

STATE OF CALIFORNIA  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 08/15)

Fiscal Year 2016-17	Business Unit 4300	Department Developmental Services	Priority No.
Budget Request Name 4300-001-BCP-BR-2016-GB		Program <b>4140023</b> <b>9900100/9900200</b>	Subprogram

Budget Request Description  
 Increased Vendor Audit Coverage

Budget Request Summary

The Department of Developmental Services (DDS or Department) requests \$952,000 (\$650,000 GF) to permanently establish and retain the funding for 7.0 full-time positions previously established as limited-term for the Vendor Audit Section. Retaining these positions will enable the Department to continue audit coverage and oversight of the more than \$4.6 billion in vendor payments that are disbursed each fiscal year within the Developmental Services system.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed None	
Does this BCP contain information technology (IT) Components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO N/A	Date
For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance. <input type="checkbox"/> FSR <input type="checkbox"/> SPR                                      Project No.                                      Date:		

If proposal affects another department, does other department concur with proposal?  Yes  No  
 Attach comments of affected department, signed and dated by the department director or designee.

Prepared By <i>Jennifer Harris</i> Jennifer Harris	Date 1-6-16	Reviewed By <i>Jean Johnson</i> Jean Johnson	Date 1-6-16
Department Director <i>Mike Wilkening</i> Mike Wilkening	Date 1/6/16	Agency Secretary <i>Diana S. Dooley</i> Diana S. Dooley	Date 1-6-16

**Department of Finance Use Only**

Additional Review:  Capital Outlay  ITCU  FSCU  OSAE  CALSTARS  Dept. of Technology

BCP Type:  Policy  Workload Budget per Government Code 13308.05

PPBA <i>Carla Cota</i>	Date submitted to the Legislature 1-7-16
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## Analysis of Problem

### A. Budget Request Summary

The Department of Developmental Services (DDS or Department) requests \$952,000 (\$650,000 GF) to permanently establish and retain funding for 7.0 full-time positions in its Vendor Audit Section that were established in fiscal year 2014-15 on a limited-term basis. DDS' vendor audit staff has identified significant vendor billing errors and systemic issues, and these positions will continue to provide audit coverage and oversight of the more than \$4.6 billion in payments disbursed each fiscal year.

According to the Department's Vendor Audit Section Work Plan, the Section has the capacity to conduct 31.5 audits annually with existing resources, including the 7.0 limited-term positions. Per the Audit Work Plan, the Section will focus its efforts on vendors with expenditures in excess of \$1 million, which comprises 71 percent of total Purchase of Services (POS) expenditures.

### B. Background/History

The Department's Vendor Audit Section is responsible for conducting billing, staffing, contract, expenditure, and Whistleblower audits of the more than 30,000 vendors (non-duplicated number of vendors using tax identification numbers) utilized by Regional Centers to provide services and supports to individuals with developmental disabilities. The audits include Medi-Cal providers, and expenditures reimbursed by the federal Home and Community Based Services (HCBS) Waiver.

In response to budget limitations in the early 1990s, DDS eliminated its audit function. Since that time, DDS has incrementally restored its audit function and increased audit capacity. Most recently in fiscal year 2014-15, the Department received 7.0 limited-term positions and funding for its Vendor Audit Section to address a large backlog of vendor-related Whistleblower complaints and increased cases of fraud, waste, and abuse. Currently, there are a total of 35 positions in the Audit Branch; 14.0 authorized positions to conduct the mandated biennial audits of the twenty-one Regional Centers; 18.0 positions to conduct vendor audits, and 3.0 positions that provide overall management and support services for both RC and vendor audits. The 18 Vendor Audit Section positions are comprised of:

- 1.0 Supervising Governmental Auditor II
- 4.0 Supervising Governmental Auditor I (3.0 permanent + 1.0 limited-term)
- 13.0 General Auditors (7.0 permanent + 6.0 limited-term)

**Vendor Audits Resource History (dollars in thousands)**

<b>Program Budget</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Authorized Expenditures	\$967	\$1,184	\$1,386	\$1,455	\$1,999
Actual Expenditures <sub>1</sub>	\$878	\$936	\$1,098	\$1,154	\$1,521
Audit Overpayments	\$3,820	\$4,182	\$7,354	\$6,907	\$2,221 <sub>2</sub>
Authorized Positions	9.0	11.0	11.0	11.0	18.0
Filled Positions	8.8	8.1	10.3	10.7	14.0
Vacancies	0.2	2.9	0.7	0.3	4.0

<sub>1</sub> Actual Expenditures are based on costs provided from CALSTARS for positions and travel costs.

