California State Auditor

January 2015

California Department of Developmental Services

Its Process for Assessing Fees Paid by Parents of Children Living in Residential Facilities Is Woefully Inefficient and Inconsistent

Report 2014-118

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January 13, 2015 2014-118

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor presents this audit report concerning administration of the Parental Fee Program by the California Department of Developmental Services (Developmental Services). The Parental Fee Program assesses a fee to parents of children under the age of 18 who receive 24-hour out-of-home care.

This report concludes that the process Developmental Services uses to assess parental fees is riddled with unnecessary delays, lack of documentation, incorrect calculations, and inconsistent staff interpretations. For instance, because Developmental Services does not hold regional centers accountable for providing required reports of children newly placed in out-of-home care, months or even years pass before Developmental Services becomes aware of the need to assess fees on certain families, causing a significant loss in unbilled parental fees. Applying the results of our analysis of a selection of accounts to the roughly 250 assessments Developmental Services performs each year, we estimate the annual amount of unbilled fees ranges from $740,000 to $1.1 million.

Further, Developmental Services could not provide documentation to support over 40 percent of the fee assessments we reviewed and incorrectly calculated many others. In fact, we found instances in which Developmental Services incorrectly assessed fees by hundreds of dollars per month due to various staff errors. We also noted that staff required documentation of certain expenses from some families but not from others. We observed similar errors, lack of documentation, and inconsistent staff interpretations with the process Developmental Services uses to review parents' appeals of fees. Because Developmental Services' appeals process considers additional expenses and deductions that are not taken into account in the initial fee assessment process, 95 percent of all appeals result in a fee reduction.

As a result of staff error and inconsistent interpretations and processes, parents with similar financial circumstances may be assessed different levels of fees. The program failures described here, and the fact that Developmental Services collects only about 60 percent of assessed fees, exemplify the department's ineffectiveness in operating the Parental Fee Program. The root cause of these program deficiencies appears to be a lack of management oversight and policy development.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

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Summary

Results in Brief

The California Department of Developmental Services (Developmental Services) is responsible for administering the Parental Fee Program, which assesses a fee to parents of children under the age of 18 who receive 24‑hour out‑of‑home care. Developmental Services assesses parental fees based upon a fee schedule that takes into account adjusted gross income, family size, and the age of the child in placement. Although Developmental Services includes a requirement to submit documentation for all income and expenses in its initial letter to parents, parents do not always provide this information, and the department often does not enforce this requirement. In addition, the process used by Developmental Services to assess the parental fee is riddled with unnecessary delays, lack of documentation, incorrect calculations, and inconsistent staff interpretations. As a result, parents with similar financial circumstances may be assessed substantially different levels of fees.

Although the regional centers are responsible for submitting to Developmental Services monthly reports of children who are newly placed in out‑of‑home care, they generally do not fulfill this requirement, and Developmental Services does not hold them accountable for doing so, causing inefficiencies in the process. Consequently, months or years may pass before Developmental Services becomes aware of the need to assess fees on certain families, and the possibility exists that some families are never identified and therefore are not assessed a fee, causing a significant loss of funds to the program in unbilled parental fees. In addition to late assessments, Developmental Services did not annually reassess, as required by state regulations, most of the parental fee accounts we reviewed.

Parents can appeal initial or subsequent fee assessments. Developmental Services reduced 95 percent of appealed fee assessments from fiscal years 2011–12 through 2013–14, the three years we reviewed, providing further evidence that the department's initial fee assessments are not adequate or comprehensive. Additionally, Developmental Services does not adequately describe its appeals process to all parents. In particular, Developmental Services does not clearly describe what it considers a financial hardship—financial circumstances that parents can cite during an appeal to obtain lower fees. Consequently, some families may not be aware of the types of expenses that can be considered in an appeal.

Audit Highlights . . .

Our audit of the California Department of Developmental Services' (Developmental Services) Parental Fee Program highlighted the following:

- *Its parental fee assessment process is riddled with unnecessary delays, lack of documentation, incorrect calculations, and inconsistent staff interpretations.*
  - *Developmental Services does not ensure parents provide documentation for all income and expenses.*
  - *Months or years may pass before Developmental Services becomes aware of the need to assess fees on certain families because regional centers do not submit required monthly reports.*
  - *Although required to do so, Developmental Services did not annually reassess most of the parental fee accounts we reviewed.*
- *Developmental Services' initial fee assessments are inadequate—95 percent of appealed fee assessments from fiscal years 2011–12 through 2013–14 were reduced.*
- *Developmental Services staff do not use any sort of standardized fee schedule to guide the subsequent reassessment of the fee—the reassessment is based on the judgment of a four-member committee.*
- *Developmental Services collects only about 60 percent of assessed fees.*

Although Developmental Services has established deadlines for the receipt of appeals and related documentation, it does not enforce these deadlines. Moreover, after appeal information has been gathered, including family expenses, department staff do not use any sort of standardized fee schedule to guide the subsequent reassessment of the fee. Rather, the reassessment is based on the judgment of a four-member committee, which considers, among other factors, the family's ability to reduce expenses. The end result is that families who are better at advocating for themselves, including being willing to challenge Developmental Services' determinations, will likely have lower fees than those who do not possess these attributes and skills.

The program failures described here, and the fact that Developmental Services collects only about 60 percent of assessed fees, exemplify the department's ineffectiveness in operating the Parental Fee Program. Core to this ineffectiveness is the fact that the unit responsible for overseeing this program has not updated its policies and procedures manual in more than 15 years, and that initial fee determinations and fees adjusted upon appeal receive no management review. Failure to engage in these basic management functions has created widespread errors and inconsistencies in fee determinations and has led to the perception—and the objective reality—that Developmental Services treats some families unfairly in the assessment of fees.

Recommendations

To ensure timelier fee assessments, Developmental Services should hold regional centers accountable for providing the monthly placement reports and copies of information letters required by state regulations. To encourage compliance, Developmental Services should specify in its regional center contracts that noncompliant regional centers will pay financial penalties equal to the amount of revenue lost because of their inaction.

To make the initial parental fee assessment and annual redetermination process more efficient, consistent, and transparent, Developmental Services should determine, as part of a formal policy development process, what family expenses it will consider in its determination of parental fees and what components of the fee determination require documentation from the parents. Developmental Services should then clearly communicate these policies to parents and staff and reinforce these policies with regular management review of fee assessments.

To ensure that the parental fee remains appropriate for each family's current financial condition, Developmental Services should complete annual redeterminations as specified in state regulations. To this end, department management should create a mechanism to determine which accounts have not had a redetermination as required and should follow up with staff to ensure this work is completed.

Developmental Services should eliminate inconsistency between the information it accepts and analyzes as part of the initial fee determination and the information it reviews as part of the appeals process. The fees reassessed during the appeals process should be based on an established fee schedule and should not be based solely on staff judgment. Any exceptions to the fee schedule should be justified in writing and approved by the program manager after thorough review.

To improve its administration of the Parental Fee Program, Developmental Services should engage in a formal policy development process that results in an updated policies and procedures manual by July 2015. The manual should clarify management expectations, describe regular management oversight, and include summary-level performance indicators that must be shared with department officials on an ongoing basis.

Agency Response

Developmental Services generally agrees with our findings and recommendations and outlined actions it plans to take to implement our recommendations.

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Introduction

Background

In the Lanterman Developmental Disabilities Services Act (Lanterman Act), originally enacted in 1969 and subsequently amended, the State accepted responsibility for providing services and support to people with developmental disabilities and created a network of regional centers to meet this responsibility. The Lanterman Act defines developmental disabilities as intellectual disability, cerebral palsy, epilepsy, autism, and other conditions that are closely related to or require treatment similar to that for intellectual disability. Californians with developmental disabilities may obtain community-based services via the State's network of 21 regional centers—private, nonprofit organizations receiving primary funding and oversight from the California Department of Developmental Services (Developmental Services). In addition to helping their clients obtain services from school districts, local governments, and other federal and state agencies, the regional centers purchase services such as transportation, health care, respite care, and residential care from a variety of private providers.[1] Together these services are meant to meet the unique needs and choices of each client, so that he or she may live as independently as possible and participate in the community in which he or she resides.

Some persons with developmental disabilities require 24-hour residential care. A state law originally enacted in 1978 requires that parents of children under the age of 18 receiving out-of-home care be assessed a fee based on their ability to pay. The Parental Fee Program, administered by Developmental Services, assesses and collects these fees and remits them to the state treasury for deposit into the Developmental Disabilities Program Development Fund (program development fund) to provide resources needed to initiate new programs, consistent with the priorities agreed upon by the State Council on Developmental Disabilities (State Council).[2]

At the end of fiscal year 2013–14, 549 children under the age of 18 were receiving 24-hour out-of-home care. The monthly cost incurred by the State for each child receiving 24-hour care depends on the services provided. For example, we identified instances in which the costs of care ranged from $4,980 to $23,787 per month.

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1 In the context of service provision, people with developmental disabilities are sometimes referred to as clients.

2 The State Council is made up of 31 members appointed by the governor and helps ensure that people with developmental disabilities receive the services and support they need.

Roles and Responsibilities Within the Parental Fee Program

The two major entities involved in the Parental Fee Program are Developmental Services, which oversees the administration of the program, and the 21 regional centers, which are responsible for overseeing client services. Developmental Services is responsible for establishing a parental fee schedule and for determining, assessing, and collecting the fees. The regional centers provide diagnosis and assessment of eligibility and help plan, coordinate, and monitor the services.

The amount of the fee is based on the parents' ability to pay, which is determined using the parental fee schedule. The fee each family is assessed ranges from $0 to $1,877 per month, depending on the age of the child, the size of the family, and the parents' income. State regulations require Developmental Services to redetermine each parental fee on an annual basis to ensure that any change in the parents' financial situation is documented and considered for the following year.

To determine the parental fee schedule, Developmental Services uses the U.S. Department of Agriculture's survey on the cost of raising a child and the Consumer Price Index. State law requires Developmental Services to annually review the fee schedule, adjust it as needed, and obtain approval for any revised schedule from the State Council before implementing it. Effective July 1, 2009, Developmental Services implemented an updated fee schedule as required by state law.[3] The updated fee schedule included a fee increase for any child placed in out-of-home care before July 1, 2009. Under state law, this fee increase was to be implemented in equal increments over the following three years (2009 through 2011). State law dictates that any fees collected that are greater than the amount that would have been assessed using the prior fee schedule are to be deposited into the program development fund and may be used by Developmental Services to offset the State's General Fund costs.[4] However, the chief of accounting stated that no program development funds have been used for General Fund offset. This is due to Developmental Services either fully allocating program development funds or leaving only a small allocation balance.

