total overpayment was $14,823.36 and total underpayment was $2,046. (See Attachment C.)

Title 17, Section 54326 (a) states:

"All vendors shall…

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

**Recommendation:**

NBRC should reimburse to DDS the $14,823.36 overpaid to the vendors and make payments of $2,046 for the underpayments owed to the various vendors. In addition, NBRC should develop and implement procedures to ensure the staff is aware of and monitoring the operational indicator reports to more efficiently detect and correct any over/under payments that may have occurred in the course of doing business with the vendors.

**Finding 5:** **Equipment**

**A.** **Separation of Duties**

The review of NBRC's internal control structure for the equipment area revealed a lack of separation of duties. The Payroll Coordinator is responsible for the purchasing and receiving of equipment items, in addition to his/her responsibility of conducting a physical inventory.

Article IV, Section 4a of the contract between DDS and NBRC states in part:

"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."

The State's Equipment Management System Guidelines, revised February 1, 2003, issued by DDS, Section III (B) states:

"Proper separation of duties requires that the RC employee receiving state-owned equipment not be the same person ordering the items or conducting the physical inventory."

**Recommendation:**

NBRC should develop and implement procedures to ensure that the State Equipment Management Systems Guideline is met. These policies and procedures should include the separation of duties between the purchasing and receiving of equipment and the conducting of the physical inventory.

## B. State Tagging and Logging of New Acquisitions

NBRC has not been promptly tagging and logging new equipment purchases that are sensitive or over $5,000 into the inventory listing. It was determined that the tagging and logging of new equipment purchases are not completed until the equipment is distributed, which may be several weeks or months after the receiving date. In addition, NBRC does not have procedures in place to ensure all newly acquired items are promptly State tagged and logged in its inventory list.

Article IV, Section 4a of the contract between DDS and NBRC states in part:

"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."

The State's Equipment Management System Guidelines, revised February 1, 2003, issued by DDS, Section III (C) states:

"All state-owned equipment must be promptly and clearly tagged as State of California, DDS's property."

**Recommendation:**

NBRC should develop and implement procedures to ensure that the State Equipment Management Systems Guidelines are met. These policies and procedures should include the promptness of State tagging and logging of all newly acquired equipment into NBRC's inventory listing prior to the distribution for use.

## C. State Equipment not Capitalized in the General Ledger

The review of NBRC documentation identified that NBRC expensed all equipment purchases and did not capitalize State equipment that has a normal useful life of at least one year, a unit acquisition cost of at least $5,000, and is to be used to conduct State business, as required by the State Equipment Management Systems Guidelines and the State Administrative Manual (SAM).

Article IV, Section 4a of the contract between DDS and NBRC states in part:

"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."

The State's Equipment Management System Guidelines, revised February 1, 2003, issued by DDS, Section IV states:

"RC's will follow standard accounting guidelines as described in SAM Section 8600 et seq. "

SAM Section 8602 states:

"State property is capitalized for accounting purposes when certain conditions are met. Capitalization means to record the property in the accounting records as assets. Tangible property must meet the following three requirements in order to meet the capitalization requirements:

1. Have a normal useful life of at least one year;
2. Have a unit acquisition cost of at least $5,000…
3. Be used to conduct State business."

**Recommendation:**

NBRC should develop and implement procedures to ensure that the State Equipment Management Systems Guideline is met. These policies and procedures should include identifying State Equipment that meet the appropriate criteria for capitalization are properly recorded in the General Ledger.

## D. Equipment Inventory

NBRC has not followed the State's Equipment Management System Guidelines. These guidelines require that NBRC perform a physical inventory, maintain documentation that the physical inventory has been taken, and ensures that form 152 "Property Survey Report," for the surveying of equipment, is being completed.

Article IV, Section 4a of the contract between DDS and NBRC states in part:

"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."

Section III (F) of the State's Equipment Management System Guidelines, dated February 1, 2003, states in part:

"The inventory will be conducted per State Administrative Manual (SAM) Section 8652."

State Administrative Manual (SAM) Section 8652 states in part:

"Departments will make a physical inventory count of all property and reconcile the count with accounting records at least once every three years.

Departments are responsible for the developing and carrying out an inventory plan which will include:

2(b). Worksheets used to take inventory will be retained for audit and will show the date of inventory and the name of the inventory taker."

Section III (E), of the State's Equipment Management Systems Guidelines, dated February 1, 2003, states in part:

"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."

**Recommendation:**

NBRC should develop policies and procedures to ensure compliance to the State's Equipment Management System Guidelines as required by its contract with DDS. The policies and procedures should include requirements to take a physical inventory, maintain documentation of the physical inventory, and complete and file all required forms with DDS.

