

**Introduced by Senators Beall and Huff**  
**(Coauthors: Senators Anderson, Bates, Hall, Nguyen, Stone, and**  
**Vidak)**  
(Coauthor: Assembly Member Salas)

February 18, 2016

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

LEGISLATIVE COUNSEL'S DIGEST

SB 1226, as introduced, Beall. Regional centers: audits and reviews.

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 either an independent audit or an independent review report 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 only an independent review report of its financial statements relating to payments made by regional centers if it receives payments between \$250,000 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 independent review report that have an impact on regional center services. The bill would also 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 audit requirement if the audit resulted in an unmodified opinion, an unmodified opinion with additional communication, 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 an~~ *to obtain an independent* audit  
 6 or *independent review report* of its financial statements *relating*  
 7 *to payments made by regional centers* subject to all of the  
 8 following:  
 9 (A) ~~When~~ *If* the amount received from the regional center or  
 10 regional centers during the entity’s fiscal year is more than or equal  
 11 to two hundred fifty thousand dollars (\$250,000) but less than ~~five~~  
 12 ~~hundred thousand dollars (\$500,000)~~, *two million dollars*  
 13 *(\$2,000,000)*, the entity shall obtain an ~~independent audit or~~  
 14 independent review report of its financial statements for the period.  
 15 Consistent with Subchapter 21 (commencing with Section 58800)  
 16 of Title 17 of the California Code of Regulations, this subdivision  
 17 shall also apply to work activity program providers receiving less  
 18 than two hundred fifty 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.~~ *nine months of the end of the fiscal year for the*  
11 *entity.*

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

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

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

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

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

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

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

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

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

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

6 (1) Certification that the review was performed in accordance  
7 with standards established by the American Institute of Certified  
8 Public Accountants.

9 (2) Certification that the statements are the representations of  
10 management.

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

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

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

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

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

33 *(A) If the independent audit for the prior year resulted in an*  
34 *unmodified opinion or an unmodified opinion with additional*  
35 *communication, the regional center shall grant the entity a*  
36 *two-year exemption.*

37 *(B) If the independent audit for the prior year resulted in a*  
38 *qualified opinion and the issues are not material and pervasive,*  
39 *the regional center shall grant the entity a two-year exemption.*  
40 *The entity and the regional center shall continue to address issues*

- 1 *raised in this independent audit, regardless of whether the*
- 2 *exemption is granted.*
- 3 *(3) A regional center shall notify the department of any*
- 4 *exemption it grants to an entity that receives a qualified opinion.*

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