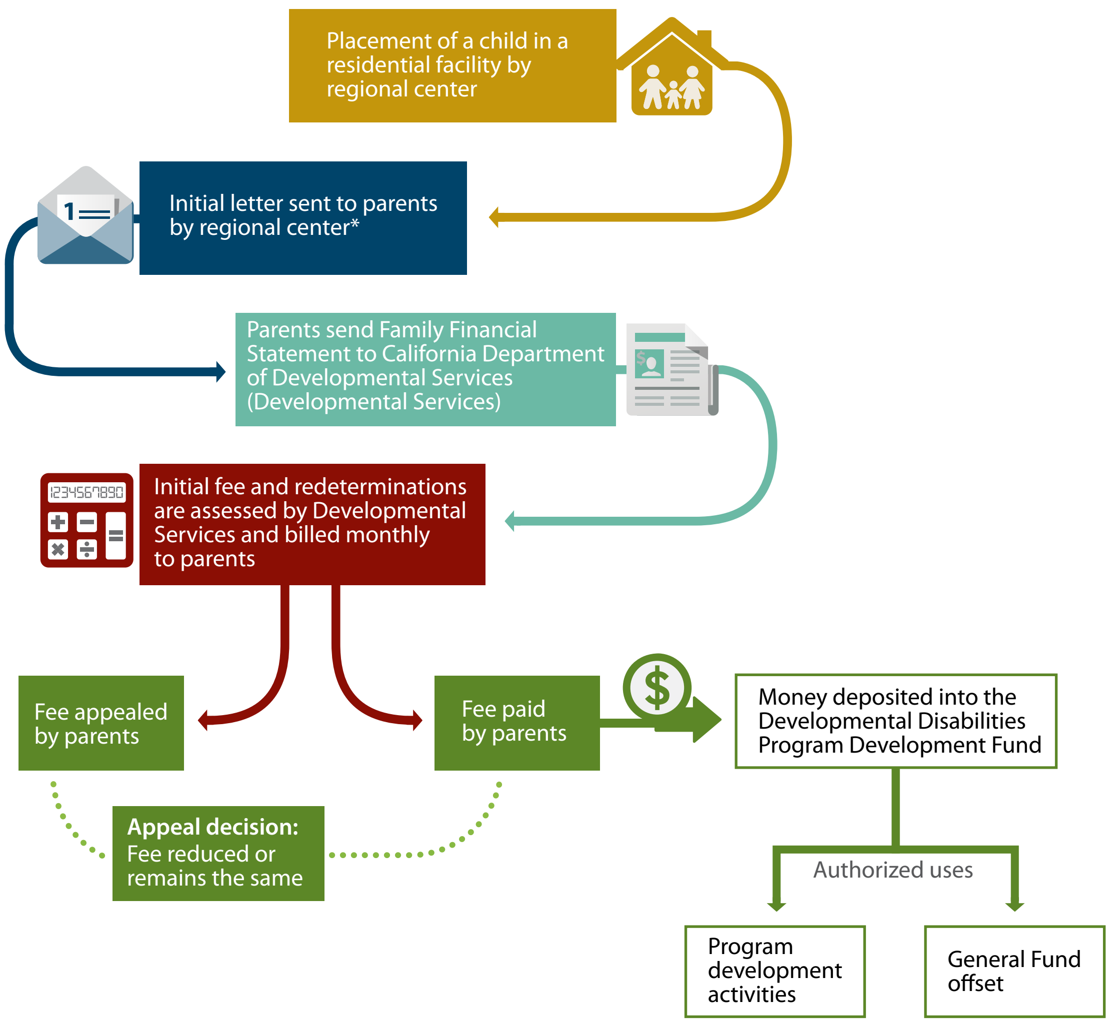
If the parent does not provide the information needed to assess a parental fee, state law requires that the fee be established at the maximum rate specified in the fee schedule not to exceed the

3 Under state law, the 2009 updated fee schedule did not require approval by the State Council.

4 Prior to this statutory change and continuing thereafter, Developmental Services received an annual appropriation from the program development fund to pay some of the costs to operate the Parental Fee Program.

regional center's cost of care. After the initial determination is made as to how much they are required to pay, parents have the option to file an appeal seeking a redetermination of the amount of the fee and their ability to pay. Developmental Services is responsible for considering all appeals of parental fees. Figure 1 outlines the major steps in the parental fee assessment process.

Figure 1
Major Components of the Parental Fee Program



Source: Auditor generated based on Developmental Services' documentation.

* In instances when Developmental Services identifies a child in placement without evidence of the initial letter or Family Financial Statement from the regional center, Developmental Services sends the initial letter and Family Financial Statement to the parents.

Developmental Services administers the Parental Fee Program using one program manager and seven staff, some of whom spend only a portion of their time on the program. Developmental Services provided us with information indicating that its fiscal year 2013–14 expenses associated with the Parental Fee Program totaled almost $500,000, the vast majority of which was salaries and benefits. Developmental Services pays a portion of these expenses from the program development fund. For example, the Budget Act of 2014 included an appropriation of $321,000 from the program development fund to reimburse the General Fund for some program costs.

Recent Concerns Voiced by Parents

In recent years parents have brought attention to the Parental Fee Program by voicing concerns over the fairness and consistency of parental fee assessments, as well as the appeals process and potential inconsistencies in recovering unpaid balances. An August 2013 newspaper article asserted that Developmental Services assessed parental fees that differed by hundreds of dollars per month for families that reported similar incomes. The article also raised concerns regarding a lack of formalized criteria for Developmental Services' process of reducing fees upon appeal. In addition, the article stated that the department is inconsistent and unfair in its approach to recovering unpaid balances, as demonstrated by the fact that since 2011, it had sued only five parents to recover unpaid balances, even though approximately 100 parents had not paid their fee over the course of a year. These and similar concerns gave rise to the request for this audit.

Scope and Methodology

The Joint Legislative Audit Committee (audit committee) directed the California State Auditor to review Developmental Services' Parental Fee Program. Table 1 outlines the audit committee's objectives and the methods we used to address those objectives.

Table 1
Audit Objectives and the Methods Used to Address Them

	AUDIT OBJECTIVE	METHOD
1	Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed and evaluated the laws, rules, and regulations significant to the audit objectives.
2	Determine the roles and responsibilities of the California Department of Developmental Services (Developmental Services) and any other entities involved in the Parental Fee Program, including roles in determining and assessing parental fees.	• Interviewed relevant personnel and reviewed supporting documentation to determine whether Developmental Services' roles and responsibilities were consistent with state law. • Examined the actions of the regional centers, which are responsible for initial parent notification and also for sending placement reports to Developmental Services.

	AUDIT OBJECTIVE	METHOD
3	Review Developmental Services' policies, procedures, and practices for calculating and assessing parental fees to ensure that they comply with all relevant laws, rules, and regulations.	• Obtained and reviewed policies and procedures and relevant documentation for calculating and assessing parental fees, and interviewed Developmental Services' personnel to identify department practices and management oversight processes. • Reviewed a random selection of 45 parental fee assessments (15 for each fiscal year from 2011–12 through 2013–14). Verified the accuracy of each assessment, including the family size, age of the child, and gross family income. Compared each assessment to the amount indicated in Developmental Services' parental fee schedule.
4	Evaluate whether the criteria used in calculating fees are clear, unambiguous, and consistent with existing laws, rules, and regulations.	• Obtained an understanding of Developmental Services' fee assessment process (as described in item 3 above). • Compared this process to relevant laws, rules, and regulations, as well as the information provided to parents being assessed a fee.
5	For the past three years, determine the amounts of parental fees assessed and collected. In addition, from a selection of program files for the past three years:	Obtained the documentation necessary to determine the amount of parental fees assessed and collected for the past two fiscal years. Documentation for fiscal year 2011–12 was not available.
	a. Identify the parental fees assessed and verify whether Developmental Services calculated the amounts consistent with its process for establishing these fees and with any relevant laws, rules, or regulations. Identify and determine the reasons for any inconsistencies.	• Reviewed a random selection of 45 parental fee assessments (as described in item 3 above). • Interviewed Developmental Services' personnel to determine the reasons for any inconsistencies in assessment amounts.
	b. Determine whether Developmental Services collected all delinquent parental fees and evaluate the process it uses to collect delinquent parental fees.	• Obtained Developmental Services' policy regarding collection of delinquent balances. • Determined the total number of cases with a delinquent status and selected 15 accounts for review to determine what measures were taken to collect balances.
6	Review and evaluate Developmental Services' policies, procedures, and practices regarding the Parental Fee Program appeals process and determine whether they are reasonable and comply with relevant laws, rules, and regulations. Further, evaluate its process for informing families of the appeals process and outcomes.	• Interviewed Developmental Services' personnel and reviewed policies and procedures for the appeals process to determine whether the appeals process is consistent with state law. • Obtained and reviewed relevant documents demonstrating how Developmental Services informs families of the appeals process and its outcomes.
7	For each of the past three fiscal years, identify the number of appeals related to the Parental Fee Program and, to the extent possible, the length of the process and the outcomes of the appeals. Review a selection of appeals filed in order to:	• Obtained and reviewed the appeals log to determine the number of appeals filed, granted, denied, and pending for fiscal years 2011–12 through 2013–14. • Verified the completeness of the appeals log.
	a. Determine whether Developmental Services conducted the appeals consistent with its process and with any relevant laws, rules, and regulations. Identify and determine the reasons for any inconsistencies.	Reviewed a judgmental selection of 30 appeal files (10 appeals for each fiscal year from 2011–12 through 2013–14). Determined whether the 30 appeal files were consistent and in compliance with state law. Interviewed Developmental Services' personnel to determine the reasons for any inconsistencies identified.
	b. Review and assess the length of the appeals and the outcomes. Identify the reasons for the outcomes.	Reviewed the appeals selected in item 7(a) and determined the length of each appeal and outcome. Interviewed Developmental Services' personnel to determine the reasons for any inconsistencies identified.
8	Review and assess any other issues that are significant to the audit.	Determined the revenue brought in by the Parental Fee Program and obtained information from Developmental Services on the cost to run the program.

Sources: California State Auditor's analysis of the Joint Legislative Audit Committee audit request number 2014-118, and analysis of information and documentation identified in the column titled *Method*.

Methods to Assess Data Reliability

In performing this audit, we relied on various electronic data files we obtained from Developmental Services. The U.S. Government Accountability Office, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. Table 2 shows the results of this analysis.

Table 2
Methods to Assess Data Reliability

INFORMATION SYSTEM	PURPOSE	METHOD AND RESULT	CONCLUSION
California Department of Developmental Services (Developmental Services) Cost Recovery System (CRS) Data from July 1, 2011, through June 30, 2014	To determine the number of clients that were in the Parental Fee Program in fiscal years 2011–12 through 2013–14 and to select client accounts for detailed review.	Our purpose did not require a full data reliability assessment. Instead we needed to gain assurance that the population was complete. • We performed data-set verification procedures and did not identify any errors. We also conducted electronic testing of key data elements and did not identify any significant issues. • To assess the completeness of the data, we haphazardly selected 29 accounts from the department's scan system and verified that the 29 accounts were located in CRS.	Complete for the purposes of this audit.
	To determine the total dollar amounts billed and received through the Parental Fee Program in fiscal years 2011–12 through 2013–14.	• We performed the data-set verification, electronic testing, and completeness procedures as mentioned above. • To determine the accuracy of the amounts billed and received through the Parental Fee Program, we randomly selected 29 accounts and attempted to confirm the amounts with supporting documentation. However, we found that Developmental Services did not have support for the amount billed for six accounts and also did not have support for the amount received for one account.	Not sufficiently reliable for the purposes of this audit. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our audit findings, conclusions, and recommendations.

Sources: California State Auditor's analysis of various documents, interviews, and data obtained from Developmental Services.

Audit Results

Parental Fee Assessments Are Not Timely

The California Department of Developmental Services (Developmental Services) fails to provide timely assessments of parental fees, resulting in lost revenue that could be used for services that maximize the opportunities and independence of people with developmental disabilities. According to state regulations, a regional center must provide parents with an information package on the Parental Fee Program within 10 days after the placement of a minor child in a 24-hour care facility. The information package contains a letter describing the program, a Family Financial Statement form, and a return envelope. Parents must complete and return the Family Financial Statement within 30 days; otherwise the parental fee is assessed at the maximum rate, which currently ranges from $1,770 to $1,877 per month, depending on the child's age. Regulations require regional centers to send placement reports and copies of all initial letters to Developmental Services by no later than the 20th day of the month following placement. According to regulations, liability for parental fees commences on the first of the month following a placement.