**Finding 6:** **Missing Attendance Documentation**

Fifty-three Day Program vendor files were reviewed for FYs 2003-04, 2004-05, and 2005-06 to ensure invoices were submitted and supported with attendance documentation. It has been NBRC's practice to require vendors to submit attendance documentation with the turnaround invoices. However, the review showed NBRC reimbursed five Day Program vendors for services provided to consumers without attendance documentation attached to the turnaround invoices. (See Attachment D.)

Title 17, Section 50604 (d) states:

"All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program. Service records used to support service providers' billing/invoicing shall include, but not be limited to:

(2) Documentation for each consumer reflecting the dates for program entrance and exit, if applicable, as authorized by a regional center.

(3) A record of services provided to each consumer. The record shall include:

> (C) For community-based day programs, the dates of service, place where service was provided, the start and end times of service provided to the consumer and the daily or hourly units of service provided."

**Recommendation:**

NBRC should develop and implement procedures to ensure attendance documentation is attached to each turnaround invoice before reimbursing vendors for services provided to the consumer. This will ensure NBRC's compliance with Title 17, Section 50604 (d).

**Finding 7:** **Missing Documentation**

The review of the vendor files revealed NBRC did not have a contract on file for one transportation vendor and did not provide the Department of Social Services (DSS) approved prevailing rate letters used to pay three residential vendors. In addition, NBRC did not submit a request to DDS to use the DSS approved rate. (See Attachment E.)

Title 17, Section 58524 (a) states:

"A contract for transportation service between a regional center and a vendor shall be in writing,…"

Also, Title 17, Section 56919 (a) and (b) state:

"The regional center shall request approval by the Department for the payment of usual and customary fees or prevailing rates.

At the Department's discretion, usual and customary fees or prevailing rates may be approved for facilities which meet the criteria in Section 56004(a) and have a rate established by another governmental agency."

**Recommendation:**

NBRC should develop and implement procedures to ensure valid contracts or prevailing rate letters are maintained and on file to support amounts paid. In addition, NBRC should submit a request to DDS to use a DSS approved rate to reimburse any of their vendors. This will ensure NBRC's compliance with Title 17, Sections 58524 (a) and 56919.

**Finding 8:** **Missing Reviewer and Preparer Signatures**

The review of the bank reconciliations revealed that NBRC's reconciliations were not signed and dated by the reviewer. All bank reconciliations completed from March 2004 to July 2006 were missing reviewer's signature and date. In addition, UFS reconciliations were found to be missing the signatures of the preparer and the reviewer. NBRC's Policies and Procedures require that the preparer and reviewer sign the monthly bank reconciliations.

NBRC's Policies and Procedures for Bank Reconciliation to General Ledger, Section K states:

"When the bank reconciliation form is balanced, it is printed. This is then signed and dated by the person who prepared it and then given to the accounting supervisor for review and signature."

**Recommendation:**

NBRC should adhere to the prescribed policies and procedures in the preparation of the bank and UFS reconciliations to ensure that both the preparer and reviewer sign and date the reconciliations. This will document that the reconciliation was prepared and reviewed on a timely basis.

**Finding 9:** **Uniform Fiscal System (UFS) Reconciliations (Repeat)**

The review of UFS reconciliations revealed that NBRC does not properly complete the monthly UFS reconciliations which reconcile the Client Trust Status Listing (CTSL) balance to the General Ledger cash account balance. Reconciling items identified in this area are not researched and addressed by NBRC prior to the reconciliation of the General Ledger cash account balance to the bank statement balance. This is an important part of the reconciliation process which ensures that the differences between the cash per bank and NBRC's records are quickly identified. As a result, the cash per bank does not reconcile to the balance per the CTSL. This issue was identified in the prior audit.

In addition, the review found that NBRC did not have any written policies and procedures to ensure that UFS reconciliations are completed in an accurate and timely manner. UFS reconciliations were found to be up to two months late or not being performed.

For good accounting and internal control practices, UFS reconciliations should be performed on a monthly basis to detect any errors or reconciling items. This will ensure that any errors or reconciling items are identified, researched, and corrected in a timely basis.

**Recommendation:**

NBRC should develop policies and procedures to ensure that all the areas of UFS reconciliations are properly completed including the portion of UFS reconciliation which requires the reconciliation of the CTSL to the General Ledger. In addition, NBRC should also ensure that all UFS reconciliations are properly completed on a monthly basis to ensure that any errors or reconciling items are identified, researched, and corrected in a timely manner.

**Finding 10:** **Services Claimed for a Deceased Consumer**

The review of the deceased consumer files revealed that NBRC paid a full month of Supported Living Services to Bayberry, vendor number P20287, totaling \$3,965.63 for a consumer who died on August 7, 2003. The amount should have been prorated to reflect the actual days of service provided prior to the date of death. As a result, Bayberry was overpaid \$3,070.19 for services that were not provided.

