REPORT BY THE

AUDITOR GENERAL

OF CALIFORNIA

A REVIEW OF ADMINISTRATIVE COSTS AT TWO CENTERS FOR THE DEVELOPMENTALLY DISABLED

P-377

JUNE 1984

REPORT BY THE

OFFICE OF THE AUDITOR GENERAL

TO THE

JOINT LEGISLATIVE AUDIT COMMITTEE

P-377

A REVIEW OF ADMINISTRATIVE COSTS AT TWO CENTERS FOR THE DEVELOPMENTALLY DISABLED

JUNE 1984

Telephone:
(916) 445-0255

Thomas W. Hayes
Auditor General

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CALIFORNIA 95814

June 28, 1984

P-377

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the increase in administrative costs at the Harbor Regional Center and the San Diego Regional Center. Costs for administering these two regional centers have risen more slowly than costs for providing client services.

Respectfully submitted,

THOMAS W. HAYES
Auditor General

TABLE OF CONTENTS

SUMMARY

Our review of two regional centers that provide services to the developmentally disabled shows that the administrative costs for these two regional centers rose at a slower rate than the regional centers' costs for providing services to clients from fiscal years 1980-81 through 1982-83. We also found that these two regional centers spent a total of $132,639 through February 1984 on legal defense against a lawsuit brought by the Association of Retarded Citizens.

Harbor Regional Center

From fiscal year 1980-81 through fiscal year 1982-83, the Harbor Regional Center's total expenditures rose by $2.7 million, from $7.6 million to $10.3 million. While the regional center's expenditures for administration rose $0.2 million (15 percent), its expenditures for providing client services rose $2.5 million (41 percent).

The increase in administrative costs was caused primarily by higher rent and higher costs for administrative staff. The increased cost of client services reflects increases in the number and cost of regional center staff who provide services directly to clients, increases in the cost of services purchased for clients from outside sources, and increases in the number of clients.

San Diego Regional Center

The San Diego Regional Center's total costs rose from $11.2 million to $15.5 million between fiscal year 1980-81 and fiscal year 1982-83, an increase of $4.3 million. The San Diego Regional Center's costs for administration rose $0.4 million (27 percent), while the cost of client services rose $3.9 million (40 percent).

Administrative costs increased primarily because of increased costs for rent, administrative staff, and telephones and other general expenses. Client services costs rose because of increases in the number and cost of regional center staff who provide services directly to clients, increases in the cost of purchased services, and increases in the number of clients.

Legal Expenses

The Department of Developmental Services (department) provides services to the developmentally disabled through a system of 21 regional centers. During fiscal year 1982-83, the State spent $209 million to provide services to developmentally disabled clients. Until fiscal year 1981-82, regional centers overspent their budgets and received budget augmentations to cover their projected deficits. When the State faced fiscal problems in fiscal year 1982-83, the department, in accordance with the 1982 Budget Act, directed the regional centers to stay within their budgets and directed the regional centers to set priorities to limit services. In response to the department's direction, the Harbor Regional Center and the San Diego Regional Center cut lower priority client services and placed new clients on waiting lists.

As a result of the actions taken by the department and the two regional centers, the Association of Retarded Citizens sued the department and the two regional centers in two separate legal actions to prevent the reduction of services to the developmentally disabled. As of February 1984, the two regional centers had spent a total of $132,639 in defense against this suit.

INTRODUCTION

The Lanterman Developmental Disabilities Services Act authorizes the Department of Developmental Services (department) to provide services to persons with developmental disabilities through contracts with a system of 21 independent, nonprofit regional centers throughout the State.

The Lanterman Act includes as developmental disabilities mental retardation and other handicapping conditions that are found to be closely related to mental retardation or to require treatment similar to that required for mentally retarded individuals but does not include other handicapping conditions that are solely physical in nature. Under this definition, persons with cerebral palsy, epilepsy, and certain other neurological handicapping conditions are classified as developmentally disabled. These persons are eligible to receive services if the disability originated before the person was 18 years old, if the condition is expected to continue indefinitely, and if the disability constitutes a substantial handicap.