In our review of 45 family assessments, 15 each for fiscal years 2011–12 through 2013–14, we evaluated a total of 54 accounts because some family assessments consisted of separate accounts for parents who were divorced or separated. Of the 54 accounts reviewed, 37 had evidence of a placement date and the initial billing date. In these 37 instances, billing commenced an average of 11 months after it could have begun. These delays were due to regional centers not notifying Developmental Services of children who were placed in care, as well as internal delays, including misplaced documents within the department, failure to follow up on documents requested from parents, failure to complete the assessment upon receipt of requested documents, and reluctance to assess the maximum rate when parents did not return Family Financial Statements. For 21 accounts where billings were delayed and the fees assessed were less than the maximum rate, the delays we observed resulted in $79,000 in unbilled parental fees.[5] Applying these results to the roughly 250 initial assessments Developmental Services performs each year, we estimate that the annual amount of unbilled fees caused by assessment delays ranges from $740,000 to $1.1 million.

[5] This calculation uses Developmental Services' assessed rates, which, as we discuss later, were collectively lower than the rates we calculated after adjusting for various staff errors. To be conservative in our estimate, we excluded from this calculation rates assessed at the maximum.

In five of the 21 delayed billings we observed, the delays in assessments were caused, at least in part, by inaction within Developmental Services. Specifically, staff noted in the cost recovery system that Family Financial Statements were received from parents; however, two accounts were not assessed for about two months after the statements were received, and the other three accounts were not assessed for nearly a year. According to the headquarters operations manager (program manager), assessments are typically completed within a few days of receipt of adequate financial documentation; he could not provide an explanation for the delays we observed in these five instances. The program manager stated that Developmental Services considers many of these delays to be errors on the part of either the department or the regional centers, and therefore, in fairness to the parents, it does not commence billing until after the assessment is completed and the parents are notified of the assessed fee.

Developmental Services does not have an efficient system for identifying new child placements and ensuring that parents are promptly notified of the Parental Fee Program.

One reason for billing delays is that Developmental Services does not have an efficient system for identifying new child placements and ensuring that parents are promptly notified of the Parental Fee Program. Our review of entries in Developmental Services' cost-recovery system and subsequent file notes of communications with the parents indicated that, in 51 of the 54 accounts we reviewed, initial information letters were provided to parents at some point. However, we could not assess the timeliness of all these notifications to parents because both the placement date and the date of the information letter were available for only 23 accounts. For the 23 accounts where both dates were recorded, Developmental Services provided the information letter to parents an average of 12 months after the date of the placement. In three instances, children placed in a 24-hour residential care facility were not identified within the system for more than three years. The program manager acknowledged that, based on the large amount of missing documentation, as well as inefficiencies in identifying child placements, it is possible that the program has not identified children who have been placed in 24-hour residential care facilities, and therefore their parents have not been assessed a fee. For the remaining 31 accounts we reviewed, Developmental Services did not maintain sufficient information for either its staff or us to determine when initial information letters were sent to parents.

Although required to do so by regulations, regional centers frequently do not provide Developmental Services with monthly placement reports or copies of the initial letters. These regional center reports serve to notify Developmental Services of placement status changes, including children who are placed in residential care, leave residential care and return home, transfer to another facility, or are recently deceased. According to the program manager, only one or two of the 21 regional centers comply with the reporting requirement, and they do so inconsistently at best. Instead, to identify new placements, Developmental Services generates monthly reports from department databases. However, according to the office technician who generates and reviews these reports, some placements do not show up on the reports. Developmental Services has not determined the reason for these discrepancies. Additionally, he explained that there is no efficient way to identify placement status changes. Therefore, to identify new placements, the office technician reviews the reports manually, thus taking more time and increasing the risk of errors.

Because Developmental Services does not obtain copies of the initial information letters from the regional centers, it cannot be certain that parents have been notified of the Parental Fee Program. As a result, when it identifies a new placement, Developmental Services mails the initial information package to the parents. However, Developmental Services does not keep copies of these initial information letters. Consequently, neither we nor department staff and management can confirm exactly when parents were notified of the need to provide required information.

Neither we nor department staff and management can confirm exactly when parents were notified of the need to provide required information.

Regional centers' contracts require them to comply with state law and regulations and provide that if they do not, the State may pursue legal or other remedies for enforcement of specified obligations. According to the program manager, Developmental Services has not exercised these provisions to compel regional centers to provide required placement reports and initial information letters. When we asked why Developmental Services has not done so, the deputy director of administration said that Developmental Services is aware that not all regional centers comply with reporting requirements; however, the Parental Fee Program is very small in comparison to other programs they administer, and therefore it is not a top priority. The deputy director of administration added that Developmental Services sent out reminders to the regional centers of their responsibilities for compliance with the law in 2009 and 2010. Since that time, communications with regional centers have been limited to Developmental Services' staff working with regional center staff to address specific consumer questions and issues. She further explained that regional center compliance is addressed jointly by the deputy director of administration and the deputy director of community services. These deputy directors indicate that they have negotiated revisions to the regional center contracts to specifically include requirements of the Parental Fee Program and that they expect all 21 amended contracts to be executed by February 2015. They also revised the department's regional center audit procedures to examine compliance with these requirements. Although these two actions may help, Developmental Services should also negotiate in future contracts specific financial penalties for regional centers that continue to ignore regulatory provisions related to the Parental Fee Program. These penalties should be commensurate with the revenue forgone due to any delays caused by regional centers in assessing appropriate parental fees.

Missing Documentation, Inaccuracies, and Varying Staff Interpretations Led to Inconsistent Assessments of Parental Fees

Developmental Services does not consistently require parents to substantiate family expenses that qualify them to pay lower fees, nor does it consistently retain assessment information or correctly calculate fee assessments. Developmental Services assesses parental fees based upon the parental fee schedule, which takes into account adjusted gross income, family size, and the age of the child in placement. The Family Financial Statement form requests parents to disclose all income and qualified expenses, which staff consider in determining parents' ability to pay. Qualified expenses for the child specifically include medical expenses, health insurance premiums, clothing, incidentals, entertainment, transportation, major unusual expenses, and child support or alimony. Although regulations state that Developmental Services *may* request documentation of income and expenses claimed, Developmental Services' initial information letter to the parents is more specific in that it says Developmental Services *will* request documentation of expenses claimed. However, Developmental Services does not generally request documentation of expenses, and thus it may not detect expenses that are not valid. In fact, none of the 54 accounts we reviewed had documentation to support all income and expenses claimed. Some of these expenses were significant.

Developmental Services does not generally request documentation of expenses, and thus it may not detect expenses that are not valid—none of the 54 accounts we reviewed had documentation to support all income and expenses claimed.

For example, in one instance a parent claimed $26,564 in expenses, including $20,000 in child support payments, and Developmental Services included these expenses in its assessment without requesting any supporting documentation. Expenses of this amount can cause reductions in parental fees of up to $419 per month, depending on the child's age and the size of the family. Without Developmental Services' substantiation, parents could inflate expenses to reduce their monthly parental fees and avoid detection. The program manager agreed that there is a potential for parents to inflate the expenses they claim. The program manager stated that Developmental Services was in the process of creating a plan to address substantiation of expenses and that the plan will be completed and ready for implementation by July 2015.

In addition, Developmental Services is inconsistent in its calculations of parents' income and expenses. For 20 of the 49 accounts we reviewed to verify calculations of parental fees, Developmental Services was unable to provide documentation, such as the Family Financial Statements, to support its initial fee assessments. Therefore, for these 20 accounts we were unable to verify the appropriateness and accuracy of the fees assessed.[6] As shown in Table 3, for the remaining 29 accounts that we were able to review for accuracy of income and expenses, Developmental Services calculated 15 accounts incorrectly. Although in four instances the miscalculation did not affect the amount of the fee assessed, Developmental Services undercharged the parents associated with eight accounts by a combined annual total of $31,736, and it overcharged the parents associated with another three accounts by a combined annual total of $16,579. For the 14 accounts that Developmental Services billed correctly, eight accounts were billed at the maximum rate because the parents did not return required documents. None of the 54 accounts we reviewed had evidence of managerial review.

Table 3
Results of Our Review of Parental Fee Assessments

			ASSESSED CORRECTLY		ASSESSED INCORRECTLY	
FISCAL YEAR	NUMBER OF ACCOUNTS REVIEWED	DOCUMENTS NOT AVAILABLE TO SUPPORT CALCULATION	FAMILY FINANCIAL STATEMENTS AVAILABLE AND ASSESSED	NO FAMILY FINANCIAL STATEMENTS AND ASSESSED AT MAXIMUM RATE	INCORRECT ASSESSMENT WITH A DIFFERENCE IN FEE	INCORRECT ASSESSMENT WITH NO DIFFERENCE IN FEE
2011–12	16	6	1	2	6	1
2012–13	16	3	5	3	3	2
2013–14	17	11	0	3	2	1
Totals	**49***	**20**	**6**	**8**	**11**	**4**
Percentages		**40.8%**	**12.2%**	**16.3%**	**22.5%**	**8.2%**

Sources: California Department of Developmental Services' cost-recovery system database, Family Financial Statements, initial assessment worksheet, and supporting file documentation.

* Although we reviewed 54 accounts, we could only verify the calculations of 49 because five accounts relied heavily on federal tax documents to which we did not have access for purposes of this audit.

Even when substantiating documentation was available (pay stubs, income statements, and state tax documents), the staff member assessing the fee did not always use the most current and accurate documents and often simply made the calculations using the information provided on the Family Financial Statement, without reconciling it with supporting documents. For example, for one account we reviewed, the parent disclosed $75,000 in annual income on the Family Financial Statement and sent a copy of his most recent pay stub. Developmental Services used $75,000 in its parental fee assessment, without reviewing the most

[6] Although we reviewed 54 accounts, we could verify the calculations of only 49 because five accounts relied heavily on federal tax documents to which we did not have access for the purposes of this audit.

current supporting pay stub. The pay stub indicated year-to-date income of $85,899 over 10 months, which translates to $103,080 in estimated annual gross income. This miscalculation resulted in an underassessment of the fee of roughly $500 per month. For another account, the staff member similarly understated a family's gross annual income by almost $78,000 by not verifying pay stubs provided by the parents, resulting in a fee that was $576 per month less than it should have been.

In addition to miscalculations, staff interpretations of the documentation used for assessing parental fees varied and could be perceived as arbitrary.

In addition to miscalculations, staff interpretations of the documentation used for assessing parental fees varied and could be perceived as arbitrary. For example, a parent provided documentation to support expenses of child support and alimony totaling more than $62,000, while the ex-spouse claimed the child support and alimony were much less but provided no support for the claim. Rather than using the documents that clearly evidenced the claimed expenses or requesting evidence from the ex-spouse of the lesser amount claimed, the staff member reduced the amount allowed for these expenses based on the ex-spouse's unverified assertion. In another instance, a staff member assessing a parental fee added $1,457 in annual expenses that were not claimed by the parent on the Family Financial Statement and that were not supported by any documentation.

Furthermore, according to the program manager, transportation mileage should be compensated based on the Internal Revenue Service's medical mileage rate, which is modified annually. However, in the accounts we reviewed, numerous transportation claims were calculated using the business mileage rate, which is significantly higher than the medical mileage rate. Using the higher business mileage rate causes an increase in allowed expenses, which in turn reduces parental fees and revenue to the program.

The program manager acknowledged the shortcomings of Developmental Services' documentation policies and practices and stated that they are turning their attention to creating an efficient documentation system. He further acknowledged and concurred with the inaccuracy of the parental fee calculations we identified and believes a higher level of oversight is needed going forward. He told us he is planning a number of improvements, including document verification and management review, and a revised policies and procedures manual for staff to be completed by July 2015.