Title 17, Section 54326 (a) states:

"All vendors shall…

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

**Recommendation:**

NBRC should collect from Bayberry and reimburse to DDS the amount of $3,070.19 that was paid for services not provided by the vendor. In addition, NBRC should develop policies and procedures to ensure that services are paid only for services rendered.

**Finding 11:** **Vendor Training Income Not Offset to State Claims**

The review of NBRC's General Ledger accounts revealed an account which was used to record enrollment fees collected from attendees for vendor training sessions conducted by NBRC staff using State resources. This income was not offset against previously claimed operational expenses. It was noted by NBRC that this is a non-claimable account and the income generated is not considered State income. However, since the training sessions were conducted by NBRC staff using State resources, these funds should have been used to offset the State claims. As of June 2006, this account had a total balance of $12,028.15.

For good accounting and internal control practices, all accounting transactions should be recorded to reflect the true nature of the transaction. This will ensure the proper accounting and claiming of the training sessions.

**Recommendation:**

NBRC should ensure that all funds collected from training sessions are used to offset expenses charged to NBRC's General Operations account. Therefore, NBRC should reduce the State claim in the amount of $12,028.15 for the income generated from the training sessions. In addition, NBRC should develop policies and procedures to ensure that any funds collected from training sessions are used to offset the expenses claimed to the State. Any fees collected in excess of the training expenses need to be posted in the General Ledger as other income.

**Finding 12:** **Missing Hold Harmless Clause**

The review of NBRC's facility lease agreement with CW Roland/I.B. Miller for the Santa Rosa office did not include a "Hold Harmless Clause" as required by the State contract.

State Contract Article VII, (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:**

NBRC should amend its current lease agreement to include the "Hold Harmless Clause" as required by the state contract.

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

**Finding 13: Lack of Signatory Authority**

The review of bank signature cards found that NBRC's bank accounts lacked the required DDS's signatory authority. In addition, it was found that the bank signature cards were not updated to reflect personnel changes at NBRC.

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 accounts above referenced, there shall be prepared three (3) alternative signature cards with riders attached to each indicating their use."

NBRC took the corrective steps to comply with the contract language by giving DDS signatory authority on the bank accounts and updating the bank signature cards to reflect current NBRC staff after the end of fieldwork.

**Recommendation:**

NBRC should implement procedures to ensure that signatory authorization is given to both DDS and NBRC signatories for all bank accounts that are identified as having State funds as required by the State Contract.

**Finding 14: Medi-Cal Provider Agreement Forms**

The review of 107 vendor files from the Day, Transportation and Residential programs revealed 33 files were missing or had an incomplete Medi-Cal Provider Agreement form. The Medi-Cal Provider Agreement forms were missing either the service code or vendor number, or had multiple vendor numbers and/or service codes.

Title 17, Section 54326(a) states:

"All vendors shall…

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

In addition, all required forms shall be properly completed and filed in the vendor file.

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

**Recommendation:**

NBRC should establish procedures to ensure there is a complete Medi-Cal Provider Agreement form on file for every vendor providing services to the consumer. NBRC should establish a verification procedure to ensure that forms are complete and in compliance with the Title 17 requirement.

# EVALUATION OF RESPONSE

As part of the audit report process, NBRC is provided with a draft report and is requested to provide a response to each finding. NBRC's response dated October 16, 2007 is provided as Appendix A. This report includes the complete text of the findings in the Findings and Recommendations Section and a summary of the findings in the Executive Summary Section. DDS's Audit Branch has evaluated NBRC's response. Except as noted below, NBRC's response addressed the audit findings and provided reasonable assurance that corrective action would be taken to resolve the issues. DDS's Audit Branch will confirm NBRC's corrective actions identified in the response during the follow-up review or the next scheduled audit.

**Finding 1:** **Wellness Grant Not Encumbered**

NBRC states in its response that it was an oversight due to the untimely departure of the Chief Operating Officer in combination with the lack of a proactive administration from DDS and SSU. NBRC further states that it had received in full measure the deliverables in the contract and suggest a less draconian solution recommended in the audit finding. However, because the contract with NBRC and SSU was signed six months after June 30, 2005, the funds were not encumbered as per the contract requirements. Therefore, this finding will remain unchanged and NBRC should revert to DDS the $61,050 of Wellness funds identified in this audit. A follow-up will be performed in the next scheduled audit to determine if the issue has been resolved.

