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SB-1226 Regional centers: audits and reviews. (2015-2016)

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Senate Bill No. 1226

CHAPTER 429

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

[Approved by Governor September 21, 2016. Filed with Secretary of State September 21, 2016.]

LEGISLATIVE COUNSEL'S DIGEST

SB 1226, 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 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 or 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 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 Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

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

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

(A) If the amount received from the regional center or regional centers during the entity's fiscal year is more than or equal to five hundred thousand dollars (\$500,000), but less than two million dollars (\$2,000,000), the entity shall obtain an

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

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

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

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

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

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

(d) (1) Regional centers shall 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. Notification shall include a plan for resolution of issues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(h) (1) An entity required to obtain an independent review report of its financial statement pursuant to subparagraph (A) of paragraph (1) of subdivision (a) may apply to the regional center for, and the regional center shall grant, a two-year exemption

from the independent review report requirement if the regional center does not find issues in the prior year's independent review report that have an impact on regional center services.

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

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

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

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

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

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

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

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

(B) If the amount received from the regional center or regional centers during each state fiscal year is equal to or more than two million dollars (\$2,000,000), the entity shall obtain an independent audit of its financial statements for the entity's fiscal year that includes the last day of the most recent state fiscal year.

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

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

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

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

(d) (1) Regional centers shall 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. Notification shall include a plan for resolution of issues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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