Developmental Services Does Not Adequately Inform Parents About What Qualifies as a Major Unusual Expense

Developmental Services does not clearly explain to parents what expenses would qualify for reduced parental fees. State regulations allow Developmental Services to consider qualified client-related expenditures and major unusual expenses in determining parental fees. To calculate parental fees, Developmental Services uses a measure of gross family income before any deductions, less qualified expenses as specifically listed on the Family Financial Statement. In determining what constitutes major unusual expenses, regulations require Developmental Services to include the following:

- Expenditures which consume a substantial portion of gross family income, and
- Expenditures over which parents have no control; examples listed are natural disaster, catastrophic uninsured casualty loss, death of an immediate family member, or extreme medical expenses.

Although the Family Financial Statement includes a category for major unusual expenses, it provides only the examples listed above of expenditures over which parents have no control. The statement fails to include any mention or examples of expenditures consuming a substantial portion of gross family income. Consequently, parents may not realize that they can specify those types of expenses when filling out their Family Financial Statements. As we discuss later, it is only when parents appeal a fee assessment that they may learn that more common types of expenses, such as credit card debt, mortgages, and car payments, can be considered and in fact are considered in the appeals process.

Only when parents appeal a fee assessment may they learn that more common types of expenses, such as credit card debt, mortgages, and car payments, are considered in the appeals process.

According to the program manager, Developmental Services has not defined what types of expenses should be considered major unusual expenses, and it does not believe that credit card debt, mortgages, or car payments are unusual. He further explained that while Developmental Services does consider these additional expenses in the appeals process, the department's initial assessment process does not interpret major unusual expenses as including substantial household expenses. In our view, omitting a category of expenses from the Family Financial Statement because Developmental Services has not adequately defined that category fosters unequal treatment, particularly when those types of expenses will, in fact, be considered if the family decides to appeal the initial fee determination. Under the current fee assessment process, the assessed fees would likely not be equitable for two families with similar financial circumstances if one family appeals the fee and the other does not.

Developmental Services Does Not Consistently Complete Annual Redeterminations of Parental Fees

Although required to do so by state regulations, Developmental Services does not consistently conduct annual redeterminations of fees. The redetermination process is similar to the initial assessment process, wherein Developmental Services sends parents a letter and a Family Financial Statement form that they must complete and return within 30 days or the fee will be assessed at the maximum rate. According to the program manager, it is Developmental Services' practice to conduct annual redeterminations for each child in placement during the birth month of that child. As shown in Table 4, of the 59 annual redetermination accounts reviewed for fiscal years 2011–12 through 2013–14, Developmental Services did not complete 36 redeterminations (61 percent) and only completed 10 redeterminations (17 percent). For the remaining 13 accounts, a redetermination was not applicable because the child aged out of the system, was in the first year of his or her placement, returned home, or was deceased. Of the 10 redeterminations Developmental Services completed, our review indicated that three were calculated correctly, three were calculated incorrectly, and the department could not provide supporting documentation for the remaining four redeterminations, so we were unable to verify their accuracy. Further, Developmental Services did not send the annual redetermination letter to the parents in 31 of 46 instances in which a redetermination was applicable.

Table 4
Results of Our Review of Annual Redeterminations

FISCAL YEAR	FILES REVIEWED	NUMBER OF ACCOUNTS REVIEWED*	REDETERMINATIONS COMPLETED	REDETERMINATIONS NOT COMPLETED	REDETERMINATIONS NOT APPLICABLE
2011–12	15	18	3	11	4
2012–13	15	21	4	14	3
2013–14	15	20	3	11	6
Totals	**45**	**59**	**10**	**36**	**13**

Sources: California State Auditor's analysis of information from the California Department of Developmental Services' cost-recovery system database, Family Financial Statements, initial assessment worksheets, and supporting file documentation.

* There may be multiple accounts per child, depending upon whether parent accounts are joint or separate.

Of the 36 redeterminations that were not completed, eight were the result of parents not returning the Family Financial Statement. Although Developmental Services' regulations and its annual redetermination letter to parents state that failure to return the Family Financial Statement will result in the parental fee being set at the maximum allowable rate, Developmental Services set the fee at the maximum rate for only one of the eight redeterminations for which parents did not return the Family Financial Statement.

According to the program manager, Developmental Services suspended annual redeterminations from late 2010 until mid-2012 as it implemented a graduated fee increase. However, the program manager could not provide us with a department policy communicating this suspension. In addition, our review indicated that some redeterminations were, in fact, completed during that time, and redeterminations were not completed for numerous accounts both before 2010 and after 2012. Specifically, for 50 of the 59 accounts we reviewed, Developmental Services did not complete an annual redetermination of fees in each year after the initial assessment.[7] For the remaining nine accounts, Developmental Services completed an annual redetermination each year for two accounts, and redeterminations were not applicable for the other seven accounts because the child returned home or aged out of the program within one year.

For 50 of the 59 accounts we reviewed, Developmental Services did not complete an annual redetermination of fees in each year after the initial assessment.

In response to these findings, the program manager acknowledged that annual redeterminations should have been completed each year, aside from the undocumented suspension period mentioned earlier, and if the Family Financial Statement was not returned within 30 days, the fee should have been assessed at the maximum rate. Further, the program manager stated that when redeterminations were not done, it was an error by Developmental Services. In the absence of annual redeterminations, parents may have paid fees that were either higher or lower than warranted due to annual changes in their respective income and expenses.

The Vast Majority of Appeals Filed Are Granted Due to the Difference in Income Used and Additional Expenses Considered in the Appeals Process

The frequency with which Developmental Services reduces its initial fee assessments upon appeal calls into question the initial process the department uses to establish parental fee levels. As shown in Table 5 on the following page, Developmental Services grants the vast majority of appeals filed by parents. The parental fee is reduced when an appeal is granted and remains the same when an appeal is denied. Using the data from fiscal years 2011–12 through 2013–14, we found that Developmental Services granted and thus reduced the parental fee for 120, or 95 percent, of the 126 appeals

7 This measure analyzes multiple years for each account we reviewed and differs from the analysis in Table 4, which focuses on whether redeterminations occurred in particular fiscal years.

that were not still pending. Of the 30 appeals we reviewed, 27 were granted, resulting in parental fees being reduced by a range of $38 to $1,007 per month, with an average reduction of $396.

Table 5
Total Number of Appeals Filed, Granted, Denied, and Pending

	APPEALS			
FISCAL YEAR	FILED	GRANTED	DENIED	PENDING
2011–12	44	43	1	0
2012–13	29	26	3	0
2013–14	64	51	2	11
Totals	**137**	**120**	**6**	**11**

Source: California Department of Developmental Services' Parental Fee Program appeals log.

As demonstrated by the high percentage of granted appeals, the information Developmental Services considers when determining the outcome of an appeal is likely to result in a fee that is lower than the initial assessment or redetermination. This is because the appeals process includes an analysis of the household financial condition using monthly net income, meaning take-home income after taxes and other deductions. Conversely, initial parental fee assessments and redeterminations are completed using the annual gross income, which is income before taxes and other deductions. Therefore, before expenses are even taken into account, the appeals process uses an income measure that is fundamentally different from the measure used in initial fee assessments and redeterminations. In addition, the appeals process takes into account monthly household expenses, such as mortgage or rent, utilities, credit card payments, car insurance, and food, along with any other reasonable monthly household expenses; whereas the process used for initial assessments and redeterminations does not take into account any of these expenses. Instead, the parental fee assessment used in initial assessments and redeterminations takes into account annual expenses primarily related to the client. As a result, as indicated in Table 6, parents who choose to appeal their parental fee will have their fee assessed based on a more comprehensive determination of their ability to pay.

Developmental Services considers additional information during the appeals process, rather than using the appeals process to review the information considered in the initial assessment or redetermination. According to the program manager, Developmental Services takes income deductions and additional expenses into account during the appeals process to give the department a more complete understanding of the parent's ability to pay. The program manager stated that the law does not specifically require Developmental Services to take taxes into account, and so it does not do so during the initial parental fee assessments and annual redeterminations. Similarly, the financial services branch manager stated that Developmental Services does not consider household expenses during initial assessments and redeterminations because the regulations do not specifically require it to take these expenses into account. However, state law and regulations also do not require Developmental Services to consider these additional expenses when a fee is appealed, but it routinely does so.

Table 6
Comparison of Income and Expenses Considered for Assessments

	INITIAL PARENTAL FEE ASSESSMENTS AND ANNUAL REDETERMINATIONS	APPEALS
Income	Gross income (before deductions)	Net income (after deductions)
Expenses	**Annual expenses:** • Client's medical expenses and health and dental insurance premiums • Client's clothing • Client's personal needs and incidentals • Transportation expenses (for visiting client) • Major unusual expenses (natural disaster, catastrophic uninsured loss, extreme medical expenses) • Child support or alimony	**Monthly household expenses:** • Rent or mortgage • Food and clothing • Utilities • Phone, Internet, and cable • Gasoline and transportation • Car payment and car insurance • Medical • Credit cards • Miscellaneous or other (for example, student or personal loans, life insurance, child care, etc.)

Source: California Department of Developmental Services' Family Financial Statement and Parental Fee Program appeal worksheet.

Given the assessment it performs when deciding appeals, we question why Developmental Services would not perform a similarly comprehensive assessment of a parent's ability to pay during the initial fee determination process. The financial services branch manager indicated that she does not know why the department has not developed a more extensive process for initial fee assessments and redeterminations. She stated, however, that the department may not have done so because, as discussed in the Introduction, parental fees were lower before the 2009 update to the fee schedule, and therefore were less likely to cause hardship for parents than current fee levels. Nevertheless, a consistent process for initial fee assessments, redeterminations, and appeals would help ensure fairness to parents at all phases of the assessment process.

Although the majority of appeals are granted and result in lower fees for parents, parents may forgo submitting an appeal because they are not clearly informed by Developmental Services of the possible grounds for requesting an appeal.

Moreover, although the majority of appeals are granted, resulting in lower fees for parents, many parents forgo submitting an appeal. This may be a result of Developmental Services not clearly informing parents of the possible grounds for requesting an appeal. Developmental Services informs parents of their right to appeal the fee determination in two ways. Parents are directly informed of this right in writing via the fee notification letter, which states, "You have the right to request an appeal of this parental fee determination based on financial hardship." Developmental Services also includes a statement regarding the right to appeal the fee determination on the parental fee schedule posted on its Web site. However, this statement does not mention financial hardship. Instead, it states, "Appeal Process: Parent(s) who feel that their fee was calculated incorrectly, or without accurate information, may, within 30 days from the date on the Fee Notification Letter, request an appeal." Therefore, depending on where parents look for information on the appeals process, they receive different information regarding the circumstances under which they may appeal. According to the program manager, this inconsistency is due to the information posted on the Web site being outdated and incorrect, and it should state that parents may appeal based on financial hardship.

Further, Developmental Services does not define what constitutes a financial hardship. As a result, some parents who might otherwise have appealed their fee may not have done so because they did not think their circumstances were considered a financial hardship. Consequently, these parents would almost always pay a higher fee than they would have if they appealed.

Developmental Services' Review of Appeals Is Ambiguous, Inconsistent, and Often Inaccurate

The appeals we reviewed contained numerous staff errors and inconsistencies that resulted in miscalculations of discretionary income, the measure Developmental Services uses during its appeals process to evaluate a parent's ability to pay the parental fee. These errors, coupled with Developmental Services' lack of clear policies and procedures regarding the review of appeals, put the department at risk of requiring parents to pay fees that do not match their ability to pay.

Although Developmental Services has not outlined its current process for reviewing appeals in regulations or in its policies and procedures, the appeals process includes a review of a family's monthly expenses. Before the appeals committee makes a decision regarding an appeal, an appeals analyst completes an appeal worksheet, which includes the income, the net income, and a full accounting of household expenses. The goal of completing the appeal worksheet is to provide the appeals committee, which consists of the program manager and three staff members who are not involved in the initial assessment and redetermination process, with a detailed account of the household's current financial condition to determine whether the parent can afford to pay the parental fee without causing significant hardship. Expenses included in this analysis consist of regular expenses, such as the cost of car insurance and food, along with any other reasonable expenses.