The department is responsible for establishing policies and procedures to implement legislative mandates, monitoring regional centers to ensure that they comply with legislative mandates and state contract provisions, and evaluating the overall effectiveness of the system of regional centers. This report focuses on the cost of operating the Harbor Regional Center in Torrance and the San Diego Regional Center.

The department contracts with each regional center to provide services in the community to the developmentally disabled and their families. A regional center is a private, nonprofit entity that is responsible for assessing and diagnosing clients' disabilities, managing clients' cases, planning and evaluating services for clients, and purchasing appropriate services from outside sources. Purchased services include residential care, transportation, day programs, and medical care. Each regional center has a governing board of directors that reflects the geographic and ethnic characteristics of the area the center serves; the board works with the management of the regional center to serve the developmentally disabled clients.

While the Lanterman Act specifies the responsibilities that the regional centers must fulfill, it also permits regional centers to contract some aspects of a client's case management to the Continuing Care Service Branch (CCSB) of the department. However, the department has allowed regional centers to assume responsibility for case management if they choose to. When regional centers assume this responsibility, the regional centers hire some or all of the CCSB employees. The Harbor Regional Center assumed case management responsibility in April 1981, the San Diego Regional Center in November 1981.

The department's Regional Center Fiscal Manual segregates the costs of each regional center into client services costs and administrative costs. The cost of providing client services includes the salaries and benefits of counselors and specialists as well as the cost

of outside services purchased for clients. Administrative costs are expenses that cannot be readily charged to client services. These expenses include salaries and benefits of the administrative staff that cannot be charged specifically to client services and general operating expenses such as those for rent, office supplies, and telephones.

Funding

The department's contracts with each regional center define in broad terms how the funds will be spent. The Legislature appropriates monies from the State's General Fund to the regional centers through the department. The level of funding is based on the projected number of clients that the centers will serve and the services that these clients will require during the year.

Until fiscal year 1982-83, the demand for services at the regional centers usually exceeded the funding available. The regional centers routinely spent their budgeted allocations before the end of the fiscal year, and then requested additional funds so that they could continue providing services. The department and the Legislature accommodated this spending pattern by routinely requesting and approving additional funding for amended contracts for continued services.

In 1982, however, the State experienced severe budget deficits. In October 1982, after the Legislature cut regional center budgets by $4.7 million, the department, in accordance with the 1982 Budget Act,

issued a list of service priorities to the regional centers to limit spending. The Harbor Regional Center and the San Diego Regional Center followed the department's direction by cutting lower priority services and placing new clients on waiting lists. As a result, the Association of Retarded Citizens (ARC) sued the department, the Harbor Regional Center, and the San Diego Regional Center in two separate legal actions to prevent the planned reductions in client services. The ARC contracts directly with regional centers to provide services such as adult day care and work activity to regional center clients. The ARC also acts as an advocacy group comprising parents, concerned citizens, and professionals who provide services to developmentally disabled clients. The ARC obtained a preliminary injunction against the department, but the department appealed the decision to a higher court and won a reversal of the lower court's decision. As of the date of this report, the ARC was still pursuing court action against both regional centers.

SCOPE AND METHODOLOGY

The Legislature asked us to determine the proportion of funds spent by the Harbor Regional Center and the San Diego Regional Center for administrative costs and to compare the increase in administrative costs to the increase in funds spent to provide services to their clients. The Legislature also asked us to determine how much money these two centers spent in defending a lawsuit brought by the Association of Retarded Citizens.

To develop this information, we analyzed the two regional centers' expenditures for fiscal year 1980-81 through fiscal year 1982-83. We reviewed contracts and accounting records both at the Department of Developmental Services and at the two regional centers. We also reviewed records at the Children's Hospital and Health Center, which operated the San Diego Regional Center before July 1, 1982. We also interviewed officials at the department and at the two regional centers.