**Finding 2:** **Client Trust Disbursements Not Supported**

NBRC states in its response that supporting receipts are required for disbursements and procedures are in place to secure receipts if lost. However, the supporting documentation provided by NBRC in its response does not fully address the issue of requiring receipts for consumer disbursements. Signed written responses from the Case Managers verifying the authorized disbursement amounts and items purchased do not satisfy the requirement that supporting receipts are on file. In addition, NBRC states in its disbursement letters to its vendors that supporting receipts must be forwarded to the Revenue Coordinator in the Napa office. Therefore, NBRC should adhere to its procedures requiring supporting receipts for disbursements.

A follow-up review will be performed in the next scheduled audit to ensure that procedures are in place to safeguard consumer benefits.

**Finding 4:** **Over/Under-Stated Claims**

NBRC states in its response that in the past it had allowed vendors to submit faxed billings which contributed to double billings when the original billings were later submitted by the vendors and that the overpayments and underpayments are currently being addressed by NBRC. NBRC has submitted some supporting documentation with its response to show that progress is being made to correct the over and underpayments identified in the audit. However, NBRC should comply with DDS's recommendation that it reimburse the overpaid amount to DDS and make payments for the underpaid amount to the various vendors identified in this audit. In addition, DDS's recommendation of NBRC developing and implementing procedures to ensure proper monitoring of the Operational Indicator reports will remain unchanged.

A follow-up review will be performed in the next scheduled audit to ensure the payments have been addressed or recovered and that procedures are in place to ensure proper monitoring of the Operational Indicator reports.

**Finding 9:** **<u>Uniform Fiscal System (UFS) Reconciliations (Repeat)</u>**

NBRC states in its response that the timing difference was due to the Trust processing timelines. However, NBRC's response does not address the corrective action it would take to comply with DDS's recommendation of properly reconciling the CTSL to the General Ledger and completing the monthly UFS reconciliations timely. Though NBRC states that the General Ledger and CTSL reports are generated at different times of the month, this shouldn't preclude the staff from being able to reconcile or identify any reconciling items in this area of the UFS reconciliation. Therefore, this finding will remain unchanged and a follow-up review will be performed in the next scheduled audit to ensure the issues identified in the UFS reconciliations are addressed and resolved.

**Finding 10:** **<u>Services Claimed for a Deceased Consumer</u>**

NBRC states in its response that after the consumer's death, it approved payment for the month of August 2003 to Bayberry, the Support Living Services (SLS) vendor to provide ongoing services that were necessary in taking care of the consumer's final affairs such as cleaning the apartment, coordinating the distribution of estate belongings, and making funeral arrangements. However, NBRC did not provide documentation with its response to support its claim that these services were provided by the SLS vendor for the month of August 2003. Therefore, this finding will remain unchanged and NBRC should collect from Bayberry and reimburse to DDS the amount identified in this finding.

**Finding 11:** **<u>Vendor Training Income Not Offset to State Claims</u>**

NBRC states in its response that it has reduced the State claim by $12,028.15 for the income generated from the training sessions. In addition, it has instituted a procedure of offsetting all funds collected from training sessions to the State claim as other income under the General Ledger (GL) account, Other Income – Trainings (01-00-0-20040). However, NBRC did not provide supporting documentation to show that the amount identified in the finding has been offset in the State claim.  Therefore, this finding will remain unchanged and a follow-up review will be performed in the next scheduled audit to ensure the $12,028.15 and any additional funds collected from the training sessions are offset to the State claim.

**Finding 12:** **Missing Hold Harmless Clause**

NBRC acknowledges that the lease agreement in this finding does not include the required "Hold Harmless" clause and has attempted to secure this language in the current lease with the new owners.  Though NBRC states that the original lease was entered into in 1981, an amendment should be included in the new lease agreement with the new owners requiring the "Hold Harmless" clause.  A follow-up review will be performed in the next scheduled audit to ensure the clause is in place for the current lease agreement.

**North Bay Regional Center**
**Client Trust Spend Down Disbursement**
**Fiscal Years 2003-04, 2004-05, and 2005-06**

| | Unique Client Identification Number | Money Management Disbursement Amount | Check Number | Check Date |
|---|---|---|---|---|
| 1 | [redacted] | $250 | 96944 | 08/19/04 |
| 2 | [redacted] | $350 | 126817 | 06/27/06 |
| 3 | [redacted] | $500 | 98268 | 09/16/04 |
| 4 | [redacted] | $300 | 125301 | 05/01/06 |
| 5 | [redacted] | $100 | 118430 | 12/13/05 |
| 6 | [redacted] | $500 | 101509 | 12/01/04 |

**North Bay Regional Center**
**Consumer Trust Balances Over $2000**
**Fiscal Years 2003-04, 2004-05, and 2005-06**

| | Unique Client Identification | Balance Over $2000 | Ending Balance Date |
|---|---|---|---|
| 1 | [redacted] | $4,047.92 | 6/30/2006 |
| 2 | | $4,781.27 | 6/30/2006 |