During our review of 30 appeal files from fiscal years 2011–12 through 2013–14, only one file was free of errors or inconsistencies and was properly supported with evidence from the parents.

During our review of a selection of 30 appeal files from fiscal years 2011–12 through 2013–14, only one file was free of errors or inconsistencies and was properly supported with evidence from the parents. The problems we found ranged from minor errors in amounts listed as income or expenses on the appeal worksheet to major errors that changed by hundreds of dollars the monthly discretionary income calculated. In addition, the appeals analysts were not consistent when considering expenses. For example, for 10 of the appeal files we reviewed, the appeals analyst excluded medical expenses listed by the parent on the appeal form. According to the program manager, the analysts likely did not include these expenses because the parent did not provide substantiating evidence of the expenses in the form of bills. However, for eight of the appeal files reviewed, the appeals analyst did include the medical expenses claimed by the parent without having documentary evidence. Further, 18 of the appeal files we reviewed had errors in the calculations of utility expenses, did not take all of the utilities into account, or did not contain enough evidence to enable us to determine whether the utilities were accurately taken into account.

According to the program manager, many of the issues we found were likely due to staff error, but he added that the appeals process may include discussions with the parent over the phone to clarify income and expenses. Therefore, the program manager believes that some of the issues we found may be explained by phone conversations for which there are no notes or records to demonstrate what was discussed. Although he acknowledged the errors that resulted in miscalculations of the discretionary income, the program manager stated that the difference in discretionary income caused by these errors likely would not have had an effect on the new fee determined, even if it amounted to hundreds of dollars, because the percentage of the difference would have to be sizable for it to result in a change to the fee. However, we found some instances in which the difference in discretionary income caused by the error was greater than the fee assessed, and therefore we believe that in some cases these errors could have affected the fee determined for the parent. For example, for one appeal we reviewed, the appeals analyst used an incorrect income amount and failed to account for a cell phone bill. As a result, the appeals analyst incorrectly calculated a discretionary income of approximately negative $500 per month (when monthly expenses are greater than monthly net income), resulting in a new monthly fee of $250, whereas the correct discretionary income was nearly $700 less, at approximately negative $1,200. Similarly, for another appeal the appeals analyst incorrectly calculated a discretionary income of negative $620, resulting in a new fee of $130, whereas the correct discretionary income was more than $200 less, at approximately negative $880. By determining the outcomes of appeals and establishing fees based on inconsistent or inaccurate information, Developmental Services risks providing unfair treatment to parents.

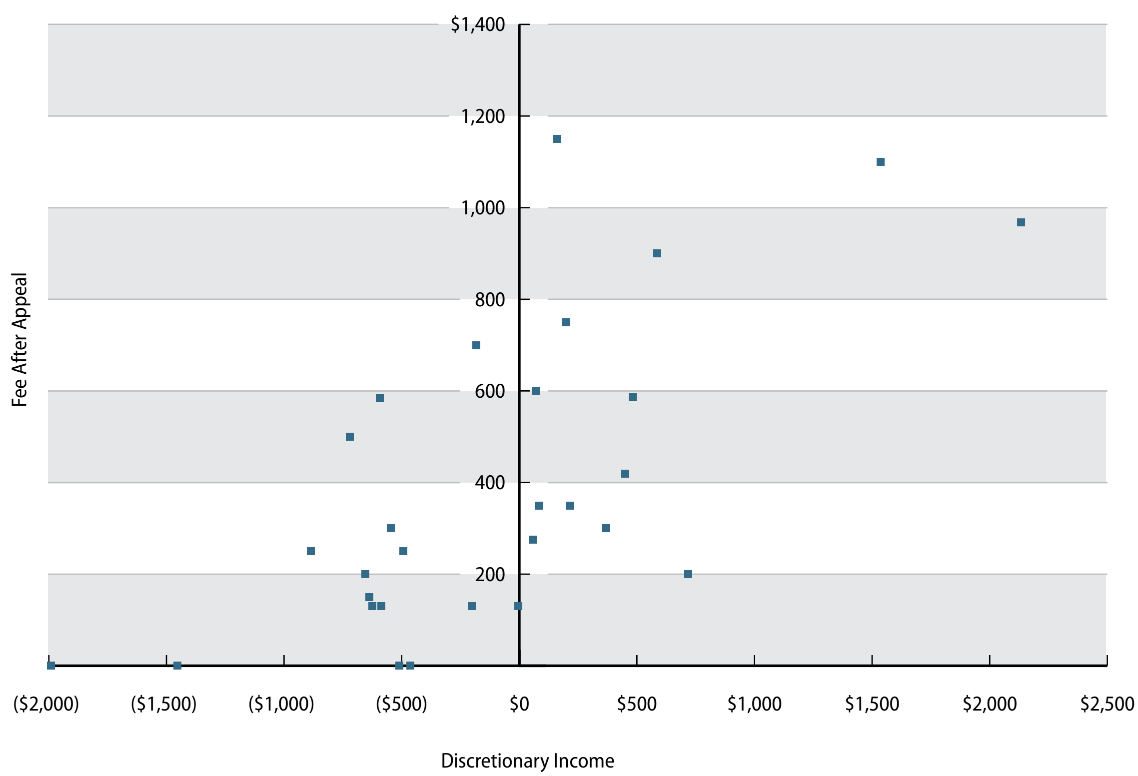
Once the appeals analyst conducts his or her review, the appeals committee discusses the appeal, makes a determination regarding whether to grant or deny the appeal, and comes to an agreement on the fee amount. The committee takes into account the determined discretionary monthly income, whether spending can be decreased, and what fee amounts were determined for similar past appeals. According to the program manager, the appeals committee often sets the new fee at an amount greater than the discretionary income calculated for the parent, even if the parent is determined to have a negative discretionary income. The program manager stated that the appeals committee does this because the committee assumes that the parent can decrease expenses. He also explained that the appeals analysts always use the Internal Revenue Service's standard for food and clothing expenses when completing the appeal worksheet, which is frequently greater than the food and clothing expenses claimed by the parent. Therefore, the appeals committee assumes that this category is an overstatement of expenses and expects that the parents may be able to pay all or part of their new fee from this overstated expense. Unlike the initial fee determination, the appeals committee does not use any formula or matrix to determine fees. The program manager stated that he does not believe a matrix would be possible due to the various factors that are considered in the appeals process. He further stated that every family has a different income profile and a different debt profile, and that two families could have the same amount of discretionary income, but one family could be living frugally and another could be living beyond its means. Consequently, the appeals committee uses its discretion to determine fee amounts.

Unlike the initial fee assessment, the appeals committee does not use any formula or matrix in its determinations.

However, as a result of this level of discretion, along with Developmental Services' lack of documentation of the deliberations of the appeals committee, the department risks being unable to justify its reasoning for determining varying fee levels for parents with similar discretionary incomes. In fact, we noticed such inconsistencies in our review of appeals. For example, a parent with monthly discretionary income of nearly $600 per month was granted an appeal that reduced the parental fee from $1,877 to $900, a reduction of $977, while a parent with a lower discretionary income of approximately $160 was granted an appeal that reduced the parental fee from $1,591 to $1,150, a reduction of only $441. In these instances the appeal files did not include notes documenting any other factors that would explain the inconsistency we observed.

Figure 2 displays the discretionary income and fee assessed after appeal for the 30 appeal files we reviewed. The figure demonstrates the pattern we observed in our testing—families with similar levels of discretionary income were assessed at dramatically different fee levels. We also calculated the correlation between discretionary income and fees assessed after appeal. On a scale of 0 (no correlation) to 1 (strong correlation), the correlation of these data sets was .23 (fairly weak). By comparison, the correlation between adjusted gross income and the fee from the initial assessments or redeterminations was .87 (fairly strong). One difference between these two processes is that Developmental Services uses a fee schedule for initial assessments and redeterminations and does not have a schedule to guide its appeal-related decisions.

Figure 2
Comparison of Discretionary Income to Fees Assessed After Appeal



Source: California Department of Developmental Services' appeal worksheets from our review of a selection of 30 appeals from the past three fiscal years.

Note: Because it would not fit within the scale used here, this figure does not include data for an appeal that had a negative discretionary income of approximately $10,000 and an assessed fee of $450.

To better support its reasoning, Developmental Services should make clear adjustments to the discretionary income calculation and should note the reasoning for these adjustments.

In reference to the pattern we observed, the program manager said that other factors beyond just discretionary income, such as parents' ability to decrease spending if they are living beyond their means, might affect the fee determined after appeal. These factors are taken into account through verbal discussions during the appeals committee meetings. However, the majority of the appeal files we reviewed did not include notes indicating what other factors the appeals committee may have considered. We were therefore unable to determine whether the variations in the fees assessed for parents who appealed were reasonable, including those for parents with similar discretionary incomes who were assessed different fees. Thus, to better support its reasoning, Developmental Services should make clear adjustments to the discretionary income calculation and should note the reasoning for these adjustments. Doing so would make meaningful the department's calculation of parents' discretionary income, which is the only objective measure of parents' ability to pay that it uses during the appeals process.

Developmental Services Does Not Consistently Comply With Appeal Timelines and the Format Established in State Regulations

Developmental Services does not consistently follow appeal-related timelines outlined in regulations and accepts appeals in a format not specified in regulations as acceptable. State regulations require Developmental Services to complete its analysis of an appeal and notify the parents of the outcome within 30 days of the date that the appeal packet with all pertinent financial information is received. However, Developmental Services does not currently have a process in place to ensure compliance with this timeline. Due to the department's inadequate tracking of appeals data, using the appeals log we were unable to determine whether Developmental Services complied with these timelines for all the appeals it received during fiscal years 2011–12 through 2013–14.[8] However, for 10 of the 30 appeal files we reviewed, Developmental Services took longer than 30 days to review the appeal and notify the parent of the outcome. Of these 10 appeals, five took the department more than 60 days to review and notify the parent of the outcome, including one appeal that took 271 days to make the notification. Because Developmental Services does not ensure that it completes its review of appeals within 30 days, parents concerned about their monthly fee may have to wait longer for resolution of their appeal than specified in regulations.

[8] The "appeals log" that Developmental Services staff maintain lacks a date field for when parents were notified of the outcome of their appeal and also contains numerous inaccuracies in existing data fields.

Regulations also require other timelines for the appeals process, including a 30-day time frame after being notified of the assessed fee during which parents must request an appeal if they desire one, and a 60-day time frame during which parents must submit their completed appeal packet with all pertinent financial information. Although Developmental Services informs parents of these timelines, it does not enforce them. According to the program manager, it is Developmental Services' practice to, in the best interest of the parents, accept requests for an appeal after 30 days have passed and to allow parents to take more than 60 days to submit all required documents. In our review of 30 appeals from fiscal years 2011–12 through 2013–14, we found 10 instances in which the parent requested an appeal after 30 days had passed. These late requests ranged from four days late to 121 days late. Similarly, we found seven instances in which the parent took longer than 60 days to submit the completed appeal packet and all pertinent financial information. These packets ranged from three days late to 48 days late.

Some parents may be unaware that Developmental Services regularly makes exceptions to these time frames and therefore may not submit an appeal or appeal packet after the deadlines have passed. They could—given Developmental Services' propensity to lower fees based on an appeal—end up having higher fees than parents who likewise miss deadlines but ignore the regulatory prohibition on submitting appeal requests and packets late.

Some parents may be unaware that Developmental Services frequently makes exceptions to regulatory time frames and therefore may not submit an appeal or appeal packet after the deadlines have passed.