<sub>2</sub> CY 2014-15 Audit Overpayments are based on partial audit numbers. Audit work is in process but DDS believes the number will increase.

With the addition of the 7.0 limited-term positions in fiscal year 2014-15, the Vendor Audit Section initiated 20 vendor audits, plus 17 audits stemming from Whistleblower complaints; a 48 percent increase from the prior year. As the Section reduces the backlog of Whistleblower complaints, it will direct resources to regular vendor audits.

**Analysis of Problem**

**Vendor Audits Workload History**

<b>Workload Measure</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16 * (Tentative)</b>
Number of Vendor Audits Initiated	13	9	14	15	20	28
Number of Whistleblower Audits Initiated	7	5	11	10	17	TBD
Number of Audits with Identified Fraud	6	2	3	5	0	TBD
\$ Amount of Audit Findings**	\$3,819,665	\$4,182,895	\$7,354,838	\$6,906,984	\$2,220,625	TBD

\* Per FY 2015-16 Audit Work Plan

\*\* These figures can change due to the results of an appeal

Using historical data, the Vendor Audit Section estimates 872 hours to conduct each vendor audit. With existing resources, including the 7.0 limited-term positions, the Section has the capacity to conduct approximately 31.5 audits. 27,464 total audit hours / 872 hours per audit = 31.5

<b>Calculation of Estimated Audit Hours Available for FY 2015-16</b>		
<u>One full time equivalent (FTE) Auditor:</u>		<u>Hours</u>
		<u>Supervisors</u> <u>Auditors</u>
40 hours/week x 52 weeks/year =		
total annual hours available:		2,080      2,080
Less: vacation, sick leave, and holidays		-236      -236
Less: indirect audit activity including: training, staff meetings, other miscellaneous activities.		-604      -148
<b>Total annual audit hours available per Auditor:</b>		<b>1,240      1,696</b>
<u>Number of</u>		<u>Audit Hours</u>
3      Audit Supervisors		3,720
14      Auditors		<u>23,744</u>
<b>Total Estimated Audit Hours available for FY 2015-16</b>		<b><u>27,464</u></b>
Note:	Supervising Governmental Auditor II manages, plans, and oversees vendor audit activities rather than directly involved in audits, and therefore is not included in the hours above.	

## Analysis of Problem

### C. State Level Considerations

This proposal is consistent with the current policies, priorities, and initiatives of the Administration in that it increases accountability within the Department's system of services and supports and identifies funds that have been improperly disbursed for remittance back to the state's General Fund.

The impact to other state departments is minimal. Only in the cases of suspected fraud, will the Department refer vendors to the Department of Health Care Services (DHCS) for audits involving HCBS Waiver funding, or the State's Attorney General's Office for possible criminal investigation.

DDS is an extension of DHCS's audit resources covering Medi-Cal providers. Pursuant to Welfare and Institutions Code (W&IC) section 4406, DDS succeeds to and is vested with the duties, purposes, responsibilities, and jurisdiction exercised by DHCS with respect to developmental disabilities. DDS, as the designated State Agency responsible for providing services and supports to persons with developmental disabilities, oversees the health and welfare of individuals served in the HCBS Waiver. DDS maintains accountability for all waiver-related financial transactions through audits of the RC vendors funded for services under federal Medicaid waivers, including the \$1.4 billion HCBS Waiver.

### D. Justification

Statewide, there are roughly 30,000 vendors providing services and supports to people with developmental disabilities. In fiscal year 2014-15, total POS expenditures paid to vendors equaled \$4.2 billion. The Department estimates that this amount will increase to \$4.6 billion in 2015-16, and \$5.0 billion in 2016-17. To ensure that expenditures are appropriate, overpayments are refunded, and fraud is identified and deterred, it is necessary for the Department to permanently establish the limited-term staff previously authorized for its Vendor Audit Section.

