

AMENDED IN SENATE MARCH 28, 2016

SENATE BILL

No. 1226

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

February 18, 2016

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

LEGISLATIVE COUNSEL'S DIGEST

SB 1226, as amended, 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 from one or more regional centers to obtain an independent audit or independent review report of its financial statements, as specified, and requires regional centers to notify the department of all qualified opinion reports or reports noting significant issues that directly or indirectly impact regional center services within 30 days after receipt.

This bill would also require a regional center to submit copies of all independent audit reports that it receives to the department for review. The bill would require the department to analyze the reports, as specified, and biannually report its findings to the Legislature.

~~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-yes. 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 that receives payments from one or
- 4 more regional centers shall contract with an independent accounting
- 5 firm to obtain an independent audit or independent review report
- 6 of its financial statements relating to payments made by regional
- 7 centers, subject to both of the following:
- 8 (A) If the amount received from the regional center or regional
- 9 centers during the entity's fiscal year is more than or equal to five

1 hundred thousand dollars (\$500,000), but less than two million
2 dollars (\$2,000,000), the entity shall obtain an independent review
3 report of its financial statements for the period. Consistent with
4 Subchapter 21 (commencing with Section 58800) of Chapter 3 of
5 Division 2 of Title 17 of the California Code of Regulations, this
6 subdivision shall also apply to work activity program providers
7 receiving less than five hundred thousand dollars (\$500,000).

8 (B) If the amount received from the regional center or regional
9 centers during the entity’s fiscal year is equal to or more than two
10 million dollars (\$2,000,000), the entity shall obtain an independent
11 audit of its financial statements for the period.

12 (2) This requirement does not apply to payments made using
13 usual and customary rates, as defined by Title 17 of the California
14 Code of Regulations, for services provided by regional centers.

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

18 (b) An entity subject to subdivision (a) shall provide copies of
19 the independent audit or independent review report required by
20 subdivision (a), and accompanying management letters, to the
21 vendoring regional center within nine months of the end of the
22 fiscal year for the entity.

23 (c) Regional centers that receive the audit or review reports
24 required by subdivision (b) shall review and require resolution by
25 the entity for issues identified in the report that have an impact on
26 regional center services. Regional centers shall take appropriate
27 action, up to termination of vendorization, for lack of adequate
28 resolution of issues.

29 (d) (1) Regional centers shall notify the department of all
30 qualified opinion reports or reports noting significant issues that
31 directly or indirectly impact regional center services within 30
32 days after receipt. Notification shall include a plan for resolution
33 of issues.

34 (2) *A regional center shall submit copies of all independent
35 audit reports that it receives to the department for review. The
36 department shall analyze the reports to determine if they are
37 effective in preventing fraud and improving accounting practices
38 among entities that receive payments from one or more regional
39 centers. The department shall biannually report its findings to the*

1 *Legislature. These reports shall be submitted pursuant to Section*
2 *9795 of the Government Code.*

3 (e) For purposes of this section, an independent review of
4 financial statements shall be performed by an independent
5 accounting firm and shall cover, at a minimum, all of the following:

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

8 (2) An inquiry as to the entity's procedures for recording,
9 classifying, and summarizing transactions and accumulating
10 information.

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

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

15 (5) An inquiry about whether the financial statements have been
16 properly prepared in conformity with generally accepted accounting
17 principles and whether any events subsequent to the date of the
18 financial statements would have a material effect on the statements
19 under review.

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

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

25 (1) Certification that the review was performed in accordance
26 with standards established by the American Institute of Certified
27 Public Accountants.

28 (2) Certification that the statements are the representations of
29 management.

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

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

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

1 (h) (1) An entity required to obtain an independent review
2 report of its financial statement pursuant to subparagraph (A) of
3 paragraph (1) of subdivision (a) may apply to the regional center
4 for, and the regional center shall grant, a two-year exemption from
5 the independent review report requirement if the regional center
6 does not find issues in the prior year's independent review report
7 that have an impact on regional center services.