In addition, Developmental Services does not consistently comply with regulations that specify the format in which parents must submit their appeal. According to regulations, parents must submit to Developmental Services written appeals that state the reason for the appeal. However, we observed in our review of appeal files that Developmental Services allows parents to request an appeal by phone. The program manager stated that it is Developmental Services' practice to inform parents that they must also submit a written appeal, but the parents do not always comply. As a result, it is Developmental Services' practice to move forward with appeals requested by phone, regardless of whether a written appeal is received. However, in our review of 30 appeals from fiscal years 2011–12 through 2013–14, we found four instances in which staff acted according to the regulations and not Developmental Services' informal practice. In these instances staff informed the parents that they needed to submit a written appeal and waited until a written appeal was received before moving forward with the appeals process. To ensure that it treats parents fairly, Developmental Services should establish and follow a consistent process for accepting appeal requests.

Developmental Services Needs to Improve Its Collection Efforts on Delinquent Accounts

After being assessed fees by Developmental Services, many families simply do not pay the fees. Although Developmental Services tracks these delinquent payments, its process for attempting to collect these fees is not rigorous or effective. Department data contained 653 accounts associated with 549 children in the Parental Fee Program at the end of fiscal year 2013–14. As of the same date, 733 accounts, which includes accounts for children no longer in the Parental Fee Program, carried an unpaid balance, totaling just under $7.5 million. This total is five times higher than the roughly $1.3 million in program revenue collected annually. This outstanding balance has built up over a period of years due to differences between the amount assessed annually by the Parental Fee Program and the amount collected. For example, Table 7 compares the amount of money billed by the Parental Fee Program to the amount of revenue the program actually received during fiscal years 2012–13 and 2013–14. Developmental Services collected an average of just over 60 percent of the amount billed for these two fiscal years. As the table shows, the amount billed for these two fiscal years alone exceeds revenue received by almost $1.7 million.

Table 7
Parental Fees Billed Compared to Parental Fees Received
Fiscal Years 2012–13 and 2013–14

FISCAL YEAR	AMOUNT BILLED	REVENUE	DIFFERENCE
2012–13	$2,322,576	$1,336,278	$986,298
2013–14	1,914,902	1,221,747	693,155
Totals	**$4,237,478**	**$2,558,025**	**$1,679,453**

Sources: California Department of Developmental Services (Developmental Services) cost-recovery system database revenue reports and annual revenue reports prepared by Developmental Services' Client Financial Services Section.

Note: The amount billed for fiscal year 2011–12 is unavailable due to the limitations of the data system used by Developmental Services.

The Parental Fee Program's policies and procedures manual, which was last updated more than 15 years ago, outlines procedures for handling delinquent accounts. Specifically, the manual contains a table that illustrates the actions to be taken for delinquent accounts at various time intervals. Developmental Services has three analysts, referred to as field agents, who are responsible for pursuing collection actions on delinquent accounts. Typically, accounts are assigned to field agents for collection measures when they reach 90 days past due. For example, according to the table in the manual, once an account carries a $1,000 delinquent balance, Developmental Services staff should establish a tax offset through the Franchise Tax Board. In these circumstances, the Franchise Tax Board will intercept any state tax refund that is due to a holder of a delinquent account. The money will then be forwarded to Developmental Services to be applied to the delinquent account. Further, once the delinquent balance reaches $1,500, the policy indicates that Developmental Services is to pursue litigation through small claims court.

However, Developmental Services does not consistently pursue these collection actions. As of October 2014 the department had submitted 235 accounts, totaling $2.6 million for tax offset for 2014. Although it does not currently have any active cases in small claims court, Developmental Services indicated that it sent four cases to small claims court in 2011. Additionally, Developmental Services had two active cases in superior court for collection of unpaid fees as of December 2014. The department's legal department indicated that four other cases were resolved during the course of our audit. According to the department's aging report that it uses to track and monitor delinquent accounts, 532 accounts carry a delinquent balance of at least $1,000, and 482 of those carry balances of over $1,500. The program manager stated that the reason Developmental Services is not pursuing legal action to a greater degree is that its legal department already has a large caseload that it is working on. Developmental Services is monitoring the legal workload and will react as resources become available when assessing cases for litigation. Further, the program manager stated that the relatively low number of accounts over $1,000 that have been submitted for tax offset is due to the $1,000 threshold being unreasonably low, and that Developmental Services intends to update this section of the policies and procedures manual.

According to the department's aging report that it uses to track and monitor delinquent accounts, 532 accounts carry a delinquent balance of at least $1,000, and 482 of those carry balances of over $1,500.

The three field agents assess their individual caseloads and, based on their judgment, attempt to collect balances that are past due; in describing their duties, they did not refer to the policies and procedures manual. The three field agents generally begin investigating a delinquent account by ensuring that they have accurate contact information for the responsible party on the account. The field agents then attempt to make face-to-face contact with the parent to try to arrange a payment schedule. Although our review of 15 accounts handled by the field agents indicated that they are documenting their efforts in attempting to collect on delinquent accounts, Developmental Services has no established procedures against which we could evaluate their performance. According to the program manager, the field agents act somewhat independently due to their extensive experience and are not directed in their activities. The field agents schedule and coordinate all of their own visits to the field, and they keep the program manager informed of their activities through a memorandum detailing their anticipated activities.

Each field agent has his or her own method of prioritizing accounts. Specifically, one field agent identified the first priority as accounts that are billed at the maximum rate due to the lack of a Family Financial Statement on file, while another field agent stated that accounts recently assigned are the top priority and are immediately pursued. The third agent stated that accounts are prioritized by estimated success of contact. The differences among the methods used by the three field agents were further highlighted when one field agent stated that the second priority would be pursuing accounts in which the client is close to 18 years of age. All the agents stated that once four years has elapsed since a client last received program services, Developmental Services can no longer pursue any form of collection measures regarding outstanding fees. However, state law indicates only that the department cannot pursue litigation against a parent once four years has elapsed since services were provided or the last payment was received. It does not hinder Developmental Services' ability to collect delinquent balances through standard collection procedures.

According to Developmental Services' aging report as of June 30, 2014, there were 132 accounts totaling just over $2 million that had been deemed uncollectible.

When agents have been unsuccessful after exhausting all avenues of collection, Developmental Services determines that the account is uncollectible. There is no uniform procedure for determining an account uncollectible; rather, the determination is made on an ad hoc basis. According to Developmental Services' aging report as of June 30, 2014, there were 132 accounts totaling just over $2 million that had been deemed uncollectible.

The program manager stated that the field agents possess greater program expertise than the manager due to their extensive experience performing these tasks. Therefore, the field agents do not require the level of supervision typical for their position. However, we believe Developmental Services needs to provide more guidance to its staff and update its policies and procedures manual to ensure that its procedures for collecting fees from delinquent accounts are rigorous, effective, and consistent. In addition, more guidance is necessary to determine when to designate an account as uncollectible. Finally, Developmental Services management needs to perform some level of oversight of its agents to ensure that they are following department protocol.

The Parental Fee Program Lacks Policy Development and Management Oversight

Outdated and incomplete policies and procedures, coupled with a lack of management oversight of the Parental Fee Program, are key causes of the program deficiencies we observed. Developmental Services' Parental Fee Program has policies and procedures that are outdated and do not provide effective guidance to staff. The policies and procedures were last updated in 1997 and do not represent the current process used by program staff in assessing parental fees. Additionally, Developmental Services' document retention policy is significantly out of date. According to Developmental Services' chief of client financial services, the most current document retention policy expired in 1998. Without such a policy, documentation in support of parental fee assessments is stored haphazardly or is simply nonexistent. In our review of selected files, we found documentation scattered through four separate electronic databases and hard-copy files, which do not have a designated storage location. Without easily locatable file documentation, management reviews of the accuracy of parental fee assessments are not feasible.

Further, Developmental Services has very few written policies or guidelines to determine the reasonableness of expenses claimed by parents, and these decisions are therefore left to staff interpretation. According to the program manager, the culture of the Parental Fee Program is to provide latitude to staff to interpret account documentation on a case-by-case basis. He also stated that Developmental Services has taken a position to empower staff to interpret cases in a manner that is in the best interest of the parents. However, in our view, the errors and inconsistencies we observed and that we described in earlier sections are less about department philosophy than they are about a lack of regular management oversight—we saw little evidence of management review of initial or redetermined fee assessments.

The errors and inconsistencies we observed are less about department philosophy than they are about a lack of regular management oversight.

Similarly, the appeals process for the Parental Fee Program lacks oversight. Currently, the review of appeals consists of the program manager participating in the appeals committee meetings. If the program manager does not believe that all appropriate expenses are accounted for, he will suspend the appeal and it will be sent back to the analyst to be reevaluated. However, the program manager does not review appeal worksheets, which include the calculation of the parent's discretionary income, for accuracy. As discussed earlier, we found numerous errors and inconsistencies during our review of selected parental fee appeals. These errors and inconsistencies demonstrate the need for greater oversight, including updated policies and procedures and management reviews of the appeals process.

In addition, Developmental Services provides minimal initial and ongoing staff training opportunities for its Parental Fee Program staff, adding to the inconsistencies and lack of program knowledge. According to the program manager, starting in late 2012, the program lost two lead analysts who possessed 20 years of combined program knowledge, due to retirement and a departmental transfer. The program manager told us that until that time, Developmental Services did not have an immediate need for formalized training for the Parental Fee Program. Staff members currently receive informal one-on-one training with a lead analyst or the program manager, and work is spot-reviewed on a monthly basis. The program manager acknowledged that staff training needs to be improved and the procedures manual needs to be revised. Additionally, he explained that it is his goal to extend management reviews to include all parental fee assessments.

During our audit, Developmental Services took steps to increase managerial oversight of the Parental Fee Program. Prior to October 2014, the program manager had other duties that had a higher priority than did Parental Fee Program management and oversight. Specifically, the program manager had supervisory responsibility over five units within Developmental Services—the Medi-Cal billing and compliance unit, the department's trust office coordinator, the Parental Fee Program, and two other fee programs. According to the program manager, most of his time was spent on Medi-Cal billing and compliance, which bills hundreds of millions of dollars annually in reimbursements of federal funds. In October 2014 Developmental Services hired a new staff services manager to take over Medi-Cal billing and compliance responsibilities, which had consumed 30 percent of the program manager's duties. With this change, the program manager stated that he will be able to focus more time on the policy development and management oversight that the Parental Fee Program needs.

Recommendations

Legislature

To help ensure that fees under Developmental Services' Parental Fee Program are fair, the Legislature should require that the department's initial fee assessments, redeterminations, and its appeal-related evaluations be based upon the same information, and should require that parents have the opportunity to challenge Developmental Services' previous calculations for accuracy and completeness on appeal, and that any adjusted fee should be based on the approved fee schedule and not simply on the judgment of department staff. Before enacting this legislation, state lawmakers should verify that Developmental Services has reviewed and revised its initial fee assessment and redetermination process to clarify what expenses will be considered when determining whether parents qualify for fee reductions.

Developmental Services

To ensure timelier fee assessments, Developmental Services should hold regional centers accountable for providing the monthly placement reports and copies of information letters required by state regulations. To encourage compliance, Developmental Services should specify in its regional center contracts that noncompliant regional centers will pay financial penalties equal to the amount of revenue lost because of their inaction.

To make the initial parental fee assessment and annual redetermination processes more efficient, consistent, and transparent, Developmental Services should determine, as part of a formal policy development process, what family expenses it will consider in its determination of parental fees and what components of the fee determination require documentation from the parents. Developmental Services should then clearly communicate these policies to parents and staff and should reinforce these policies with regular management review of fee assessments.

