

Introduced by Senators Beall and Huff
(Coauthors: Senators Anderson, Bates, Cannella, Hall, Nguyen,
Pavley, Stone, Vidak, and Wolk)
(Coauthors: Assembly Members Chu and Salas)

February 26, 2015

An act to amend Section 4652.5 of the Welfare and Institutions Code, relating to developmental services.

LEGISLATIVE COUNSEL'S DIGEST

SB 490, as introduced, Beall. Regional centers: audits.

Under existing law, the Lanterman Developmental Disabilities Services Act, the State Department of Developmental Services is authorized to contract with regional centers to provide services and supports to individuals with developmental disabilities. Existing law requires an entity that receives payments between \$250,000 and \$500,000 per year from one or more regional centers to obtain an independent audit or review of its financial statements and requires an entity that receives payments that are equal to or more than \$500,000 per year to obtain an independent audit. Existing law exempts payments made using usual and customary rates for services provided by regional centers from these requirements.

This bill would instead require an entity to obtain an independent audit or review report of its financial statements relating to payments made by regional centers if it receives payments between \$500,000 and \$2,000,000 from one or more regional centers and would authorize these entities to apply for, and require the regional center to grant, a 2-year exemption from this requirement if the regional center does not find issues in the audit or review that have an impact on regional center services. The bill would also instead require an entity to obtain an

independent audit if it receives payments that are equal to or more than \$2,000,000 and would authorize these entities to apply for, and require the regional center to grant, a 2-year exemption from the requirement if the audit resulted in an unqualified opinion, an unqualified opinion with explanatory language, or a qualified opinion with issues that are not material and pervasive. The bill would require a regional center to notify the department of any exemption it grants to an entity that receives a qualified opinion report. The bill would also exempt social security benefit payments from these requirements.

Vote: majority. Appropriation: no. Fiscal committee: no.
 State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 4652.5 of the Welfare and Institutions
 2 Code is amended to read:
 3 4652.5. (a) (1) An entity ~~receiving~~ *that receives* payments
 4 from one or more regional centers shall contract with an
 5 independent accounting firm ~~for~~ *to obtain an independent* audit or
 6 review of its financial statements *relating to payments made by*
 7 *regional centers* subject to all of the following:
 8 (A) ~~When~~ *If* the amount received from the regional center or
 9 regional centers during the entity’s fiscal year is more than or equal
 10 ~~to two hundred fifty thousand dollars (\$250,000)~~ *five hundred*
 11 *thousand dollars (\$500,000)* but less than ~~five hundred thousand~~
 12 ~~dollars (\$500,000); two million dollars (\$2,000,000)~~, the entity
 13 shall obtain an independent audit or independent review report of
 14 its financial statements for the period. Consistent with Subchapter
 15 21 (commencing with Section 58800) of Title 17 of the California
 16 Code of Regulations, this subdivision shall also apply to work
 17 activity program providers receiving less than two hundred fifty
 18 thousand dollars (\$250,000).
 19 (B) ~~When~~ *If* the amount received from the regional center or
 20 regional centers during the entity’s fiscal year is equal to or more
 21 ~~than five hundred thousand dollars (\$500,000); two million dollars~~
 22 ~~(\$2,000,000)~~, the entity shall obtain an independent audit of its
 23 financial statements for the period.
 24 (2) This requirement does not apply to payments made using
 25 usual and customary rates, as defined by Title 17 of the California

1 Code of Regulations, for services provided by regional ~~centers.~~
2 *centers or social security benefit payments.*

3 (3) This requirement does not apply to state and local
4 governmental agencies, the University of California, or the
5 California State University.

6 (b) An entity subject to subdivision (a) shall provide copies of
7 the independent audit or independent review report required by
8 subdivision (a), and accompanying management letters, to the
9 vendoring regional center within 30 days after completion of the
10 audit or review.

11 (c) Regional centers ~~receiving~~ *that receive* the audit or review
12 reports required by subdivision (b) shall review and require
13 resolution by the entity for issues identified in the report that have
14 an impact on regional center services. Regional centers shall take
15 appropriate action, up to termination of vendorization, for lack of
16 adequate resolution of issues.

17 (d) Regional centers shall notify the department of all qualified
18 opinion reports or reports noting significant issues that directly or
19 indirectly impact regional center services within 30 days after
20 receipt. Notification shall include a plan for resolution of issues.

21 (e) For purposes of this section, an independent review of
22 financial statements ~~must~~ *shall* be performed by an independent
23 accounting firm and shall cover, at a minimum, all of the following:

24 (1) An inquiry as to the entity's accounting principles and
25 practices and methods used in applying them.

26 (2) An inquiry as to the entity's procedures for recording,
27 classifying, and summarizing transactions and accumulating
28 information.

29 (3) Analytical procedures designed to identify relationships or
30 items that appear to be unusual.

31 (4) An inquiry about budgetary actions taken at meetings of the
32 board of directors or other comparable meetings.

33 (5) An inquiry about whether the financial statements have been
34 properly prepared in conformity with generally accepted accounting
35 principles and whether any events subsequent to the date of the
36 financial statements would have a material effect on the statements
37 under review.

38 (6) Working papers prepared in connection with a review of
39 financial statements describing the items covered as well as any
40 unusual items, including their disposition.

1 (f) For purposes of this section, an independent review report
2 shall cover, at a minimum, all of the following:

3 (1) Certification that the review was performed in accordance
4 with standards established by the American Institute of Certified
5 Public Accountants.

6 (2) Certification that the statements are the representations of
7 management.

8 (3) Certification that the review consisted of inquiries and
9 analytical procedures that are lesser in scope than those of an audit.

10 (4) Certification that the accountant is not aware of any material
11 modifications that need to be made to the statements for them to
12 be in conformity with generally accepted accounting principles.

13 (g) The department shall not consider a request for adjustments
14 to rates submitted in accordance with Title 17 of the California
15 Code of Regulations by an entity receiving payments from one or
16 more regional centers solely to fund either anticipated or
17 unanticipated changes required to comply with this section.

18 *(h) (1) An entity required to obtain an independent audit or*
19 *independent review of its financial statement pursuant to*
20 *subparagraph (A) of paragraph (1) of subdivision (a) may apply*
21 *to the regional center for, and the regional center shall grant, a*
22 *two-year exemption from the independent audit or independent*
23 *review requirement if the regional center does not find issues in*
24 *the prior year's independent audit or independent review that have*
25 *an impact on regional center services.*

26 *(2) An entity required to obtain an independent audit of its*
27 *financial statements pursuant to subparagraph (B) of paragraph*
28 *(1) of subdivision (a) may apply to the regional center for an*
29 *exemption from the independent audit requirement, subject to all*
30 *of the following conditions:*

31 *(A) If the independent audit for the prior year resulted in an*
32 *unqualified opinion or an unqualified opinion with explanatory*
33 *language, the regional center shall grant the entity a two-year*
34 *exemption.*

35 *(B) If the independent audit for the prior year resulted in a*
36 *qualified opinion and the issues are not material and pervasive,*
37 *the regional center shall grant the entity a two-year exemption.*
38 *However, the entity and the regional center shall continue to*
39 *address issues raised in this independent audit, regardless of*
40 *whether the exemption is granted.*

1 (3) *A regional center shall notify the department of any*
2 *exemption it grants to an entity that receives a qualified opinion*
3 *report.*

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