We present the increases in the cost of client services only for comparison with the increases in the cost of administering the two regional centers. We did not analyze the increases in the cost of client services. We also did not compare the cost of administration at the Harbor Regional Center with the cost of administration at the San Diego Regional Center. These issues are beyond the scope of this review.

We used the department's statistics to evaluate relative changes in the number of clients because the department allocates funds based on its statistics. To focus on significant changes in administrative costs, we discuss in this report only the changes in administrative costs that exceeded one percent of the regional centers' total administrative cost of the year we were comparing. On completion of our review, we discussed the results of our analysis with the Executive Director of the Harbor Regional Center and with the Administrator of the San Diego Regional Center.

ANALYSIS

COSTS FOR ADMINISTERING THE HARBOR REGIONAL CENTER AND THE SAN DIEGO REGIONAL CENTER HAVE RISEN MORE SLOWLY THAN COSTS FOR PROVIDING CLIENT SERVICES

From fiscal year 1980-81 through fiscal year 1982-83, administrative costs at the Harbor Regional Center and the San Diego Regional Center rose at a slower rate than the costs for providing services to the regional centers' developmentally disabled clients. During this period, administrative costs at the Harbor Regional Center rose 15 percent while client services costs rose 41 percent at the San Diego Regional Center, administrative costs increased 27 percent and client services costs increased 40 percent. Administrative costs rose primarily because of increases in rent and the cost of administrative staff. Two factors account for most of the increase in the cost of client services: increases in the cost of regional center staff who provide diagnostic, case management, and counseling services to their clients; and increases in the cost of services purchased from outside sources. In addition, through February 1984, the two centers spent a total of $132,639 in defending a suit brought by the Association of Retarded Citizens.

Comparison of Administrative
Costs and Client Services Costs

Administrative costs rose more slowly than client services costs at the Harbor Regional Center and the San Diego Regional Center. Table 1 below summarizes the increases in these costs from fiscal year 1980-81 to fiscal year 1982-83.

TABLE 1

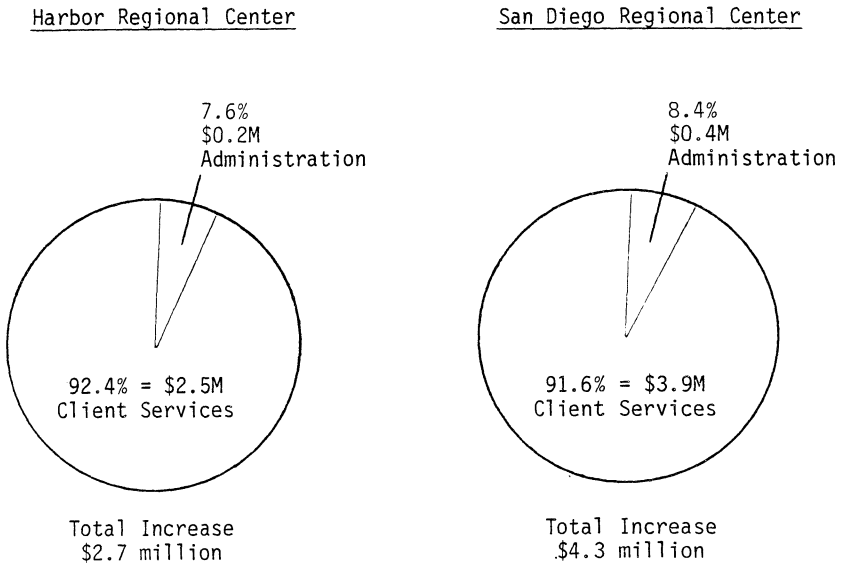
HARBOR AND SAN DIEGO REGIONAL CENTERS
SUMMARY OF INCREASES IN COSTS
FISCAL YEARS 1980-81 THROUGH 1982-83

	Change From 1980-81 to 1982-83	Percent of Change
Harbor Regional Center		
Administrative costs	$ 208,353	15%
Client services costs	$2,528,417	41%
San Diego Regional Center		
Administrative costs	$ 360,726	27%
Client services costs	$3,936,436	40%

Exhibit 1 on the next page shows the relative increases in administrative costs and client services costs for both of the regional centers.