Attachment C

**North Bay Regional Center**
**Over/Under-Stated Claims**
**Fiscal Years 2003-04, 2004-05, and 2005-06**

| | Vendor Number | Vendor Name | Service Code | Service Month | Unique Client Identification Number | Authorozation Number | Overclaimed Amount | Under-Paid Amount |
|---|---|---|---|---|---|---|---|---|
| 1 | H13667 | USARC/Hill Top/Sup. | 510 | Feb 04 | [redacted] | 4255212 | $726.36 | |
| 2 | HN0162 | [redacted] | 905 | June 06 | [redacted] | 4048336 | $2,610.00 | |
| 3 | HN0118 | [redacted] | 905 | March 03 | [redacted] | 4982781 | $2,861.00 | |
| 4 | H13617 | [redacted] | 915 | Sept 03 | [redacted] | 4251905 | $2,387.00 | |
| 5 | H13599 | Options 3 Inc. | 915 | Jan 03 | [redacted] | 3132915 | $637.00 | |
| 6 | H13616 | [redacted] | 915 | Feb 05 | [redacted] | 5716981 | $2.00 | |
| 7 | HN0011 | [redacted] | 915 | April 04 | [redacted] | 4991429 | $11.00 | |
| 8 | H13049 | [redacted] | 915 | March 05 | [redacted] | 5052085 | $1,354.00 | |
| 9 | H13526 | [redacted] | 915 | Jan 05 | [redacted] | 5122823 | $35.00 | |
| | H13526 | [redacted] | 915 | June 05 | [redacted] | 5122823 | $35.00 | |
| 10 | HB0078 | [redacted] | 915 | Dec 05 | [redacted] | 4990029 | $1,378.00 | |
| 11 | H83849 | [redacted] | 915 | March 04 | [redacted] | 4984367 | $2,190.00 | |
| 12 | H13638 | [redacted] | 920 | Nov 03 | [redacted] | 3933593 | $542.00 | |
| 13 | H83851 | [redacted] | 915 | May-05 | [redacted] | 04998316 | $11.00 | |
| | H83851 | [redacted] | 915 | May-05 | [redacted] | 04710486 | $11.00 | |
| | H83851 | [redacted] | 915 | May-04 | [redacted] | 04700066 | $11.00 | |
| | H83851 | [redacted] | 915 | May-04 | [redacted] | 04718037 | $11.00 | |
| | H83851 | [redacted] | 915 | May-04 | [redacted] | 04052775 | $11.00 | |
| 14 | H13371 | [redacted] | 915 | Sep-03 | [redacted] | 04118303 | | $24.00 |
| | H13371 | [redacted] | 915 | Sep-03 | [redacted] | 04119873 | | $24.00 |
| | H13371 | [redacted] | 915 | Sep-03 | [redacted] | 04726295 | | $24.00 |
| | H13371 | [redacted] | 915 | Sep-03 | [redacted] | 04118301 | | $24.00 |
| | H13371 | [redacted] | 915 | Sep-03 | [redacted] | 04120171 | | $24.00 |
| | H13371 | [redacted] | 915 | Sep-03 | [redacted] | 04118302 | | $24.00 |
| 15 | H07649 | Manteca CAPS | 515 | March06-April 06 | [redacted] | 06071024 | | $10.00 |
| 16 | H83792 | Solano Diversified Services | 515 | Jan 04-July 07 | [redacted] | 4928204 | | $742.00 |
| | H83792 | Solano Diversified Services | 515 | Jan 04-April 04 | [redacted] | 04049134 | | $142.00 |
| | H83792 | Solano Diversified Services | 515 | April 04-May 05 | [redacted] | 04052944 | | $1,008.00 |
| | **Total Amount** | | | | | | **$14,823.36** | **$2,046.00** |

**North Bay Regional Center**
**Missing Attendance Documentation**
**Fiscal Years 2003-04, 2004-05, and 2005-06**

| | Vendor Name | Vendor Number | Service Month | Service Code |
|---|---|---|---|---|
| 1 | Solano Diversified Services | H13551 | Jan-06 | 515 |
| 2 | Pride Industries | H79736 | Feb-05 | 520 |
| 3 | Liberty ILS | HN0158 | Mar-03 | 520 |
| 4 | On Our Own Inc. | HN0159 | Oct-03 | 520 |
| 5 | Stepping Forward ILS | HN0220 | Jun-05 | 520 |