The addition of 7.0 new limited-term audit positions in FY 2014-15 produced an increase in the annual number of audits conducted, and resulted in a significant reduction in the backlog of outstanding whistleblower complaints. While the majority of Whistleblower complaints have been investigated, the growth in expenditures supports an ongoing need for the additional staff. The Department has found that after a vendor has been audited, there is a substantial decrease in subsequent fiscal year billings, without a corresponding reduction to consumer services. For example, from a sample of 22 vendor audit reports issued from FY 2009-10 to FY 2014-15, five vendors closed their businesses, and four more were found to have committed fraud. The remaining 17 vendors had an overall decrease in subsequent fiscal year billings of \$25.3 million.

According to the Department's Vendor Audit Section Work Plan, the Section has the capacity to conduct approximately 31.5 audits annually with existing resources, which includes the 7.0 limited-term positions. While all vendors are subject to random sampling and potential audit, it is the Department's intent to focus the bulk of audit resources on those vendors with POS expenditures in excess of \$1 million. Using fiscal year 2014-15 vendor expenditure data, vendors with an excess of \$1 million in POS expenditures comprised 71% of total POS expenditures.

**Targeted VENDORS by Tax ID Numbers with POS Greater than \$1M**

<b>Size of POS</b>	<b>No. of Vendors by Tax ID</b>	<b>Percentage from Total Vendors over \$1M</b>	<b>FY 2014-15 POS</b>	<b>Percentage of Total \$4.3M POS</b>
> than \$10M	39	5%	\$761,714,424	18%
\$5M to \$10M	103	12%	\$698,341,029	17%
\$1M to \$5M	711	83%	\$1,473,557,029	36%
<b>TOTAL</b>	<b>853</b>	<b>100.00%</b>	<b>\$2,933,612,482</b>	<b>71%</b>

## Analysis of Problem

With the retained positions, audit coverage in fiscal year 2016-17 will approximate \$106 million or 3.6 percent of POS expenditures for vendors receiving \$1 million or more. Calculated against total POS expenditures, the audit coverage approximates 2.5 percent.

If the Department's 7.0 limited-term audit positions are abolished effective June 30, 2016, fewer audits will be conducted.

### E. Outcomes and Accountability

With the 7.0 retained positions, the Department projects that it will be able to conduct approximately 31.5 vendor audits in fiscal year 2016-17. The number of audits conducted may vary depending on the number of Whistleblower complaints that require an audit.

POS Expenditures	No. of Vendors*	% of Total Vendors > \$1M in POS Expenditures	No. of Audits per POS Expenditure Level
> \$10 M	39	5%	2
\$5 M to \$10M	103	12%	4
\$1M to \$5M	711	83%	25
<b>Total</b>	<b>853</b>	<b>100%</b>	<b>31</b>

\*Based on fiscal year 2014-15 vendor expenditure data.

### F. Analysis of All Feasible Alternatives

**Alternative 1:** Establish the 7.0 limited-term positions as permanent full-time.

Pros:

- Increases General Fund recoveries.
- Improves post audit vendor billing practices.
- Provides greater opportunity for DDS to focus audit resources on high risk services and vendors.
- Results in an overall improvement in the cost-effectiveness of services provided to consumers and in the operations of the provider.
- Improves oversight by the Department.

Con:

- There will be initial increased costs to support additional state staff.

**Alternative 2:** Do not establish the 7.0 limited term positions as permanent full time positions.

Pro:

- Reduces General Fund costs for state operations.

Cons:

- Reduces oversight to prevent inappropriate expenditures for services.
- Limits impact of the deterrent effect of audits.

## Analysis of Problem

- Limits DDS' ability to identify system and program weaknesses for targeted improvement.
- Limits ability to address whistleblower complaints in a timely manner.

### **G. Implementation Plan**

The Department will permanently establish the 7.0 positions on July 1, 2016.

### **H. Supplemental Information**

Audit staff in the Vendor Audit Section travel throughout the State 40 percent of the time, which requires a high travel budget.