EXHIBIT 1

PROPORTIONATE INCREASES IN CLIENT SERVICES COSTS VS. ADMINISTRATIVE COSTS FISCAL YEARS 1980-81 THROUGH 1982-83



The increase in administrative costs at both centers reflects primarily the costs of larger facilities. The cost of rent and telephone service increased because both centers relocated and expanded to serve growing client caseloads. In addition, during the period of our review, both centers acquired additional staff to manage client cases that the Continuing Care Service Branch of the Department of Developmental Services had previously managed. Both regional centers also incurred expenses for legal services in conjunction with a lawsuit brought against the two centers by the Association of Retarded Citizens.

Costs at the
Harbor Regional Center

The total cost of operating the Harbor Regional Center increased from $7.6 million in fiscal year 1980-81 to $10.3 million in fiscal year 1982-83. This $2.7 million increase consisted of a $208,353 (15 percent) increase in administrative costs and a $2.5 million (41 percent) increase in client services costs. Table 2 below shows the expenditures and clients served at the Harbor Regional Center during the past three fiscal years.

TABLE 2

HARBOR REGIONAL CENTER
EXPENDITURES AND CLIENTS SERVED
FISCAL YEARS 1980-81 THROUGH 1982-83

	Fiscal Year 1980-81	Fiscal Year 1981-82	Fiscal Year 1982-83
Administrative Costs			
Staff	$ 712,791	$ 818,310	$ 752,059
General operating expenses	663,238	932,240	832,323
Total Administrative Costs	1,376,029	1,750,550	1,584,382
Client Services Costs			
Staff	1,998,538	2,437,367	2,508,834
Purchase of services	4,204,700	5,725,192	6,222,821
Total Client Services Costs	6,203,238	8,162,559	8,731,655
Total Costs	$7,579,267	$9,913,109	$10,316,037
Clients Served	3,394	3,398	3,560

Table 3 summarizes the changes in administrative costs and client services costs at the Harbor Regional Center.

TABLE 3

HARBOR REGIONAL CENTER
CHANGES IN EXPENDITURES
FISCAL YEARS 1980-81 THROUGH 1982-83

	Change From 1980-81 to 1981-82	Change From 1981-82 to 1982-83	Total Change 1980-81 to 1982-83
Administrative Costs			
Staff	$ 105,519	$(66,251)	$ 39,268
General operating expenses	269,002	(99,917)	169,085
Change in Administrative Costs	374,521	(166,168)	208,353
Client Services Costs			
Staff	438,829	71,467	510,296
Purchase of services	1,520,492	497,629	2,018,121
Change in Client Services Costs	1,959,321	569,096	2,528,417
Change in Total Costs	$2,333,842	$402,928	$2,736,770

Administrative Costs at the Harbor Regional Center

Administrative costs at the Harbor Regional Center consist of expenditures for salaries and benefits of the administrative staff and expenditures for general operating expenses such as rent, utilities, supplies, and equipment. From fiscal year 1980-81 to fiscal year

1981-82, the costs for administrative staff at the Harbor Regional Center increased by $105,519. This increase was primarily attributable to a 6 percent cost-of-living allowance that the department granted to all regional center employees and a 3 percent salary increase for merit raises and promotions that the regional center granted. From fiscal year 1981-82 to fiscal year 1982-83, administrative staff costs decreased $66,251; this decrease resulted from the loss during the year of five administrative staff persons and reflected the regional center's response to legislative cuts made necessary by the State's fiscal problems in 1982. In total, from fiscal year 1980-81 to fiscal year 1982-83, the costs for administrative staff at the Harbor Regional Center increased by $39,268 (5.5 percent).

General operating expenses, the other major element of administrative costs, increased by $169,085 from fiscal year 1980-81 to fiscal year 1982-83; this increase was caused primarily by higher rent and telephone costs.