**North Bay Regional Center**
**Missing Contracts**
**Fiscal Years 2003-04, 2004-05, and 2005-06**

| | Vendor Name | Vendor Number | Vendor Type |
|---|---|---|---|
| 1 | [redacted] | H13225 | Transportation |
| 2 | [redacted] | HP1853 | Residential |
| 3 | [redacted] | H40298 | Residential |
| 4 | [redacted] | H89238 | Residential |

# APPENDIX A

## NORTH BAY REGIONAL CENTER

## RESPONSE
## TO AUDIT FINDINGS

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

# NORTH BAY REGIONAL CENTER

10 Executive Way • P.O. Box 3360 • Napa, CA 94558 • (707) 256-1100
For the Hearing Impaired • (707) 252-0213

Nancy E.S. Gardner
*Executive Director*

RECEIVED
OCT 24 2007
AUDIT BRANCH

October 16, 2007

Arthur J. Lee, CPA
Manager, Audit Section
Department of Developmental Services
1600 Ninth Street, Room 230, MS 2-10
Sacramento, CA 95814

Dear Mr. Lee:

The following information is provided in response to your letter dated July 20, 2007 asking for our response to the findings of the audit of North Bay Regional Center (NBRC), Fiscal Years 2003-04, 2004-05, and 2005-06. Thank you for the opportunity to provide information regarding these findings:

Finding 1: Wellness Grant Not Encumbered

> The review of the Wellness Program revealed that NBRC did not properly encumber the funds for a contract with Sonoma State University (SSU) for fiscal year 2004-05. The contract was for SSU to conduct collaborative autism training and support and the total amount of the contract was for $61,050. NBRC and SSU signed a contract in December 2005, which is six months after the end of the fiscal year 2004-05 (June 30, 2005). Because the contract was not signed until after the close of the fiscal year end, there was no legal authority to encumber fiscal year 2004-05 funds for this contract. As a result, the funds for this contract were not properly encumbered.

Response: We submit that this was an oversight due to the untimely departure of the Chief Operating Officer at NBRC, combined with the lack of proactive administration from DDS and SSU(Sonoma State University(/CIHS(California Institute on Human Services). We further submit that NBRC received, in full measure, the deliverables in the contract and that recovering the funds from our current budget is not a good remedy to correct this administrative mistake. Taking funds that were expended properly toward fulfillment of the contract from our current Operations budget is unnecessarily punitive. We suggest a less draconian solution.

Finding 2: Client Trust Disbursements not Supported

> A review of the client trust money management disbursements revealed that NBRC did not have supporting receipts for checks issued to vendors for the consumer's personal spending. The checks were disbursed when the consumer's resources were close to or over the $2,000 resource limit. The funds disbursed to the consumers were used for the purchase of personal items, however, the review of the disbursements identified 10 out of 17 spend down checks did not have receipts to support purchases made by the vendors for the consumers. ...

Response: NBRC requires supporting receipts for disbursements and has procedures in place to secure receipts. If the receipts are lost, the Case Manager visits the consumer to verify that items authorized were purchased. The Case Manager signs off on the disbursement to document receipt of items by the consumer.

Finding 3: Consumer Trust Balances Over $2,000

The review of 38 Client Trust accounts revealed six trust balances exceeded the $2,000 resource limit, a violation of Social Security guidelines. During the audit, NBRC addressed and corrected four of the trust accounts. This results in two trust accounts that continue to have balances that exceed the allowable limit. By exceeding the asset limit, consumers are at risk of losing SSI benefits that are used to offset the costs of residential services. ...

Response: NBRC has procedures in place to monitor consumer trust balances (copies faxed 9/21). Due to functioning levels of some consumers, their needs are taken care of and they don't have a need to spend large balances; which can become a problem for them. If the consumer receives SSI, the SSI will be used for Board and Care costs when allowed, or funds will be returned to the Social Security Administration for the months the consumer is over the resource limit.

Finding 4: Over/Under-Stated Claims

A detail review of NBRC's Operational Indicator Reports revealed 16 payments to vendors in which NBRC over or under claimed expenses to the State. The payments were due to either duplicated, overlapping authorizations, or incorrect rates. It was found that 13 of the 16 were overpayments due to duplicate or overlapping authorizations. While the remaining three were underpayments due to incorrect rates being used. The total overpayment was $14,823.36 and total underpayment was $2,046. ...

Response: NBRC had allowed vendors to submit faxed billings in past years. This caused double billing and payment when the vendor later submitted original billings for the same services covered in the previously faxed billings. Remaining overpayment and underpayments are being addressed and recovered or paid as the case may be.

Finding 5: Equipment

A. Separation of Duties

The review of NBRC's internal control structure for the equipment area revealed a lack of separation of duties. The Payroll Coordinator is responsible for the purchasing and receiving of equipment items, in addition to his/her responsibility of conducting a physical inventory. ...