### **I. Recommendation**

The Department recommends establishing the 7.0 limited-term auditor positions as permanent full-time. Retaining the positions permanently will enable DDS to fulfill its obligation to provide oversight of payments made to vendors statewide.

## BCP Fiscal Detail Sheet

BCP Title: Increased Vendor Audit Coverage

DP Name: 4300-001-BCP-DP-2016-GB

### Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	7.0	7.0	7.0	7.0	7.0
<b>Total Positions</b>	<b>0.0</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>
Salaries and Wages						
Earnings - Permanent	0	476	476	476	476	476
<b>Total Salaries and Wages</b>	<b>\$0</b>	<b>\$476</b>	<b>\$476</b>	<b>\$476</b>	<b>\$476</b>	<b>\$476</b>
Total Staff Benefits	0	232	232	232	232	232
<b>Total Personal Services</b>	<b>\$0</b>	<b>\$708</b>	<b>\$708</b>	<b>\$708</b>	<b>\$708</b>	<b>\$708</b>
Operating Expenses and Equipment						
5301 - General Expense	0	28	28	28	28	28
5304 - Communications	0	7	7	7	7	7
5306 - Postage	0	7	7	7	7	7
5320 - Travel: In-State	0	140	140	140	140	140
5322 - Training	0	7	7	7	7	7
5324 - Facilities Operation	0	35	35	35	35	35
5344 - Consolidated Data Centers	0	13	13	13	13	13
5346 - Information Technology	0	7	7	7	7	7
<b>Total Operating Expenses and Equipment</b>	<b>\$0</b>	<b>\$244</b>	<b>\$244</b>	<b>\$244</b>	<b>\$244</b>	<b>\$244</b>
<b>Total Budget Request</b>	<b>\$0</b>	<b>\$952</b>	<b>\$952</b>	<b>\$952</b>	<b>\$952</b>	<b>\$952</b>

### Fund Summary

Fund Source - State Operations						
0001 - General Fund	0	650	650	650	650	650
0995 - Reimbursements	0	302	302	302	302	302
<b>Total State Operations Expenditures</b>	<b>\$0</b>	<b>\$952</b>	<b>\$952</b>	<b>\$952</b>	<b>\$952</b>	<b>\$952</b>
<b>Total All Funds</b>	<b>\$0</b>	<b>\$952</b>	<b>\$952</b>	<b>\$952</b>	<b>\$952</b>	<b>\$952</b>

### Program Summary

Program Funding						
4140023 - Community Services Division	0	952	952	952	952	952
<b>Total All Programs</b>	<b>\$0</b>	<b>\$952</b>	<b>\$952</b>	<b>\$952</b>	<b>\$952</b>	<b>\$952</b>

**Personal Services Details**

Positions	Salary Information			CY	BY	BY+1	BY+2	BY+3	BY+4
	Min	Mid	Max						
4142 - Supvng Govtl Auditor I				0.0	1.0	1.0	1.0	1.0	1.0
4285 - Gen Auditor III				0.0	6.0	6.0	6.0	6.0	6.0
<b>Total Positions</b>				<b>0.0</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>
Salaries and Wages	CY	BY	BY+1	BY+2	BY+3	BY+4			
4142 - Supvng Govtl Auditor I	0	73	73	73	73	73			
4285 - Gen Auditor III	0	403	403	403	403	403			
<b>Total Salaries and Wages</b>	<b>\$0</b>	<b>\$476</b>	<b>\$476</b>	<b>\$476</b>	<b>\$476</b>	<b>\$476</b>			
Staff Benefits									
5150350 - Health Insurance	0	37	37	37	37	37			
5150500 - OASDI	0	37	37	37	37	37			
5150600 - Retirement - General	0	120	120	120	120	120			
5150800 - Workers' Compensation	0	3	3	3	3	3			
5150900 - Staff Benefits - Other	0	35	35	35	35	35			
<b>Total Staff Benefits</b>	<b>\$0</b>	<b>\$232</b>	<b>\$232</b>	<b>\$232</b>	<b>\$232</b>	<b>\$232</b>			
<b>Total Personal Services</b>	<b>\$0</b>	<b>\$708</b>	<b>\$708</b>	<b>\$708</b>	<b>\$708</b>	<b>\$708</b>			