8 (2) An entity required to obtain an independent audit of its
9 financial statements pursuant to subparagraph (B) of paragraph
10 (1) of subdivision (a) may apply to the regional center for an
11 exemption from the independent audit requirement, subject to both
12 of the following conditions:

13 (A) If the independent audit for the prior year resulted in an
14 unmodified opinion or an unmodified opinion with additional
15 communication, the regional center shall grant the entity a two-year
16 exemption.

17 (B) If the independent audit for the prior year resulted in a
18 qualified opinion and the issues are not material, the regional center
19 shall grant the entity a two-year exemption. The entity and the
20 regional center shall continue to address issues raised in this
21 independent audit, regardless of whether the exemption is granted.

22 (3) A regional center shall annually report to the department
23 any exemptions granted pursuant to this subdivision.

24 ~~SECTION 1. Section 4652.5 of the Welfare and Institutions~~
25 ~~Code is amended to read:~~

26 ~~4652.5. (a) (1) An entity that receives payments from one or~~
27 ~~more regional centers shall contract with an independent accounting~~
28 ~~firm to obtain an independent audit or independent review report~~
29 ~~of its financial statements relating to payments made by regional~~
30 ~~centers subject to all of the following:~~

31 ~~(A) If the amount received from the regional center or regional~~
32 ~~centers during the entity's fiscal year is more than or equal to two~~
33 ~~hundred fifty thousand dollars (\$250,000) but less than two million~~
34 ~~dollars (\$2,000,000), the entity shall obtain an independent review~~
35 ~~report of its financial statements for the period. Consistent with~~
36 ~~Subchapter 21 (commencing with Section 58800) of Title 17 of~~
37 ~~the California Code of Regulations, this subdivision shall also~~
38 ~~apply to work activity program providers receiving less than two~~
39 ~~hundred fifty thousand dollars (\$250,000).~~

1 (B) If the amount received from the regional center or regional
2 centers during the entity's fiscal year is equal to or more than two
3 million dollars (\$2,000,000), the entity shall obtain an independent
4 audit of its financial statements for the period.

5 (2) This requirement does not apply to payments made using
6 usual and customary rates, as defined by Title 17 of the California
7 Code of Regulations, for services provided by regional centers or
8 social security benefit payments.

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

12 (b) An entity subject to subdivision (a) shall provide copies of
13 the independent audit or independent review report required by
14 subdivision (a), and accompanying management letters, to the
15 vendoring regional center within nine months of the end of the
16 fiscal year for the entity.

17 (e) Regional centers that receive the audit or review reports
18 required by subdivision (b) shall review and require resolution by
19 the entity for issues identified in the report that have an impact on
20 regional center services. Regional centers shall take appropriate
21 action, up to termination of vendorization, for lack of adequate
22 resolution of issues.

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

27 (e) For purposes of this section, an independent review of
28 financial statements shall be performed by an independent
29 accounting firm and shall cover, at a minimum, all of the following:

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

32 (2) An inquiry as to the entity's procedures for recording,
33 classifying, and summarizing transactions and accumulating
34 information.

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

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

39 (5) An inquiry about whether the financial statements have been
40 properly prepared in conformity with generally accepted accounting

1 principles and whether any events subsequent to the date of the
2 financial statements would have a material effect on the statements
3 under review.

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

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

9 (1) Certification that the review was performed in accordance
10 with standards established by the American Institute of Certified
11 Public Accountants.

12 (2) Certification that the statements are the representations of
13 management.

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

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

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

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

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

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

1 ~~(B) If the independent audit for the prior year resulted in a~~
2 ~~qualified opinion and the issues are not material and pervasive;~~
3 ~~the regional center shall grant the entity a two-year exemption.~~
4 ~~The entity and the regional center shall continue to address issues~~
5 ~~raised in this independent audit, regardless of whether the~~
6 ~~exemption is granted.~~
7 ~~(3) A regional center shall notify the department of any~~
8 ~~exemption it grants to an entity that receives a qualified opinion.~~

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