Response: NBRC is developing and implementing procedures to ensure that the State Equipment Management Systems Guideline is met. Included in these procedures is the separation of duties between the purchasing and receiving of equipment and the conducting of the physical inventory, which is already operational. All receiving is conducted by NBRC's Operations Fiscal Assistant, while purchasing is accomplished by NBRC's Payroll/Purchasing Coordinator.

B. State Tagging and Logging of New Acquisitions

NBRC has not been promptly tagging and logging new equipment purchased that are sensitive or over $5,000 into the inventory listing. It was determined that the tagging and logging of new equipment purchase are not completed until eh equipment is distributed, which may be several weeks or months after the receiving date. In addition, NBRC does not have procedures in place to ensure all newly acquired items are promptly State tagged and logged into its inventory list. ...

Response: NBRC is developing and implementing procedures to ensure that the State Equipment Management Systems Guideline is met. Already operational and included in these procedures is the prompt State tagging and logging of all newly acquired equipment onto NBRC's inventory listing prior to distribution for use.

C. State Equipment not Capitalized in the General Ledger

The review of NBRC documentation identified that NBRC expenses all equipment purchased and did not capitalize State equipment that has a normal useful life of at least one year, a unit acquisition cost of at least $5,000, and is to be used to conduct State business, as required by the State Equipment Management Systems Guidelines and the State Administrative Manual (SAM). ...

Response: NBRC has reviewed historical accounting records and identified all equipment that falls into the category described in the finding. NBRC has capitalized this equipment in the General Ledger. (G/L Accounts "State Equip-Regional Center" 01-00-0-04020 and "Allowance for State Equipment" 01-00-0-04040). Further, NBRC has established procedures for identifying future acquisitions that fall into this category and capitalizing them.

D. Equipment Inventory

NBRC has not followed the State's Equipment Management Systems Guidelines. These guidelines require that NBRC perform a physical inventory, maintain documentation that the physical inventory has been taken, and ensures that form 152 "Property Survey Report", for the surveying of equipment, is being completed. ...

Response: NBRC has developed and implemented procedures that ensure that the State Equipment Management Systems Guideline is met. These procedures include the taking of physical inventory and maintaining of documentation of the physical inventory, and completion and filing of all required forms with DDS. NBRC has recently taken a full inventory and has physical documentation of this inventory. NBRC has also recently acquired an inventory program that will facilitate the efficient re-inventorying process and well as the introduction of new inventory and surveying off inventory.

Finding 6: Missing Attendance Documentation

Fifty-three Day Program vendor files were reviewed for FYs 2003-04, 2004-05, and 2005-06 to ensure invoices were submitted and supported with attendance documentation. It has been NBRC's practice to require vendors to submit attendance documentation with the turnaround invoices. However, the review showed NBRC reimbursed five Day Program vendors for services provided to consumers with out attendance documentation attached to the turnaround invoices. ...

Response: NBRC has procedures that ensure attendance documentation is received with the vendor billing. This procedure requires constant oversight and some attendance records were not received and/or misplaced. NBRC has subsequently received copies of the missing attendance documentation and forwarded this information to DDS audit staff.

Finding 7: Missing Documentation

The review of the vendor files revealed NBRC did not have a contract on file for one transportation vendor and did not provide the Department of Social Services (DSS) approved prevailing rate letters used to pay three residential vendors. In addition, NBRC did not submit a request to DDS to use the DSS approved rate. ...

Response: NBRC has procedures that ensure valid contracts or prevailing rate letters are on file to support amounts paid. NBRC will submit requests to DDS to use DSS approved rest to reimburse any of its vendors. This procedure requires constant oversight and one contract was not received and/or misplaced. NBRC has subsequently received a copy of the missing contract and forwarded this information to DDS audit staff.

Finding 8: Missing Reviewer and Preparer Signatures

> The review of the bank reconciliations revealed that NBRC's' reconciliations were not signed and dated by the reviewer. All bank reconciliations completed from March 2004 to July 2006 were missing reviewer's signature and date. In addition, UFS reconciliations were found to be missing the signatures of the preparer and the reviewer. NBRC's Policies and Procedures require that the preparer and reviewer sign the monthly bank reconciliations. ...

Response: NBRC is adhering to the prescribed policies and procedures in the preparation of the bank and UFS reconciliations to insure that both the preparer and reviewer sign and date the reconciliations. Since the audit, the Accounting Services Manager has been completing the reconciliations and the CFO has been reviewing them on a timely basis. Recently, NBRC's Operations Fiscal Assistant has been trained to prepare the reconciliations and they will be reviewed by the Accounting Services Manager. The Bank and UFS reconciliations are now compliant; we are in the process of addressing the UFS and Client Trust reconciliation (please see the next finding).