To ensure that the parental fee remains appropriate for each family's current financial condition, Developmental Services should complete annual redeterminations as specified in state regulations. To this end, department management should create a mechanism to determine which accounts have not had a redetermination as required and should follow up with staff to ensure that this work is completed.

Developmental Services should eliminate inconsistency between the information it accepts and analyzes as part of the initial fee determination and the information it reviews as part of the appeals process. The fees reassessed during the appeals process should be based on an established fee schedule and should not be based solely on staff judgment. Any exceptions to the fee schedule should be justified in writing and approved by the program manager after thorough review.

To decrease the risk of determining appeal outcomes based on inaccurate information, Developmental Services should require management oversight and review of appeals. This review should include a review of appeal worksheets for accuracy prior to appeals committee meetings. To allow for a thorough management review, Developmental Services should require staff to note the reasoning for any adjustments to the calculation of parents' income and expenses.

Developmental Services should review its appeals process to ensure that it follows appeal-related timelines and follows a consistent process for accepting requests for appeals. As part of this effort, Developmental Services should add a date field to the appeals log for when parents are notified of the outcome of their appeal and should ensure that existing data fields contain accurate information.

Developmental Services should review and update its process for collecting on delinquent accounts. This update should include a revision to the policies and procedures manual, training for field agents, and regular management review to ensure consistent adherence to the policy. As part of the update, Developmental Services should clarify when to designate an account as uncollectible.

To improve its administration of the Parental Fee Program, Developmental Services should engage in a formal policy development process that results in an updated policies and procedures manual by July 2015. The manual should clarify management expectations, describe regular program manager oversight, and include summary-level performance indicators that must be shared with department officials on an ongoing basis.

To efficiently locate records pertinent to the Parental Fee Program, Developmental Services should update its retention policy and centralize all the files and records supporting the program.

To improve management oversight of the Parental Fee Program, Developmental Services should establish performance measures related to the timeliness of placement identification, information sharing with parents, a review of financial information and determination of fees, the billing of subsequent fees, and the completion of the appeals process when applicable.

To improve accuracy and identify areas for initial and ongoing staff training, Developmental Services should increase management oversight of the initial fee assessment and redetermination processes to include a review of assessment worksheets for accuracy, proper support, and timeliness.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the scope section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

Date: January 13, 2015

Staff: Benjamin M. Belnap, CIA, Audit Principal
Rosa I. Reyes
Ryan T. Canady
Danielle Novokolsky
Karen Wells

Legal Counsel: Scott A. Baxter, JD, Sr. Staff Counsel

For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

STATE OF CALIFORNIA--HEALTH AND HUMAN SERVICES AGENCY EDMUND G. BROWN JR., Governor

DEPARTMENT OF DEVELOPMENTAL SERVICES
1600 NINTH STREET, Room 240, MS 2-13
SACRAMENTO, CA 95814
TDD 654-2054 (For the Hearing Impaired)
(916) 654-1897

December 18, 2014

Elaine M. Howle
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle:

Response to the California State Auditor Draft Audit Report, "California Department of Developmental Services: Its Process for Assessing fees Paid by Parents of Children Living in Residential Facilities is Woefully Inefficient and Inconsistent"

Thank you for the opportunity to respond to the Draft Audit Report (or Audit or Report) for the Department of Developmental Services' (DDS or Department) Parental Fee Program (PFP). The Department appreciates the State Auditor's review of the PFP and takes the issues raised in the draft report seriously. In response to the Audit, DDS has taken immediate steps to implement system improvements and specific operational changes to address the recommendations. Our response will provide brief background information on the DDS' Community Services Program and the PFP, general information on resources used to administer the PFP, the efforts we have made and continue to make for improvements to the PFP, and specific responses to the State Auditor's findings and recommendations.

DDS agrees with the majority of the recommendations in the Audit and we have begun implementation, with plans outlined below to implement the others. As recommended by the Audit, DDS plans to do a formal program and policy review of the PFP to consider whether implementation of any of the recommendations and other program improvements will require regulatory changes. If DDS determines that regulatory changes are required, this will take several months beyond July 2015 to complete. In the meantime, DDS is implementing recommendations and other improvements within the current regulatory authority.

"Building Partnerships, Supporting Choices"

* California State Auditor's comments appear on page 49.

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Parental Fee Program

The PFP was established by law in the late 1970s. The intent of the initiating legislation was to ensure continued parental responsibility for children placed out of their home, and to make a public policy commitment to encourage parents to keep their children in their home with appropriate services and supports provided by regional centers (RCs). However, as the Audit notes, the PFP is a small program with only 550 children receiving services.

The PFP assesses a fee to parents of children under the age of 18 who receive 24-hour out-of-home services purchased with State funds through a RC. The fee is based on a sliding scale that varies by family size and income. The Department determines the parent's ability to pay, assesses the fee, and bills the parents monthly until the child turns 18, or returns home. Revenues produced by this program are deposited in the Developmental Disabilities Program Development Fund and used for expanding community services under the Community Placement Plan.

The Lanterman Act Community Services Program

The Community Services Program currently serves over 274,000 people with intellectual or developmental disabilities. Over 99 percent of these individuals reside in the community and receive services through 21 RCs located throughout California. The RCs are private, nonprofit community agencies that provide fixed points of contact in the community for serving eligible individuals with developmental disabilities and their families. Under the Lanterman Act, Welfare and Institutions Code Section 4400 et al., California Code of Regulations Title 17, and under contractual relationship with DDS, the RCs provide diagnosis services and assessment of eligibility; assist with planning, access, coordinate and monitor the services and supports for eligible individuals. There is no charge for the diagnosis and eligibility assessment. Once eligibility is determined, most services and supports are free, regardless of age or income. In state Fiscal Year (FY) 2014-15, the RC enacted budget is $4.7 billion, of which $2.7 billion is General Fund, $2.0 billion is reimbursements from federal sources, $52.6 million is from other state and federal funding sources, and $5.8 million is revenue deposited to the Developmental Disabilities Program Development Fund. The PFP budgeted revenue in the RC budget is $1.9 million.

In recent years, DDS programs have taken hundreds of millions of dollars in budget cuts that have included reductions to RC operation budgets. At the same time, there has been an increase in federal funding, and new models of care homes to transition consumers out of the developmental centers. As a result, RCs have faced many increased reporting and oversight mandates that have required the management of each RC to prioritize mandated activities and consider the use of their resources while limiting impact to direct client services. It is important to note that RCs perform front line compliance activities that support of the state's receipt of $2 billion in federal Medicaid

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and other funds. With thousands of case managers in the 21 independently managed RCs, it has been challenging to obtain timely information for children placed in 24-hour out-of-home facilities in the current manual process. The Department has taken immediate action to bring RCs into compliance.

DDS Resources to Administer the Parental Fee Program

The PFP is administered primarily by the Client Financial Services Section (CFS). Currently, CFS has a total of 24 positions to do a variety of billing, collection, and other financial support activities for consumers. In FY 2014-15 CFS is budgeted to bill reimbursements and revenues of over $250 million for services provided in the four Developmental Centers (DCs), one small State-Operated Community Facility (SOCF), and consumers living in community settings, including conservatorship services and administration of the three RC fee programs: the PFP, the Annual Family Program Fee (AFPF), and the Family Cost Participation Program.

DDS will continue to allocate resources and make efforts to improve program services, consistent with DDS' current policy priorities and to minimize negative fiscal impacts on Lanterman Act services.

DDS Efforts to Improve the Parental Fee Program

The Audit's recommendations for the PFP are consistent with DDS' recent efforts to review and update the PFP's policies and procedures (P&P) for efficient operation, to improve monitoring of program operations to ensure consistency of application, and plans for the development of overall business process improvements. The Audit's recommendations provide another perspective on further process improvements that support the Department's commitment to improving the PFP within existing resources.

DDS recognized prior to the Audit that the span of responsibilities for the manager of the PFP did not allow for the level of oversight necessary for the PFP. Contributing to the span of responsibilities issue for this manager was the recent implementation of the much larger AFPF which impacts over 30,000 consumers each year. In addition, this manager also had responsibility for Medi-Cal billing for individuals residing in the DCs and the SOCF. To reduce the span of responsibilities and ensure adequate management oversight of the PFP, DDS redirected another manager position to assume the responsibility for the Medi-Cal, Private Pay, and Trust Office Coordination within CFS. This position was advertised in July 2014 and was filled on October 20, 2014. With the hiring of a new manager in CFS to take over the Medi-Cal billing functions, CFS will have the management focus needed to complete this project by the recommended timeframe of July 2015.

Another recent management change will also improve the oversight of the PFP. The Administrative Services Division was re-aligned to right-size the span of responsibilities for the management of the division. Under the new organizational structure, CFS has

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been organizationally placed within the Financial Services Branch, and that Branch Manager is now focused on CFS and the Accounting Section. This organizational change was implemented in 2013-14. With this management structure now in place and with more effective spans of management responsibilities at the branch level and within CFS, DDS will be able to successfully make the improvements recommended by the Audit for the PFP.

DDS started updating the PFP P&P Manual (Manual) last year but other workload and staff transitions delayed the completion. As noted in the Report, updating the Manual will be central to achieving the efficiencies, consistency and transparency in the administration of the PFP. The Manual will identify specific underlying authority for the procedures and processes described to ensure compliance and improved consistency of PFP operations. DDS will have its Office of Legal Affairs review a draft of the updated Manual for further assurance that all updated procedures and processes comply with legal and regulatory authority.

Also, DDS is exploring the development of an effective system or platform for communication with the RCs to ensure the receipt of timely information when parents place their minor children in 24-hour out-of-home living arrangements. Given the small size of the program, DDS will be looking first to leverage existing systems and processes. DDS is working in conjunction with the Association of Regional Center Agencies (ARCA), a RC advocacy group, to ensure all RCs comply with program requirements.

Another area of development that is being reviewed in the administration of the PFP is the opportunity for additional automation of certain processes. Due to the small size of the program, the Cost Recovery System that was built in 1985 for billing for cost of care in the DCs was minimally reconfigured to track and bill for the PFP. The system utilizes antiquated technology and has limited adaptability. However, many functions of the PFP such as correspondence with parents and fee calculations are done manually by staff. The ability to generate useful management reports is limited. DDS will review the feasibility, cost/benefit, and priority of options to more fully automate PFP program functions using more current technology.

Department Response to Findings

The Department has historically acted to benefit the family whenever possible in determining ability to pay under the PFP. Program staff are keenly aware of the impact assessing these fees can have on a household budget, and therefore, have routinely given as much consideration as possible to each family, even when staff reasoning was not adequately documented.

The Department's determinations of fees were based on the information that the
1 families provided to DDS, and as the Audit reveals, families were given every

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opportunity to present information that would have resulted in a deduction of the family's fee assessment.

Department Response to Recommendations

Specific responses to the recommendations to DDS are as follows:

To Developmental Services:

Recommendation 1: *To ensure more timely fee assessments, Developmental Services should hold regional centers accountable for providing the monthly placement reports and copies of information letters required by state regulations. To encourage compliance, Developmental Services should specify in its regional center contracts that noncompliant regional centers will pay financial penalties equal to the amount of revenue lost because of their inaction.*

Response: The Department agrees that the timeliness of parental fee assessments can be improved with consistent RC notification. The Department is working in partnership with the RCs and with the support of ARCA to bring the RCs into compliance without imposing financial penalties. DDS is taking the following actions to hold RCs accountable for their notification requirements for the PFP: 2

- The Department has conducted outreach to RC Chief Counselors to increase PFP visibility and to engage them in ongoing PFP improvement efforts. A presentation on PFP requirements was made to Chief Counselors on December 4, 2014. Chief Administrators and Executive Directors will be briefed at upcoming ARCA meetings in January 2015, regarding RCs' obligations under the PFP.
- The Department has negotiated language changes in the RC contracts that highlight RC responsibilities in law and regulation for the PFP. All 21 RCs have been notified of this contract language and the contract amendments containing this language change are expected to be fully executed by February 2015.
- Effective with the RC audits scheduled to begin in January 2015, the Department's audit protocol will include testing of PFP requirements at each RC.
- The Department has compiled a list of PFP contacts at each RC to facilitate the timely communication with CFS on addressing questions and issues.
- The Department surveyed the RCs in November 2014 to reconcile RC and Department records of families eligible for the PFP. The review of the results will be used to identify any barriers RCs may face in complying with PFP requirements and hold RCs accountable for notification to the Department.
- The Department is working with ARCA to identify the most effective ways to disseminate updated PFP guidance to RCs for distribution to the appropriate case managers within the system, as well as to establish a consistent method of data exchange that RCs can use to report needed information to DDS.

