

DEPARTMENT OF DEVELOPMENTAL SERVICES

1600 NINTH STREET, Room 320, MS 3-9
SACRAMENTO, CA 95814
TDD 654-2054 (For the Hearing Impaired)
(916) 654-1958



August 15, 2011

TO: INDIVIDUAL REGIONAL CENTER VENDORS AFFECTED BY WELFARE
AND INSTITUTIONS CODE SECTION 4652.5

SUBJECT: STATUTORY REQUIREMENT TO OBTAIN AN INDEPENDENT AUDIT
OR INDEPENDENT REVIEW REPORT OF FINANCIAL STATEMENTS

The purpose of this correspondence is to notify you that section 4652.5 (enclosed) was added to the Welfare & Institutions Code on March 24, 2011, requiring specified vendors to contract with an independent accounting firm for an audit or review of their financial statements. You are receiving this correspondence, because, based on purchase of service data the Department has received from regional centers, the above requirements appear to apply to you as a vendor of one or more regional centers. If you believe this new statutory requirement does not apply to you, you will need to contact the regional center to discuss.

Pursuant to this new law, when the amount the vendor receives from the regional center(s) during the vendor's fiscal year is more than or equal to two hundred fifty thousand dollars (\$250,000), the vendor must obtain an independent audit or independent review report of its financial statements for the period. Consistent with California Code of Regulations, Title 17, this requirement also applies to work activity program providers receiving less than two hundred and fifty thousand dollars (\$250,000). When the amount received from the regional center(s) during the vendor's fiscal year is equal to or more than five hundred thousand dollars (\$500,000), the vendor must obtain an independent audit of its financial statements for the period. Further, please refer to the enclosed excerpt from Welfare & Institutions Code for a list of items the independent review of financial statements and independent review report must cover, at a minimum.

These requirements do not apply to payments made using usual and customary rates, as defined by Title 17, for services provided by regional centers, nor to state and local governmental agencies, the University of California, or the California State University.

Each vendor is also required to provide copies of the independent audit or independent review report and accompanying management letters, to the vendoring regional center within 30 days after completion of the audit or review. The new law specifies what

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action, if any, must then be taken by regional centers. Regional centers will notify the Department of all qualified opinion reports or reports noting significant issues that directly or indirectly impact regional center services. This notification must include a plan for resolution of issues.

For questions about the new statutory requirements, please contact Ed Yan, Manager, Audits Branch at (916) 651-8207. For questions about whether these requirements apply to you as a vendor of the regional center or for questions about the process for submission of reports to the regional center, please contact your vendoring regional center(s) to discuss.

Thank you for your anticipated cooperation with these new requirements in law.

Sincerely,

Original Signed By

RITA WALKER
Deputy Director
Community Operations Division

Enclosure

cc: Regional Center Directors
Regional Center Administrators
ARCA
Mark Hutchinson

SEC. 13. Section 4652.5 is added to the Welfare and Institutions Code, to read:

4652.5. (a) (1) An entity receiving payments from one or more regional centers shall contract with an independent accounting firm for an audit or review of its financial statements subject to all of the following:

(A) When the amount received from the regional center or regional centers during the entity's fiscal year is more than or equal to two hundred fifty thousand dollars (\$250,000) but less than five hundred thousand dollars (\$500,000), the entity shall obtain an independent audit or independent review report of its financial statements for the period. Consistent with Subchapter 21 (commencing with Section 58800) of Title 17 of the California Code of Regulations, this subdivision shall also apply to work activity program providers receiving less than two hundred fifty thousand dollars (\$250,000).

(B) When the amount received from the regional center or regional centers during the entity's fiscal year is equal to or more than five hundred thousand dollars (\$500,000), 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 30 days after completion of the audit or review.

(c) Regional centers receiving 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) 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.

(e) For purposes of this section, an independent review of financial statements must 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.