Finding 9: Uniform Fiscal System (UFS) Reconciliations (Repeat).

> The review of UFS reconciliations revealed that NBRC does not properly complete the monthly UFS reconciliations which reconcile the Client Trust Status Listing (CTSL) balance to the General Ledger cash account balance. Reconciling items identified in this area are not researched and addressed by NBRC prior to the reconciliation of the General Ledger cash account balance to the bank statement balance. This is an important part of the reconciliation process which ensures that the differences between the cash per bank and NBRC's records are quickly identified. As a result, the cash per bank does not reconcile to the balance per the CTSL. This issue was identified in the prior audit. ...

Response: NBRC performs the General Ledger cash account to the bank statement balance on the first day of each month for the previous month's activity. CLSL UFS reconciliations and month-end reports are generated prior to the end of the month due to Trust processing time-lines. The procedure to reconcile the rust month-end to the General Ledger cash account are as follows: When the Trust Journal Entry transactions occur after the UFS Trust reconciliation/month-end reports are run and they are dated before the end of the current month, the Journal Entries are documented on the UFS Trust reconciliation and are attached to copies of the final General Ledger month-end reconciliations. NBRC pays SSI/SSA trust benefits to consumers in advance, on the 1st, 3rd, and 8th of each month. The cash receipt process of SSI benefits and the processing of payments for consumers living independently must begin on the first of each month. The checks are processed and in the mail on the 1st and 3rd of each month to meet consumer rent deadlines and to provide money for food and daily living needs. On the 1st of each month, the cash receipt process, downloading the ACH direct deposit file, begins at 6:30a.m. (When the 1st falls on a weekend, the SSI/SSA benefits are received on the Friday preceding the first of the month). In order to meet this 1st of the month cash receipt processing, recurring receivables must be generated before the end of the previous month and Trust month end reports must be generated prior to the generation of the new month's recurring receivables. This advance pay processing caused the time difference between the Bank end date and the Trust month end dates.

Finding 10: Services Claimed for a Deceased Consumer

> The review of the decease consumer files revealed that NBRC paid a full month of Supported Living Services to Bayberry, vendor number P20287, totaling $3,965.63 for a consumer who died on August 7, 2003. The amount should have been prorated to reflect the actual days of service provided prior to the date of death. As a result, Bayberry was overpaid $3,070.19 for services that were not provided. ...

Response: After the consumer's death, the SLS vendor provided ongoing services needed for the consumer; cleaning the apartment, coordination the distribution of estate belongings and making funeral arrangements. NBRC approved payment for the month of August 2003, for services rendered that were necessary in taking care of the consumer's final affairs.

Finding 11: Vendor Training Income Not Offset to State Claims

> The review of NBRC's General Ledger accounts revealed an account which was used to record enrollment fees collected from attendees for vendor training sessions conducted by NBRC staff using State resources. This income was not offset against previously claimed operational expenses. It was noted by NBRC that this is a non-claimable account and the income generated is not considered State income. However, since the training sessions were conducted by NBRC staff using State resources these funds should have been used to offset the State claims. As of June 2006, this account had a total balance of $12,028.15 ...

Response: NBRC has reduced the State claim by $12,028.15 for the income generated from the training sessions. NBRC has now instituted the procedure of offsetting all funds collected from training sessions to the State claim as other income. Other Income – Trainings (G/L 01-00-0-20040).

Finding 12: Missing Hold Harmless Clause

> The review of NBRC's facility lease agreement with CW Roland/I.B. Miller for the Santa Rosa office did not include a "Hold Harmless Clause" as required by the State contract. ...

Response: NBRC has attempted to secure a "Hold Harmless Clause" in the current lease for the Santa Rosa office, but the building was recently sold before this could be completed. NBRC has requested the same from the new owners and has modified their requested "Certificate of Estoppels" to contain said language. At this writing, the issue has not been resolved. NBRC is curious if there was a requirement for a "Hold Harmless Clause" in the State contract in 1981, some 26 years ago, which was the year the lease was initiated. If not, then this lease should be "grandfathered" into compliance.

Finding 13: Lack of Signatory Authority

> The review of bank signature cards found that NBRC's bank accounts lacked the required DDS signatory authority. ...

Response: NBRC has addressed and corrected this finding.

Finding 14: Medi-Cal Provider Agreement Forms

> The review of 107 vendor files for the Day, Transportation and Residential programs revealed 33 files were mission or had an incomplete Medi-Cal Provider Agreement form. ...

Response: NBRC has addressed and corrected this finding.

Sincerely,

Bob Hamilton
Chief Financial Officer
North Bay Regional Center

cc: Doug Cleveland, Interim Executive Director,
NBRC Board of Directors