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- CFS staff will contact RCs who do not provide a monthly report by the 20th of each month to obtain the report. This activity is done in advance of the development of a revised method for data exchange between RCs and CFS staff to ensure more timely notification of consumer movement within the system of services.
- CFS will provide a monthly report to the Branch Manager and Deputy Director of Administration on those RCs who did not report PFP cases in the previous month.

Recommendation 2: *To make the initial parental fee assessment and annual redetermination processes more efficient, consistent, and transparent, Developmental Services should determine, as part of a formal policy development process, what family expenses it will consider in its determination of parental fees and what components of the fee determination require documentation from the parents. Developmental Services should then clearly communicate these policies to parents and staff and reinforce these policies with regular management review of fee assessments.*

Response: The Department agrees with the recommendation and will take the following actions to ensure more efficient, consistent and transparent determination of parental fees:

- Consider re-drafting PFP regulations to make the fee assessment process more transparent.
- Update the Manual and clearly outline documentation required for the fee determinations, and give more detailed instruction for the interpretation of such documentation. The expected level of program oversight by the Program Manager will be included. The updated Manual is expected to be in place by July 2015.
- Review the Family Financial Statement (FFS) to determine if all allowable expenses are accurately reflected on the worksheet in sufficient detail. An updated FFS is expected to be in place by July 2015.
- Improve communication in the initial or redetermination Parental Fee Packet provided to parents which more specifically defines for parents "client-related expenses" that may be used to reduce the family's income for fee determination. This new language is expected to be included in the Parental Fee Packet by July 2015.
- Effective immediately, the Program Manager and Section Chief will increase regular oversight of the rating and redetermination process to provide consistent guidance to staff as needed. Program Manager review and approval of rating activity is now required for all fees.
- On a quarterly basis, beginning in October 2015, the Section Chief will sample assessments and redeterminations to ensure compliance with the updated Manual and to review that case files include adequate documentation. The

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Section Chief will communicate the results of the review to the Branch Manager and to the Deputy Director of Administration.

Recommendation 3: *To ensure that the parental fee remains appropriate for each family's current financial condition, Development Services should complete annual redeterminations as specified in state regulations. To this end, department management should create a mechanism to determine which accounts have not had a redetermination as required and should follow up with staff to ensure this work is completed.*

Response: DDS agrees with this recommendation. The Department will take the following actions to ensure that the parental fee remains appropriate for each family's current financial condition:

- Effective immediately, the Program Manager and Section Chief will closely monitor redetermination reports to ensure timely completion.
- A review of the process used to schedule redeterminations will be conducted to ensure the most efficient mechanism is being used to meet the annual requirement for review in all cases.
- The revised Manual will include an increased level of guidance to staff regarding timelines required under the fee redetermination process.
- CFS will provide a monthly report to the Branch Manager and Deputy Director of Administration on the number of redeterminations due each month, as well as the number of redeterminations completed.

Recommendation 4: *Developmental Services should eliminate inconsistency between the information it accepts and analyzes as part of the initial fee determination and the information it reviews as part of the appeal process. The fees reassessed during the appeals process should be based on an established fee schedule and should not be based solely on staff judgment. Any exceptions to the fee schedule should be justified in writing and approved by the program manager after thorough review.*

Response: The Department will review current authority in statute and regulation to determine if implementing this recommendation is possible within the current program structure. If necessary, DDS will consider revisions to the PFP regulations to promote a more transparent appeals process. The Department will also strengthen the documentation and justification requirement for review of appeals, as noted in the response to recommendation 5 below.

Recommendation 5: *To decrease the risk of determining appeal outcomes based on inaccurate information, Developmental Services should require management oversight and review of appeals. This review should include a review of appeal worksheets for accuracy prior to appeals committee meetings. To allow for a thorough management*

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review, Developmental Services should require staff to note the reasoning for any adjustments to the calculation of parents' income and expenses.

Response: As already discussed above, DDS will consider whether implementation of the recommendations and other PFP improvements require regulatory changes. If DDS determines that regulatory changes are required in the PFP appeals process, this will take several months beyond July 2015 to complete. In the meantime, DDS is implementing the following recommendations and other improvements within the current regulatory authority:

- Effective immediately, the Program Manager will provide direct oversight of the preparation of the information used in each appeal. The Program Manager will validate the accuracy of the appeal worksheet prior to appeals committee review.
- The revised Manual will include clear direction to appeals analysts as to information necessary to complete appeal worksheets and guidance on uniform interpretation of supporting documents. The Manual will clearly direct analysts on procedures required to be followed if appeal details are not supportable by documentation.

Recommendation 6: *Developmental Services should review its appeal process to ensure that it follows appeal-related timelines and follows a consistent process for accepting requests for appeals. As part of this effort, Developmental Services should add a date field to the appeals log for when parents are notified of the outcome of their appeal and ensure that existing data fields contain accurate information.*

Response: The Department agrees with this recommendation and will take the following actions:

- Effective immediately, the Program Manager will provide additional oversight and monitoring of appeals to ensure regulatory timelines are consistently implemented.
- The appeals log has been updated to include the date on which parents are notified of the outcome of their appeal.
- The Program Manager will periodically review the appeal log to ensure the transcription of accurate information.
- CFS will provide a monthly report to the Branch Manager and Deputy Director of Administration on PFP data to include status of new and pending appeals with due dates to ensure timeliness of processing appeals is improved.

Recommendation 7: *Developmental Services should review and update its process for collecting on delinquent accounts. This update should include a revision to the policies and procedures manual, training for field agents, and regular management review to ensure consistent adherence to the policy. As part of the update, Developmental Services should clarify when to designate an account as uncollectible.*

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Response: The Department agrees with this recommendation and will take the following actions:

- The revised Manual will provide more detailed guidance on each collection process currently in place. The review will ensure consistency with State Administrative Manual collection and write off rules, Fair Credit Reporting Act requirements, and management review of the cost/benefit of proposed collection actions. The Manual will include a section on identification and processing of accounts to be designated as uncollectible.
- Effective immediately, the Program Manager will increase oversight of collection activities conducted by field agents. Field agent priorities will be set through discussion with the Program Manager.
- The Program Manager will review the results of field agent collection activities to determine training needs. If a need for additional staff training is identified, the Department will provide training on collection activities to the field agents and Program Manager.
- CFS will provide a report to the Branch Manager and to the Deputy Director of Administration of the collection activity completed each month.

Recommendation 8: *To improve its administration of the Parental Fee Program, Developmental Services should engage in a formal policy development process that results in an updated policy and procedures manual by July 2015. The manual should clarify management expectations, describe regular program manager oversight, and include summary-level performance indicators that must be shared with department officials on an on-going basis.*

Response: The Department agrees with this recommendation and will begin weekly management meetings to review progress on the update to the Manual in January 2015. The Manual will cover program administration, interaction with other DDS sections, establish summary-level performance indicators and provide management review tools in the following areas at a minimum:

- Program rating, appeals, redetermination timelines.
- Program documentation required for fee determinations.
- Program appeals process.
- Management approval of rating and appeals activity.
- Program reporting to department management.
- Increased management oversight of daily work product.
- Increased management interaction with field staff.

Recommendation 9: *To efficiently locate records pertinent to the Parental Fee Program, Developmental Services should update its retention policy and centralize all the files and records supporting the program.*

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Response: The Department agrees with this recommendation and will evaluate possible solutions to store all case related information in a centralized manner. Review and update of the record retention policy will be completed as part of the updated Manual.

Recommendation 10: *To improve management oversight of the Parental Fee Program, Developmental Services should establish performance measures related to the timeliness of placement identification, information sharing with parents, a review of financial information and determination of fees, the billing of subsequent fees, and the completion of the appeals process when applicable.*

Response: The Department agrees that additional management oversight will be exercised and appropriate performance measures for critical areas will be established. Taken in total, the implementation of the recommendations herein and the additional actions identified by the Department throughout the review process will result in overall improved Program operations.

Recommendation 11: *To improve accuracy and identify areas for initial and ongoing staff training, Developmental Services should increase management oversight of the initial fee assessment and redetermination processes to include a review of assessment worksheets for accuracy, proper support, and timeliness.*

Response: The Department agrees with this recommendation and has begun the following process to ensure the initial fee assessment and redetermination processes are adequately documented, accurate and timely:

- Training of current staff and future new staff to ensure completeness, accuracy, consistency and compliance with the updated Manual will be completed for current staff by July 2015, as the Manual is being updated. The Program Manager has already begun extensive one-on-one training and review of staff work product.
- The Program Manager will review the results of staff work to determine any individual training needs. If a need for additional staff training is identified, the Department will provide training to program staff, as necessary.
- Effective immediately, Program Manager approval is now required for all new and redetermined rates assessed by the program. This review process is already in place and will be part of the updated Manual.
- Effective immediately, Program Manager approval is now required for all documents used for the purpose of supporting rating elements used for fee setting. This approval process is already in place and will be part of the updated Manual.

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In closing, DDS is committed to implementing the Auditor's recommendations to address the findings identified in the Audit Report. The Audit Report recognizes progress made by the Department to improve systems and policies that will strengthen program operations. Thank you for the opportunity for DDS to provide input to the Draft Audit Report. Please contact me or John Doyle, Chief Deputy Director, at (916) 654-1897, if you have any questions.

Sincerely,

SANTI J. ROGERS
Director

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CALIFORNIA DEPARTMENT OF DEVELOPMENTAL SERVICES

To provide clarity and perspective, we are commenting on the response to our audit from the California Department of Developmental Services (Developmental Services). The numbers below correspond to the numbers we have placed in the margin of Developmental Services' response.

1. Developmental Services incorrectly characterizes what our audit revealed. Specifically, we disagree with its assertion that each family is given every opportunity to present information that would result in lower fee assessments. As we describe on pages 20 and 21, Developmental Services conducts initial fee assessments and redeterminations that are not as comprehensive as the process it uses for families that appeal their initial fees. Consequently, families that have the wherewithal to appeal the initial fee will have a greater opportunity to present information that would lower their fees than families that do not appeal. Additionally, as described on page 23, we found that during the appeals process Developmental Services staff excluded certain expenses from the fee calculations of some families ostensibly because the family did not provide expense documentation, but included these same types of expenses in the fee calculations of other families despite them also not providing expense documentation. Further, as we described on page 15, staff error was not always in favor of the families that were assessed fees. In fact, we found that Developmental Services overcharged three accounts by a combined annual total of $16,579.

2. Developmental Services indicates it is working in partnership with the regional centers, and with support of the Association of Regional Center Agencies, to bring regional centers into compliance without imposing financial penalties. However, if such actions do not bring regional centers into compliance, Developmental Services should be prepared to impose financial penalties to compensate for any state funds lost as result of inaction by regional centers. Consequently, we stand by our recommendation that Developmental Services specify in its regional center contracts what those financial penalties should be.