

AMENDED IN ASSEMBLY JUNE 30, 2016

AMENDED IN SENATE MARCH 28, 2016

SENATE BILL

No. 1226

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

February 18, 2016

An act to amend, *repeal, and add* 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 statements based upon the amount it receives from the regional center or regional centers during the entity's fiscal year.

This bill would, commencing January 1, 2018, instead require the entity to obtain an independent review report of an independent audit of its financial statements based upon the amount it receives from the regional center or regional centers during each state fiscal year.

Existing law 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.~~ *compile data, by regional center, on vendor compliance with audit requirements and opinions resulting from audit reports and to annually publish the data in a performance dashboard.*

Vote: majority. Appropriation: no. Fiscal committee: 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
10 hundred thousand dollars (\$500,000), but less than two million
11 dollars (\$2,000,000), the entity shall obtain an independent review
12 report of its financial statements for the period. Consistent with
13 Subchapter 21 (commencing with Section 58800) of Chapter 3 of
14 Division 2 of Title 17 of the California Code of Regulations, this
15 subdivision shall also apply to work activity program providers
16 receiving less than five hundred thousand dollars (\$500,000).
17 (B) If the amount received from the regional center or regional
18 centers during the entity's fiscal year is equal to or more than two
19 million dollars (\$2,000,000), the entity shall obtain an independent
20 audit of its financial statements for the period.
21 (2) This requirement does not apply to payments made using
22 usual and customary rates, as defined by Title 17 of the California
23 Code of Regulations, for services provided by regional centers.
24 (3) This requirement does not apply to state and local
25 governmental agencies, the University of California, or the
26 California State University.
27 (b) An entity subject to subdivision (a) shall provide copies of
28 the independent audit or independent review report required by

1 subdivision (a), and accompanying management letters, to the
2 vendoring regional center within nine months of the end of the
3 fiscal year for the entity.

4 (c) Regional centers that receive the audit or review reports
5 required by subdivision (b) shall review and require resolution by
6 the entity for issues identified in the report that have an impact on
7 regional center services. Regional centers shall take appropriate
8 action, up to termination of vendorization, for lack of adequate
9 resolution of issues.

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

15 (2) A regional center shall submit copies of all independent
16 audit reports that it receives to the department for review. The
17 department shall ~~analyze the reports to determine if they are~~
18 ~~effective in preventing fraud and improving accounting practices~~
19 ~~among entities that receive payments from one or more regional~~
20 ~~centers. The department shall biannually report its findings to the~~
21 ~~Legislature. These reports shall be submitted pursuant to Section~~
22 ~~9795 of the Government Code. *compile data, by regional center,*~~
23 ~~*on vendor compliance with audit requirements and opinions*~~
24 ~~*resulting from audit reports and shall annually publish the data*~~
25 ~~*in the performance dashboard developed pursuant to Section 4572.*~~

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

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

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

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

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

38 (5) An inquiry about whether the financial statements have been
39 properly prepared in conformity with generally accepted accounting
40 principles and whether any events subsequent to the date of the

1 financial statements would have a material effect on the statements
2 under review.

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

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

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

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

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

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

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

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

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

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

39 (B) If the independent audit for the prior year resulted in a
40 qualified opinion and the issues are not material, the regional center

1 shall grant the entity a two-year exemption. The entity and the
2 regional center shall continue to address issues raised in this
3 independent audit, regardless of whether the exemption is granted.

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

6 *(i) This section shall remain in effect only until January 1, 2018,*
7 *and as of that date is repealed, unless a later enacted statute, that*
8 *is enacted before January 1, 2018, deletes or extends that date.*

9 *SEC. 2. Section 4652.5 is added to the Welfare and Institutions*
10 *Code, to read:*

11 *4652.5. (a) (1) An entity that receives payments from one or*
12 *more regional centers shall contract with an independent*
13 *accounting firm to obtain an independent audit or independent*
14 *review report of its financial statements relating to payments made*
15 *by regional centers, subject to both of the following:*

16 *(A) If the amount received from the regional center or regional*
17 *centers during each state fiscal year is more than or equal to five*
18 *hundred thousand dollars (\$500,000), but less than two million*
19 *dollars (\$2,000,000), the entity shall obtain an independent review*
20 *report of its financial statements for the period. Consistent with*
21 *Subchapter 21 (commencing with Section 58800) of Chapter 3 of*
22 *Division 2 of Title 17 of the California Code of Regulations, this*
23 *subdivision shall also apply to work activity program providers*
24 *receiving less than five hundred thousand dollars (\$500,000).*

25 *(B) If the amount received from the regional center or regional*
26 *centers during each state fiscal year is equal to or more than two*
27 *million dollars (\$2,000,000), the entity shall obtain an independent*
28 *audit of its financial statements for the period.*

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

32 *(3) This requirement does not apply to state and local*
33 *governmental agencies, the University of California, or the*
34 *California State University.*

35 *(b) An entity subject to subdivision (a) shall provide copies of*
36 *the independent audit or independent review report required by*
37 *subdivision (a), and accompanying management letters, to the*
38 *vendor regional center within nine months of the end of each*
39 *state fiscal year.*

1 (c) Regional centers that receive the audit or review reports
2 required by subdivision (b) shall review and require resolution by
3 the entity for issues identified in the report that have an impact on
4 regional center services. Regional centers shall take appropriate
5 action, up to termination of vendorization, for lack of adequate
6 resolution of issues.

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

12 (2) A regional center shall submit copies of all independent
13 audit reports that it receives to the department for review. The
14 department shall compile data, by regional center, on vendor
15 compliance with audit requirements and opinions resulting from
16 audit reports and shall annually publish the data in the
17 performance dashboard developed pursuant to Section 4572.

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

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

23 (2) An inquiry as to the entity's procedures for recording,
24 classifying, and summarizing transactions and accumulating
25 information.

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

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

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

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

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

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

4 (2) Certification that the statements are the representations of
5 management.

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

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

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

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

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

29 (A) If the independent audit for the prior year resulted in an
30 unmodified opinion or an unmodified opinion with additional
31 communication, the regional center shall grant the entity a
32 two-year exemption.

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

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

- 1 (i) *This section shall become operative on January 1, 2018.*

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