Our analysis shows that the Harbor Regional Center's rent increased by $348,486 from fiscal year 1980-81 to fiscal year 1981-82. In fiscal year 1981-82, the regional center's management and its board of directors decided to move the regional center's offices and consolidate its services in one facility rather than renew the existing leases of two separate facilities. We found that the cost per square foot to renew the existing leases would have been comparable to the cost per square foot at the regional center's newly acquired space at Del Amo Business Plaza in

Torrance. We also found that $10,938 of the increase in rent for fiscal year 1981-82 can be attributed to the regional center's moving into a larger facility: the Del Amo Business Plaza facility is 8,900 square feet larger than the regional center's previous facilities. The regional center's management acknowledges that 2,000 square feet in the new facility is currently excess space since the client caseload did not grow as much as anticipated. The rent increase of $348,486 also includes a $77,572 deposit of prepaid rent. However, this deposit will be returned to the regional center at the expiration of the lease, and it should not be regarded as a rental charge for fiscal year 1981-82. Additionally, we found that the increase in rent was partially offset by a decrease of $87,830 in general office and equipment expenses for fiscal year 1981-82.

The regional center's general operating expenses in fiscal year 1982-83 were $832,323, $99,917 less than the 1981-82 costs, but still $169,085 higher than the 1980-81 costs. The regional center's rent in fiscal year 1982-83 decreased by $40,575. Although the building lease provides for yearly increases in the cost of utilities and maintenance, rental costs showed a net decrease because the total did not include the prepaid rent expense of $77,572 that the regional center had paid in the previous year.

Telephone costs increased by $42,404 in fiscal year 1981-82. The regional center purchased a larger telephone system for its new offices at Del Amo Business Plaza. Installation charges were $22,943; the balance of $19,461 represents an increase in telephone service costs for the new location.

Finally, the Harbor Regional Center's administrative costs rose because of increased costs for legal services. Legal services costs increased by $14,402 in fiscal year 1981-82 and by $22,146 in fiscal year 1982-83. In 1981-82, the regional center spent $7,688 for legal services for labor negotiations. In 1982-83, it spent a total of $43,687: $34,342 for legal services for labor negotiations and an additional $9,345 to obtain legal services in defending the lawsuit brought by the Association of Retarded Citizens. Through February 1984, the Harbor Regional Center had spent $47,768 for legal defense in this suit.

Client Services Costs at the Harbor Regional Center

The cost of client services includes salaries and benefits for regional center staff as well as the cost of services purchased from outside sources. The regional center experienced cost increases in both categories from fiscal year 1980-81 to fiscal year 1982-83.

From fiscal year 1980-81 to fiscal year 1981-82, the regional center's salary costs increased by $438,829. The costs of salaries and benefits increased by another $71,467 in fiscal year 1982-83. When the regional center assumed case management responsibilities for its clients from the Continuing Care Services Branch of the department, the department authorized 14 positions in the regional center's budget. The regional center spent $159,203 for salaries and benefits of nine case managers who transferred from the department. In addition, it spent $84,045 for five persons hired to fill the remaining authorized but

vacant positions. As a result of this transfer of responsibility and funding, the cost of client services at the regional center increased. However, the total cost to provide case management services to these clients did not change. As discussed earlier, the department granted a 6 percent cost-of-living allowance to all regional center employees in fiscal year 1981-82, and the regional center granted its employees an estimated 3 percent increase in merit increases and promotions. These increases were partially offset by a 6 percent cut in all regional center salaries from March 15 through June 1982. The regional center's board of directors cut salaries to balance the budget after the department decreased the regional center's allocation. From fiscal year 1981-82 to fiscal year 1982-83, salaries and benefits for the staff providing client services increased by $71,467. The increase resulted from the regional center's transferring to client services funds made available by the loss of administrative staff.

Client services purchased from outside sources accounted for the major portion of the increases in the total cost of client services from fiscal year 1980-81 to fiscal year 1982-83. The cost of services purchased from outside sources increased by over $1.5 million from fiscal year 1980-81 to fiscal year 1981-82 and by nearly $500,000 from fiscal year 1981-82 to fiscal year 1982-83.

The increase in the cost of purchased services is attributed to increases in the cost of certain specialized services such as behavior modification and a general increase in the cost of purchased services for

all clients. The department establishes rates for vendors that provide services to regional center clients. For fiscal year 1981-82, the department granted 6 percent rate increases to vendors that provided out-of-home care, day programs, medical services, camp services, or respite care and transportation. The increase in costs also resulted from an increase in the number of clients served. In fiscal year 1982-83, the regional center provided services to 166 more clients than it served in fiscal year 1980-81.

Costs at the San Diego Regional Center

The increase in costs at the San Diego Regional Center followed a pattern similar to that of the cost increase at the Harbor Regional Center. While the San Diego Regional Center's total costs in fiscal year 1982-83 were $4.3 million more than the costs in fiscal year 1980-81, the regional center's administrative costs rose at a slower rate than the cost of services provided to its clients. Administrative costs rose $0.4 million (27 percent); the cost of client services increased $3.9 million (40 percent). Table 4 on the following page shows the expenditures and clients served at the San Diego Regional Center during the three fiscal years.

TABLE 4

SAN DIEGO REGIONAL CENTER
EXPENDITURES AND CLIENTS SERVED
FISCAL YEARS 1980-81 THROUGH 1982-83

	Fiscal Year 1980-81	Fiscal Year 1981-82	Fiscal Year 1982-83
Administrative Costs			
Staff	$ 437,090	$ 486,607	$ 562,369
General operating expenses	884,583	1,088,614	1,120,030
Total Administrative Costs	1,321,673	1,575,221	1,682,399
Client Services Costs			
Staff	2,342,280	3,192,391	3,573,762
Purchase of services	7,516,352	9,119,774	10,221,306
Total Client Services Costs	9,858,632	12,312,165	13,795,068
Total Costs	$11,180,305	$13,887,386	$15,477,467
Clients Served	4,247	4,911	5,135

Table 5 shows by fiscal year the changes in administrative costs and client services costs.

TABLE 5

SAN DIEGO REGIONAL CENTER
CHANGES IN EXPENDITURES
FISCAL YEARS 1980-81 THROUGH 1982-83

	Change From 1980-81 to 1981-82	Change From 1981-82 to 1982-83	Total Change 1980-81 to 1982-83
Administrative Costs			
Staff	$ 49,517	$ 75,762	$ 125,279
General operating expenses	204,031	31,416	235,447
Change in Administrative Costs	253,548	107,178	360,726
Client Services Costs			
Staff	850,111	381,371	1,231,482
Purchase of services	1,603,422	1,101,532	2,704,954
Change in Client Services Costs	2,453,533	1,482,903	3,936,436
Change in Total Costs	$2,707,081	$1,590,081	$4,297,162

Administrative Costs at the San Diego Regional Center

During the period covered by our review, administrative costs at the San Diego Regional Center rose from $1,321,673 in fiscal year 1980-81 to $1,682,399 in fiscal year 1982-83, an increase of $360,726. Approximately one-third of the increase in administrative costs

consisted of increased salaries and benefits for administrative staff ($125,279) and two-thirds of the increase consisted of increased general operating expenses ($235,447). Expenses for these items in fiscal year 1982-83 represented increases of 29 percent and 27 percent, respectively, over the expenses in fiscal year 1980-81.

Administrative staff costs increased $49,517 in fiscal year 1981-82 because the department granted a 6 percent cost-of-living allowance to all regional center staff, because the regional center granted a 3 percent increase for merit raises and promotions, and because the regional center hired a personnel manager in June 1982. In fiscal year 1982-83, administrative staff costs increased $75,762. The regional center hired two clerical staff persons who, with the personnel manager, provided support for services previously furnished by the Children's Hospital and Health Center.* In addition, the regional center incurred a 5 percent increase for employee medical benefits and a 3 percent increase because of merit raises and promotions.

From fiscal year 1980-81 through fiscal year 1982-83, the San Diego Regional Center also experienced an increase in general operating expenses. Rent expense increased by $120,225 from fiscal year

*The Children's Hospital and Health Center had operated the San Diego Regional Center through the end of fiscal year 1981-82. The new contracting entity, San Diego Imperial Counties Developmental Services, Inc., continued to employ many of the former regional center employees when it began operating the center on July 1, 1982.

1980-81 to fiscal year 1981-82. During this period, the Children's Hospital and Health Center increased its charges to the regional center by $63,800, and the landlord of another building rented by the regional center raised the rent by $14,000. In addition, the San Diego Regional Center assumed a sublease for $29,300 from the Department of Developmental Services to provide space for 24 case management staff that the regional center had acquired from the department.

In fiscal year 1982-83, the regional center's rent expense increased by $123,112. When the department changed contractors for the regional center, management at the regional center consolidated two separate offices and moved the regional center to the Daley Office Plaza in September 1982. Under the terms of the new lease, the regional center was entitled to free rent for 60 days. Thus, the regional center paid rent only from November 10, 1982, through June 30, 1983. The regional center's rent also increased because case management staff who transferred from the department occupied space at the regional center for a full year instead of eight months as in fiscal year 1981-82. Finally, the regional center's rent expense for fiscal year 1982-83 included a charge of $44,716 for fiscal year 1983-84 rent that the regional center had erroneously included in its claim for reimbursement; this charge was paid by the State for fiscal year 1982-83. The department's auditor told us that he will eliminate this payment from the regional center's allowable costs when he conducts his audit of the regional center for fiscal year 1982-83.

Other general operating expenses also increased by an estimated $14,990 during fiscal year 1981-82 because of the additional space subleased for the 24 additional case management staff. The regional center's operating expenses also increased because the regional center prepaid $15,472 for malpractice insurance for fiscal year 1982-83. Because of the increases in staff and the number of clients served, telephone costs increased by $32,786. Expenses for supplies and new equipment showed no change from fiscal year 1980-81 to fiscal year 1981-82.

In fiscal year 1982-83, the regional center's management cut administrative expenditures by $71,477 in order to pay for relocation expenses; these cuts in expenditures pertained to equipment ($18,226), public information ($17,895), and travel by staff ($35,356). Relocation expenses totaled $64,218. Of this total, $40,523 represents the first year's cost of a telephone equipment lease. The balance of $23,695 was for cabinetry and shelving, moving expenses, and a security system. Despite the relocation, telephone service costs actually decreased by $17,597 from fiscal year 1981-82 to fiscal year 1982-83.

Finally, from fiscal year 1981-82 to fiscal year 1982-83, the San Diego Regional Center incurred increased administrative expenses of $16,252 for legal services in defending the suit brought by the Association of Retarded Citizens. Through February 1984, the San Diego Regional Center had spent a total of $84,871 for legal services in defending the suit.

Client Services Costs at
the San Diego Regional Center

From fiscal year 1980-81 to fiscal year 1981-82, the San Diego Regional Center's costs for salaries and benefits of staff providing services to clients increased by $850,111 (36 percent). Of this total, an estimated $467,864 represents the cost of 24 case managers acquired from the Continuing Care Services Branch of the department in November 1981. As noted earlier, a result of this transfer of responsibility and funding was to increase the cost of client services at the regional center. However, the total cost to provide case management services to these clients did not change. In addition, the increase includes the department's 6 percent cost-of-living allowance. In fiscal year 1982-83, staff costs for client services rose by $381,371 (12 percent). The first full year of funding for the case managers who had been transferred to the regional center in the preceding fiscal year accounts for 60 percent of the total increase in staff costs in fiscal year 1982-83. The balance of the increase consists of merit raises and promotion costs, estimated at 3 percent of total salary costs.

From fiscal year 1980-81 through fiscal year 1982-83, the cost of services purchased from outside sources increased by $2.7 million, attributable to a general increase in the cost of providing services to all clients. During the three years covered by our review, the San Diego Regional Center served an additional 888 clients.

CONCLUSION

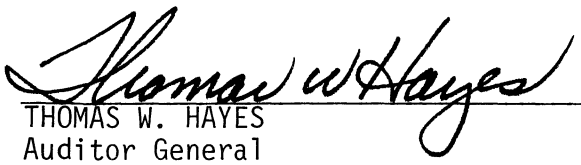
From fiscal year 1980-81 to fiscal year 1982-83, administrative costs at the Harbor Regional Center and the San Diego Regional Center increased at a slower rate than the cost of providing services to clients.

Administrative costs increased by 15 percent at the Harbor Regional Center and 27 percent at the San Diego Regional Center. Increases in rent and administrative staff costs account for most of these increases. Client services costs rose by 41 percent at the Harbor Regional Center and 40 percent at the San Diego Regional Center. Increases in salaries and benefits, size of the staff, costs for purchased services, and number of clients served accounted for the rise in client services costs.

As of February 1984, the Harbor Regional Center and the San Diego Regional Center spent a combined total of $132,639 in legal fees defending themselves against a lawsuit brought by the Association of Retarded Citizens. The Harbor Regional Center had spent $47,768, and the San Diego Regional Center $84,871.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

Date: June 25, 1984

Staff: Tom Britting, Audit Manager
Eileen Worthley, CPA
Frank Luera

GEORGE DEUKMEJIAN, *Governor*

STATE OF CALIFORNIA

HEALTH and WELFARE AGENCY
OFFICE OF THE SECRETARY
1600 NINTH STREET, ROOM 460
Sacramento, California 95814
(916) 445-6951

June 18, 1984

Thomas W. Hayes, Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Hayes:

Thank you for the opportunity to review and comment on the draft of your June, 1984, Report entitled "A Review of Administrative Costs at Two Centers for the Developmentally Disabled".

Representatives of our respective agencies met on June 14, 1984, to review the draft. As agreed at that meeting, the report will be modified to reflect the Department of Developmental Services staff recommendations which are technical in nature. The report is a fair and accurate representation of the facts as they apply to the costs of administering Harbor Regional Center and San Diego Regional Center during fiscal years 1980-81, 1981-82 and 1982-83. The enclosed description of the regional centers allocation methodology is offered to provide additional information that might help clarify some of the points made in the report.

Sincerely,

John Rodriguez
for
DAVID B. SWOAP
Secretary

Enclosure

Health and Welfare Agency

Comments on Auditor General Report

"A Review of Administrative Costs at Two Centers for the Developmentally Disabled"

June, 1984

Personal Services Allocation:

One factor that has not been addressed in the report, but which is significant in understanding the administration of a regional center and the related costs, is the method employed by the Department in allocating funds to regional centers for personal services expenditures. An accurate analysis of the facts presented in this report can only be done within the context of this allocation method.

A standard formula is used by the Department in allocating funds for staff costs. This formula includes three major components:

1. Core Staffing Model:

   The same personnel classifications are used for allocation purposes for all regional centers irrespective of the actual classification used by the individual center. These classifications are based on equivalent state personnel classifications. The model was developed, based upon the general staffing patterns used by regional centers.

2. Salary Level:

   The salary level used for allocation purposes is the mid salary range of the equivalent state positions irrespective of salaries paid by regional centers.

3. Staffing Standards:

   The number of positions are allocated to centers on the basis of the number of clients served. However, there are several positions that are standard for all centers and are not based on caseload. These include such positions as Director, Administrator, Chief Counselor, Program Evaluator, Client Rights Advocate and Fiscal Manager.

Regional centers are allocated personal service funds on the basis of the above three factors. Centers then have the authority to adjust their own staffing and salary configurations but only within the total

amount of funds allocated for this purpose. Within this framework, centers can increase or decrease expenditures for the specific groupings of staff referred to in the report as "administrative staff" and "client services staff". This can be accomplished by holding positions vacant in one group or by reducing salaries of one group and then shifting the savings to the other group. However, overall increases in costs for all personal services can only be attributed to cost-of-living increases granted in the Budget Act or increase in the number of cases to be served. The only exception would be in the area of fringe benefits which are allocated on the basis of actual costs up to a maximum established by the Department.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps