California State Auditor

BUREAU OF STATE AUDITS

Department of Developmental Services:

Regional Center Budgets Are Not Based on Needs, and Departmental Oversight Could Be Improved

April 1998
Report 97024

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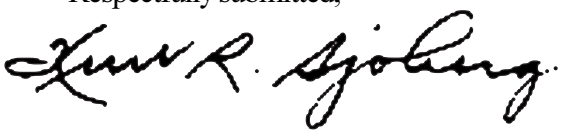
April 14, 1998 97024

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by the Budget Act of 1997, Chapter 282, Statutes of 1997, the Bureau of State Audits presents its audit report concerning the Department of Developmental Services (department) and its budget and allocation of funds for the 21 regional centers. In addition, the report contains an analysis of the regional centers' expenditures in total and for selected cost categories, and discusses the department's administration of its performance contract program with the regional centers. This report concludes that the department does not budget and allocate funds based on regional center needs; thus, the department cannot ensure that all developmentally disabled clients throughout California have equitable access to services. In addition, the department inadequately administers its performance contract program, and does not sufficiently monitor the regional centers' effectiveness.

Respectfully submitted,



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Audit Highlights . . .

The Department of Developmental Services does not:

- ☑ ***Budget and allocate regional center funds to ensure clients have equal access to needed services.***
- ☑ ***Ensure regional centers are adequately staffed with case managers.***
- ☑ ***Define or track case management costs.***
- ☑ ***Analyze each center's expenditures for trends and cost variances and determine their causes.***
- ☑ ***Effectively administer the performance contract program.***
- ☑ ***Comply with several sections of the Lanterman Act.***

Results in Brief

The Department of Developmental Services (department) administers the Lanterman Developmental Disabilities Services Act (Lanterman Act). The Lanterman Act entitles developmentally disabled people to any service that allows them, as closely as possible, to integrate with their communities. In addition, the Lanterman Act states that, to the degree possible, developmentally disabled people (clients) should not be dislocated from their families or communities.

The department administers the Lanterman Act in part by contracting with a network of 21 independent, nonprofit regional centers that provide services, such as housing, transportation, health care, and skills training, to approximately 138,000 clients statewide. In fiscal year 1996-97, the 21 centers spent approximately $1 billion to administer the program and purchase services for clients' needs.

The 1997-98 Budget Act required the Bureau of State Audits (bureau) to examine how the department develops and allocates the regional centers' budget. In addition, the bureau was charged with analyzing costs for client case management and purchased services.

We reviewed the department's budget and allocation processes and found that the department's processes do not ensure that clients throughout the State have equal access to needed services. Specifically, we noted that the department budgets funds for services based on historical expenditures of each regional center, not on their separate needs. Moreover, the department's allocation process is designed to ensure that each regional center receives at least the same amount of funding as in the prior year, regardless of individual need.

In addition, the department is not ensuring that regional centers are properly staffed and that their clients have equal access to case managers, who determine clients' needs for services and assist them in obtaining services. We found that the department's estimate for regional center staffing is not representative of true needs or case management costs. The department recognizes this problem and has requested funding to hire 808 more case managers.

Also, the department has not developed a uniform definition for case management costs and does not track each center's costs to assess their staffing levels.

The department does not equitably allocate funds for the centers because it fails to analyze each center's expenditures for trends and cost variances and determine their causes. Our analysis of the regional centers' expenditure patterns over the past five fiscal years indicates that costs for services grew by 61 percent for all regional centers combined, and the rates of growth among regional centers varied widely. In addition, for fiscal year 1996-97, the regional centers exhibited wide swings in cost per client in several service categories; however, the department does not investigate why. We found a number of reasons for cost differences. For example, some centers have enlisted community support to reduce costs and make their purchase-of-services funds go further.

In addition, by failing to effectively administer performance contracts, the department is not ensuring the legislative intent of measuring the regional centers' efforts in attaining more independent, productive, and normal lives for their clients. Specifically, we found that:

- Many of the measures contained in the performance contracts are "process" measures, focusing on completing specific tasks rather than client progress, such as the ability to function more independently.

- The department's incentive awards for meeting performance measures may be inappropriately linked to cutting costs for operations and purchased services and may inadvertently encourage the centers to reduce services rather than improve them.

- The incentive award structure may actually discourage centers from meeting performance measures. Because the centers can retain only 50 percent of any savings they generate, they are better off spending the surplus instead of meeting their performance measures. This is particularly true because the department does not take corrective action when centers do not meet their contract performance measures.

- The department fails to verify that the centers actually meet performance measures before awarding incentives, or that they spend the funds as intended.

Finally, we noted that the department has failed to comply with a number of sections of the Lanterman Act requiring the department to monitor regional center activities or report on program effectiveness.

Recommendations

To ensure equity in budgeting and allocating funds to the regional centers, the department needs to develop methods, such as piloting a master plan for the purchase of services that is based on each regional center's individual needs.

To ensure that regional centers are adequately staffed and that clients receive equal access to case management services, the department needs to take the following actions:

- Clearly identify appropriate case management costs for the centers.

- Require the regional centers to report case management costs quarterly, to regularly assess center staffing levels, and include this information in the annual financial audits.

- Use the centers' case management information to adequately budget for operations and ensure that all regional centers are properly staffed.

We further recommend the Legislature specifically designate case management funds in the Budget Act to ensure they are spent for that purpose.

The department also needs to take the following steps to improve its budgetary oversight of the regional centers:

- Analyze causes of expenditure variances and trends to determine if variances are the result of disparate treatment in purchased services, and use the analyses to revise the budget and allocations accordingly.

- Identify management practices at regional centers successful in containing costs and encourage other centers to adopt them.

To better use performance contracts to measure the benefits that services provide to clients, the department should take the following actions:

- Focus the centers' performance measures on determining how well services allow clients to attain more independent, productive, and normal lives. For example, using the client goals established in the Individual Program Plans, the regional centers should measure the progress that a set number of those clients are making as a result of receiving the services diagnosed to help them attain such goals.

- Encourage centers to meet performance measures without sacrificing client service and maintain a separate incentive fund to award centers appropriately. For instance, each regional center could award a portion of the incentive funds to staff and service providers, another part to improve the regional center facility, and a portion to reward those clients exhibiting measurable improvement.

- Take corrective action for centers not meeting the performance measures included in their contracts.

To more effectively administer performance contracts, the department needs to take the following steps:

- Require more compelling evidence that the centers met their performance measures;

- Document approved contract changes;

- Compare original performance objectives to the centers' year-end reports;

- Obtain complete written plans from the centers for spending incentive funds;

- Monitor the centers' expenditure of the funds; and

- Submit all regional center year-end performance reports to the Legislature to comply with Sections 4753 and 4836 of the Lanterman Act.

Finally, to improve monitoring of the regional centers' program effectiveness, the department should comply with each provision of the Lanterman Act.

Agency Comments

The Department of Developmental Services (department) disagrees with many of our conclusions concerning its budget process and its failure to investigate variances in the regional centers' purchase-of-services costs. The department does agree that it needs to review its budget and allocation processes, establish guidelines for the regional centers to follow in reporting case management costs, and study purchase-of-services cost variations among the 21 regional centers. Although the department has concerns with several of our conclusions regarding its administration of the performance contract program, the department agrees with most of our recommendations.

Introduction

The Department of Developmental Services (department) administers the Lanterman Developmental Disabilities Services Act (Lanterman Act). The Lanterman Act entitles developmentally disabled people to any service that allows them, as closely as possible, to integrate with their communities. In addition, the Lanterman Act states that, to the degree possible, developmentally disabled people (clients) should not be dislocated from their families or communities.

The Lanterman Act defines developmental disabilities to include mental retardation, cerebral palsy, epilepsy, autism, or other similar handicaps. A person with a developmental disability can receive services for life if the disability begins before age 18, is expected to continue indefinitely, and is a substantial handicap.

The department administers the Lanterman Act through the Developmental Centers and Community Services Programs. The Developmental Centers Program provides care, treatment, and other services to roughly 4,000 clients living in five state-operated developmental centers. Generally, these centers serve developmentally disabled people with severe medical or behavioral needs requiring 24-hour care.

The Community Services Program furnishes care to developmentally disabled clients residing in the community. The Community Services Program is composed of a statewide network of 21 nonprofit regional centers with their own independent governing boards. (See Figure 1 on page 4 for a map of the regional centers and the areas they serve.) The regional centers coordinate services for approximately 138,000 clients statewide, including housing, transportation, health care, and skills training. In fiscal year 1996-97, the centers spent approximately $1 billion to administer the Community Services Program and purchase services to meet their clients' needs.

Other state departments also provide services to the developmentally disabled, including the California Department of Education (CDE), Department of Rehabilitation, and the Departments of Health and Social Services. The services provided include special education classes and training

programs, medical care through Medi-Cal, and Supplemental Security Income and State Supplemental Payment Program (SSI/SSP) cash grants.

For fiscal year 1997-98, the department estimated that three of these departments—Rehabilitation, Health Services, and Social Services—will provide at least an additional $699.6 million in services to the developmentally disabled living throughout the State. The cost of providing special education classes is not included because the CDE does not separately account for special education costs for the developmentally disabled.

Client Profiles

To understand the regional centers' clients and services, we randomly selected five clients and studied the services they received for fiscal year 1996-97. These profiles demonstrate that the regional centers each serve clients that vary in age, degree of developmental disability, and service needs.

For example, one 43-year-old woman from the Eastern Los Angeles Regional Center, has moderate mental retardation and is blind. In fiscal year 1996-97, this client received approximately $46,200 in services. Specifically, her board in an adult residential facility cost $21,500, and her program support services cost $24,700. Program support services generally consist of one-on-one training in basic self-care skills and behavior control.

Conversely, a four-year-old girl from the Redwood Coast Regional Center with mild mental retardation and cerebral palsy received just under $1,000 in services. The regional center purchased medical equipment for this client.

Another client, from the San Diego Regional Center, is a 36-year-old man with moderate mental retardation, cerebral palsy, and epilepsy. This client's placement in an adult residential facility cost roughly $3,700.

Our fourth client is a legally blind 34-year-old man with severe mental retardation. This client is served by the Tri-Counties Regional Center and attends day training at an adult development center at a cost of approximately $9,300 during fiscal year 1996-97.

Finally, the Westside Regional Center serves a 49-year-old man with mild mental retardation. This client received about $30,800 in services from the regional center: $14,200 for behavior management services and $16,600 for board in an adult residential facility.

Recent Lawsuits Affecting the Department

The department's administration of the Lanterman Act has been significantly affected by two lawsuits. The first lawsuit, brought by the Association for Retarded Citizens (ARC) charged that the department's spending directives for the regional centers, issued in the early 1980s in anticipation of a shortfall in funding, were void. The directives designated a few categories of services as "basic and essential" and instructed the regional centers to provide these services and others only "to the degree funds are available."

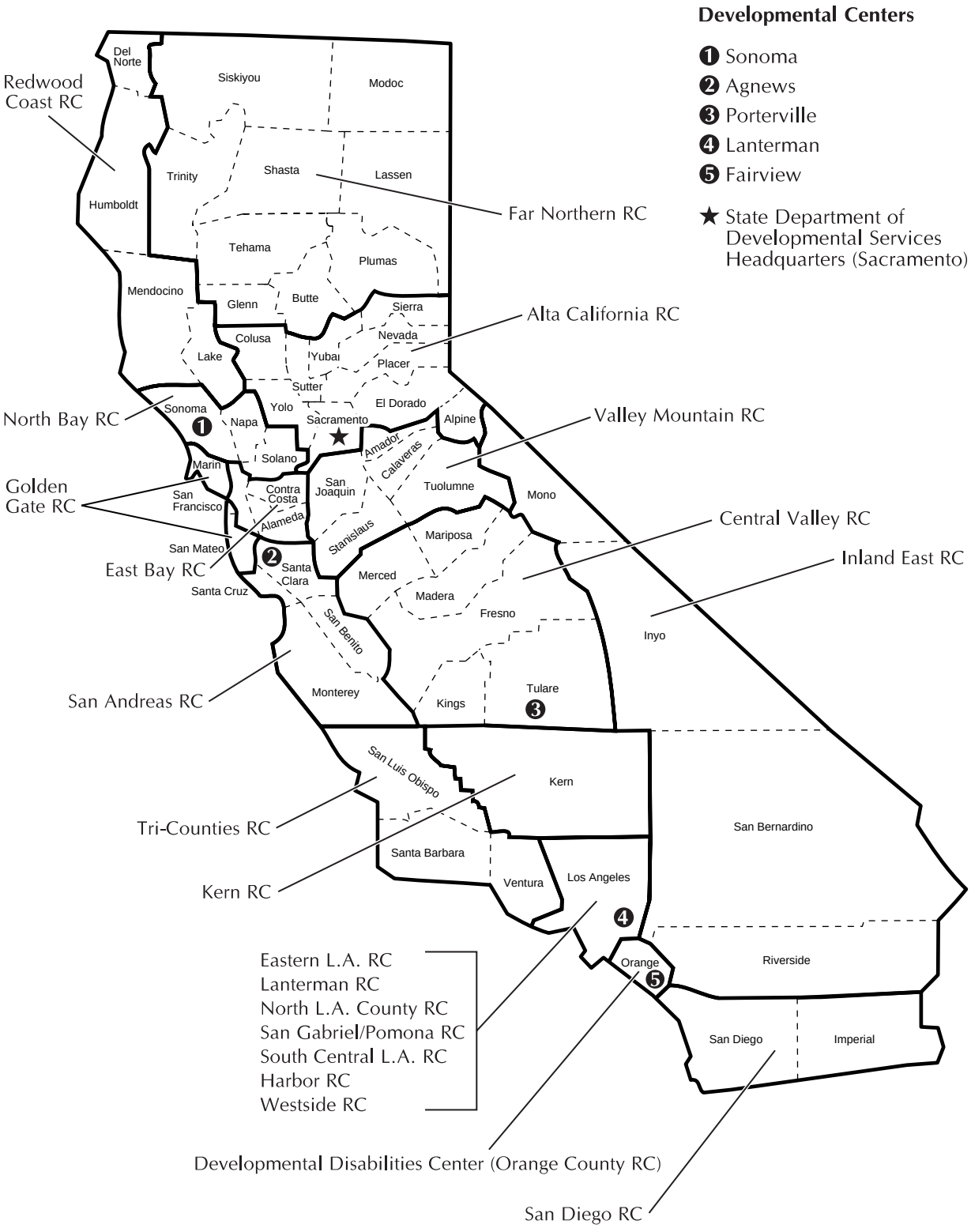
In March 1985, the State Supreme Court found in favor of the ARC. It held that in adopting the Lanterman Act, the State accepted responsibility for its developmentally disabled population and granted them certain statutory rights, including access to services to attain more independent and productive lives.

The court also outlined the department's responsibility for the regional centers. It limited the department's authority to simply promoting uniformity and cost-effectiveness in the regional centers' operations. Moreover, it held that the department cannot control how centers provide services to their clients.

In January 1994, the department settled another suit. This class action suit resulted in the Coffelt Settlement, which required the department to develop services to allow many developmental center residents to live in the community. Also, the department agreed to reduce the developmental centers' population by 2,000 over five fiscal years, beginning in 1993-94. Because they have more severe medical or behavioral needs, the clients exiting the State's developmental centers will generally require more intensive and often more expensive services.

Figure 1

Department of Developmental Services Regional and Developmental Centers



Scope and Methodology

The 1997-98 Budget Act (Budget Act) requires the Bureau of State Audits (bureau) to analyze the department's regional center expenditures for operations and purchase of services. Our analysis of operations expenditures was to include an examination of costs for case management services. Case managers work with regional center clients to assess their needs and help them obtain appropriate services. In addition, the bureau was to compare each regional center's expenditure patterns overall and by service category, and, finally, to analyze and recommend to the Legislature how best to display and account for regional center expenditures in the Budget Act.

In order to analyze both the regional centers' operations and purchase-of-services costs, we retrieved financial data from fiscal years 1992-93 to 1996-97 from the department's Uniform Fiscal System (UFS). The UFS is a network of computers shared among the regional centers and the department. To determine whether the UFS data was accurate, we tested a statistically valid sample of expenditures at four regional centers. These tests were sufficient to allow us to make a conclusion about the statistical reliability of the data we extracted from the UFS for all regional centers.

To compare expenditure patterns among regional centers, we segregated purchase-of-services costs by regional center into various service categories. We then identified the three largest cost categories and analyzed these expenditures further. For each category reviewed, we sought input from certain regional centers to understand the expenditure patterns.

To review costs for case management services, we obtained case management costs from the UFS. For those regional centers that did not separately report these costs in the UFS, we asked them to segregate case management from other administrative costs for the two most recent fiscal years. We also obtained case management and other administrative costs from each regional center's financial statements.

In addition, to understand the department's oversight of the regional centers, we studied the centers' fiscal and program reports and the frequency and scope of reviews the department performs. We also reviewed the department's performance contracts with the regional centers. We first examined the department's performance contract guidelines, then assessed the performance measures the contracts contained to determine if they were sufficient to challenge the centers to improve. Next, we assessed the department's administration of these contracts and its use of incentives to encourage the centers to

meet their performance measures. In addition, we compared regional centers' planned use of incentive funds to actual expenditures.

Finally, we analyzed how the department builds its estimates for the Governor's Budget to recommend to the Legislature how to best display and account for regional center expenditures. As part of this analysis, we examined how the department allocates the budget to the individual regional centers for operations and purchase-of-service costs as well as the relationship the budget estimate has to the budget allocation.

Because the following chapters include numerous terms that require explanation, we have provided a glossary at the end of this report.

Chapter 1

The Department Does Not Base Its Budget on Regional Centers' Needs

Chapter Summary

We reviewed the Department of Developmental Services' (department) budget and allocation processes for the statewide network of 21 regional centers. We found the department estimates needed resources for all centers on a statewide basis, and the majority of the purchase-of-services budget is based on historical expenditures, not on each center's individual needs. Specifically, the department does not consider the funds each center requires to meet clients' needs in its budget allocations. Rather, it allocates at least the same amount of funding as in the prior year to each center. Further, the department does not analyze each regional center's expenditure data to determine if variances result from inequitable funding.

In addition, although the department recognizes that its staffing formula is deficient, its estimate for regional center staffing does not represent true needs or costs. Therefore, the department cannot ensure that centers are properly staffed. Finally, the department has not developed a uniform definition of case management costs, nor does it track these costs by regional center. As a result of these deficiencies, the department cannot ensure developmentally disabled clients have equal access to services throughout the State.

The Previous Years' Budgets Drive Future Estimates

Seventy-eight percent of the regional center budget is spent on purchase of services.

The department prepares budget estimates for the regional centers twice a year. This statewide budget estimate is mainly composed of two components: purchase of services and operations, with each component estimated separately. (The budget process is described in further detail in Appendix A.)

The purchase-of-services component is the largest, making up approximately 78 percent, or $914.6 million, of the total fiscal year 1997-98 regional center budget. Centers use these funds to procure services for clients and their families, including housing, skills or behavioral training, and

transportation. These services are generally purchased from professionals and others in the community who specialize in providing services to people with developmental disabilities. The second component—operations—represents funds for regional centers' operating costs, such as salaries and wages, equipment, rent, and supplies.

The department uses several estimating techniques to develop the purchase-of-services component. However, the largest portion, approximately 85 percent, is not really an estimate. Rather, this amount is rolled forward from the previous year's purchase-of-services budget. According to the department's manager of the Financial Services Branch, the process the department uses to project regional center costs was originally recommended by the Legislative Analyst's Office in the late 1980s and approved by the Legislature and the Department of Finance. The manager further stated that the department builds its budget estimate on the assumption that historical expenditures are a predictor of future needs. In fact, many state agencies use this model, which estimates their current-year budgets using the prior year's figures plus an incremental growth factor. While this model works best when budgeting for a single, relatively stable entity with a fairly predictable growth pattern, it does not work well for the regional centers, each with its own client mix and service needs. Consequently, the department's budget does not reflect the regional centers' individual future funding needs, nor does it ensure that clients have equitable access to services.

The department assumes historical expenditures are a predictor of future needs.

Annual Negotiations Establish Regional Centers' Budget Allocations

After the Legislature approves the department's yearly budget for the regional centers, the department allocates the budgeted resources. First, the department assists the Association of Regional Center Agencies (ARCA) Finance Committee to develop the method later used to allocate the budgeted funds. The ARCA is an association composed of members from the 21 regional centers examining issues of concern common to the regional centers and providing an organized way for them to communicate with the department and the Legislature. Once its board of directors grants approval of the allocation method, the department approves it as well and divides the purchase-of-services and operations budget components among the regional centers. To date, for fiscal year 1997-98, the amount allocated for the purchase of services totals approximately $908 million, with another $223 million allocated for operations. (The allocation process is described in further detail in Appendix A.)

Centers are allocated the same amount each year regardless of need.

When making its allocation, the department does not examine each center's caseload or the particular mix of services it offers clients. Rather, the allocation is premised on providing each center an amount at least equal to what it received in the prior year. Specifically, for the purchase-of-services allocation, the department first calculates each regional center's purchase-of-services base amount. The base amount is equal to what each center received for its prior-year purchase-of-services allocation, with minor adjustments. These adjustments are made to add or remove funds for one-time items or separate allocations, or to reflect client transfers between regional centers. For example, in fiscal year 1997-98, to determine the San Diego Regional Center's allocation, the department began with the $54.9 million allocated to the center for the prior-year purchase of services, less a $2.1 million adjustment. Therefore, this regional center's purchase-of-services base, or starting allocation, for fiscal year 1997-98 was $52.8 million, which is almost equal to the center's total purchase-of-services allocation of $54.9 million from the previous fiscal year.

The department also shifts funds from centers with surpluses to those projecting deficits. For example, during fiscal year 1997-98, the department shifted approximately $4.8 million from 13 regional centers with surplus funds to cover 6 centers' deficits. However, when the department makes such a shift, it does not reduce a surplus center's subsequent allocation. Consequently, centers that have demonstrated through prior-year surpluses that they do not require the funds to meet their clients' needs continue to receive at least the same level of purchase-of-services funding.

Regional Centers' Expenditures for Purchase of Services and Operations Differ Significantly

The regional centers' expenditure data for fiscal years 1992-93 through 1996-97 indicate that the amounts spent on purchase of services and operations vary considerably. Table 1 shows the variability among the regional centers' expenditures during fiscal year 1996-97. The regional centers are arranged by their client caseload.

Table 1

Regional Centers' Expenditures and Caseloads
Fiscal Year 1996-97
(dollars in thousands)

Regional Centers	Caseload	Purchase of Services		Operations		Total Expenditures
		Dollars Spent	Percent of Total	Dollars Spent	Percent of Total	
Redwood Coast	1,907	$ 13,221	81%	$ 3,149	19%	$ 16,371
Kern	3,737	25,252	79	6,795	21	32,047
Far Northern	3,963	23,681	79	6,308	21	29,990
Westside	4,298	29,559	82	6,564	18	36,123
Eastern Los Angeles	4,484	20,822	76	6,545	24	27,367
F. D. Lanterman	4,738	26,818	80	6,707	20	33,525
North Bay	4,767	44,669	87	6,537	13	51,206
Golden Gate	5,243	41,476	83	8,663	17	50,138
Valley Mountain	6,001	42,929	83	8,799	17	51,728
South Central Los Angeles	6,241	32,751	78	9,010	22	41,761
Harbor	6,432	33,658	78	9,756	22	43,415
San Andreas	6,472	53,411	84	10,396	16	63,807
Tri-Counties	6,486	41,869	82	8,981	18	50,850
San Gabriel/Pomona	6,675	39,139	80	9,820	20	48,959
Central Valley	8,056	44,189	79	11,569	21	55,758
North Los Angeles	8,106	47,590	83	9,982	17	57,572
East Bay	8,840	63,204	83	12,916	17	76,120
Orange County	8,907	53,235	82	11,954	18	65,189
Alta California	9,160	52,584	83	10,589	17	63,173
San Diego	10,801	55,024	80	13,351	20	68,375
Inland	13,178	51,377	75	17,410	25	68,787
Total	**138,492**	**$836,458**	**81%**	**$195,801**	**19%**	**$1,032,259**

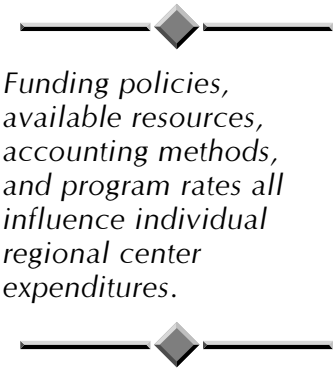
Comparing regional centers on the table with similar client caseloads reveals the disparity among the centers' expenditures on the purchase of services. In fact, one regional center may spend millions of dollars more than another to purchase services for a similar number of clients. For example, the F.D. Lanterman Regional Center spent approximately $26.8 million to purchase services for 4,738 clients, while the North Bay Regional Center, which served 4,767, only 29 more clients, spent approximately $44.7 million. Similarly, the Harbor Regional Center spent approximately $33.7 million on services for 6,432 clients whereas the San Andreas Regional Center spent approximately $20 million more for an additional 40 clients.

The table also illustrates variations in the ratios of clients receiving services to the total spent on purchased services. For example, the San Andreas Regional Center spent approximately

$53.4 million to purchase services for their 6,472 clients, while Inland Regional Center, which serves more than twice as many clients, spent $2 million less.

Centers' Responses to Variations in Expenditures

We reviewed client statistics from the department's data information system for each of the five regional centers discussed above, to determine whether differences in client populations warranted the wide range in costs of services. When we compared the clients' disability levels, their residency, and ages, we did not find major differences among the populations of the five regional centers. For example, more than half of the clients of each of the five regional centers reviewed have mild or moderate mental retardation, and more than half live at home. Additionally, the majority of the clients are between the ages of 22 and 40. As a result, using the demographics for these five regional centers, we could not determine why the disparity in spending exists. Consequently, we questioned staff from each of the five regional centers about these apparent disparities. The information provided by the regional centers in this section of Chapter 1 and throughout Chapter 2 was obtained through telephone interviews. We did not audit this information and therefore we do not warrant its accuracy.



Funding policies, available resources, accounting methods, and program rates all influence individual regional center expenditures.

The chief of administrative services at F.D. Lanterman Regional Center stated that it is difficult to compare spending between centers because of the many variables that exist, including the funding policies and resources available for individual centers. In addition, centers may record expenditures for similar services in different categories, making it difficult to compare one center to another. Finally, the chief stated that older nonresidential programs generally pay lower rates for services because cost-of-living increases have been infrequent, while newer programs generally pay higher rates.

When asked to explain why its expenditures were so much higher than those at the F.D. Lanterman Regional Center, the chief operating officer at the North Bay Regional Center also found making comparisons difficult. He attributed differences in spending patterns to differences in the centers' philosophies and the nature of the services they deliver. The chief cited an example where F.D. Lanterman may use intermediate care facilities for clients not funded by the regional center's budget, while other centers like North Bay may use community care facilities paid for with purchase-of-services dollars for similar services. As a result, F.D. Lanterman would spend fewer

Community pressures can add to the cost of services provided at individual centers.

purchase-of-services dollars. Community pressures also add to the cost of services at North Bay, the chief said. The chief also stated that North Bay is the only regional center serving a three-county area and has one local area board for the area. In contrast, F. D. Lanterman is one of seven regional centers in its area, with one local area board. As a result, North Bay may be the focus of more community advocacy for additional services, driving costs higher.

To determine why Harbor Regional Center spent approximately $33.7 million to purchase services for 6,432 clients while the San Andreas Regional Center spent $53.4 million for a comparable population, we contacted both regional centers. Harbor's chief financial officer said that the cost and availability of community resources will vary from community to community. The chief added that his center's philosophy may be different as well. For example, Harbor's day-care costs are very low because the center operates on the premise that the regional center should only pay for day care related to the individual's disability; the families pay for other day-care services. However, for more severely disabled clients, Harbor cannot find suitable community-based day-care services, so it uses different providers to pay for the special care these clients require.

Likewise, the director of the San Andreas Regional Center responded that the nature of the community and the client base affects each center's expenditures differently. To illustrate, because the San Andreas community feels that day-care services are very important, San Andreas spends a considerable amount on these services, whereas Harbor Regional Center spends very little. Our analysis showed that San Andreas spent almost $800,000 compared to the $88,000 spent by Harbor on day-care services in fiscal year 1996-97.

The director also stated that about 1,500 of the San Andreas clients live in community care facilities. Furthermore, many of those facilities furnish the most costly treatment. Community care facilities charge varying rates, depending on what type of facility they are. A Level 1 facility is the least expensive, giving limited care and supervision for clients with self-care skills and no behavior problems. On the other hand, a Level 4 type facility gives the most expensive care for clients needing self-care skills, with severe physical coordination and mobility impairments, or exhibiting severely disruptive or self-injurious behavior. Our analysis showed that San Andreas spent approximately $15.9 million on community care facilities in fiscal year 1996-97, more than any other regional center except one. According to the director, because operating community care facilities in the San Andreas area is so expensive, providers

have been reluctant to develop any facilities that receive lower rates than Level 4 facilities. Therefore, San Andreas Regional Center has little choice but to place some clients in Level 4 care facilities even though they do not require these more expensive services. In this instance, the director felt that geographical and cost-of-living factors helped explain purchase-of-services spending differences.

We also asked the director of the San Andreas Regional Center why his center spent approximately $2 million more to purchase services for less than half the clients that Inland Regional Center served. The director stated that Inland Regional Center was able to build more intermediate care facilities than San Andreas. Intermediate care facilities are funded by Medi-Cal, not purchase-of-services funds.

The Coffelt Settlement, discussed in the Introduction, is another reason for high purchased-services costs at the San Andreas Regional Center, according to the director. As one of four regional center defendants in the settlement, San Andreas received funds from the department to integrate 72 former developmental center clients into the community. This was the largest number of developmental center clients in the State assigned to one regional center. The center now assists 167 clients in more costly supported-living arrangements. As a result of the Coffelt Settlement, San Andreas Regional Center has one of the highest per capita purchase-of-services expenditures, according to its director.

One center's philosophy emphasizes clients' "needs" over their "wants" to keep costs down.

For additional perspective, we asked Inland Regional Center's chief of financial services why its purchased services were so much lower than at San Andreas. He responded that the ARCA Finance Committee discussed this issue without reaching a clear understanding. As other center officials have responded, the chief further stated that the reasons for differences are varied and complex. According to the chief, Inland's philosophy emphasizes clients' "needs" over their "wants," which helps to keep costs down. The chief also said that Inland clients may have more access to intermediate care and skilled nursing facilities funded by outside sources. Finally, the chief added that Inland's low transportation costs may also keep costs down. Our analysis showed that Inland spent approximately $3.4 million on overall transportation services in fiscal year 1996-97, whereas San Andreas spent approximately $5 million on contracted transportation services alone during the same period.

Although the department receives expenditure data from the regional centers each month, it does not analyze this information as we did to identify and investigate significant

variances in the amount of services the centers purchased or expenditure trends to ensure equity of service. In a letter dated March 16, 1998, we asked the department why it does not perform such analytical techniques. According to the chief deputy director, the department does perform a "per capita" analysis and attempts to equalize spending between regional centers when making its equity adjustment. The department's equity adjustment results in additional funding to those centers whose per client spending is lower than the 21 center average. We reviewed the department's equity adjustment and found that in fiscal year 1997-98, the department allocated approximately $4.9 million in additional purchase-of-services equity funds. This amounts to less than three-quarters of one percent of the $836 million spent on purchased services in fiscal year 1996-97 and, therefore, would have little effect on the equity of service levels provided.

A Purchase-of-Services Master Plan Would Better Assure Equitable Quality of Care

To help ensure equitable quality of care throughout the State, we believe the department should establish a master plan for budgeting the purchase of services. This master plan would represent the projected purchase-of-services needs for each regional center. To establish a master plan, each center must estimate its needs for the purchase of services, using a uniform matrix of services, listing each type of client disability as well as its severity (e.g., mild, moderate, profound, etc.); the services diagnosed for each type and degree of disability; maximum service level for each service diagnosed; and the cost. The service level maximums would only be guides and could be adjusted if the client's individual program plan justified the increase.[1] This type of service matrix could be used to estimate each regional center's purchase-of-services budget.

Service levels would only be guides and could be adjusted to address individual clients' needs.

Representatives from each center could meet with the ARCA to compare their matrices and estimated budgets. These comparisons would focus on any variances among the regional centers in the level of service identified for similar developmental disabilities having the same degree of severity. The representatives could discuss differences to determine why they occurred and reach agreement as to an appropriate service level for all regional centers to use in such cases. Once agreement is reached concerning all such variations, the

[1] An individual program plan identifies each client's disability and its severity, as well as the services diagnosed as required for the client to achieve a more independent, productive, and normal life.

ARCA could approve the 21 purchase-of-services matrices and submit them to the department as the basis for the annual budget. The department could then create a master purchase-of-services matrix, using the information from the separate matrices. This information could also be amended by the department as service needs changed for any of the regional centers. Once the budget was approved, the purchase-of-services component could then be allocated according to each regional center's purchase-of-services matrix of needs and would serve to establish each regional center's annual purchase-of-services budget component in its contract. Regional centers would then report monthly to the department using the same expenditure components as in their individual matrices about how their actual purchase-of-services expenditures matched their estimates. The department could then investigate any large variances to determine the cause and provide technical assistance if warranted.

A master plan would be more accurate and equitable because centers would determine their needs and service levels would be substantially comparable for clients statewide.

The regional center's budget matrices could even be adapted to indicate the number of case managers needed to serve the estimated clients at each regional center. We believe such a system would be much more accurate and equitable because each center would individually estimate its purchase-of-services needs, the level of services provided would be substantially comparable for clients throughout the State having the same developmental disability and degree of severity, and the allocation would mirror each regional center's needs.

We recognize that transitioning to a different method of budgeting and allocating regional center funds will require significant effort. Therefore, we suggest that the department pilot the use of the master plan with a subset of regional centers that have demonstrated wide variability in their purchased-services expenditures while continuing to budget and allocate center funding as it does now. During the transition period, the department should work with the piloting regional centers to identify enhancements needed for the Uniform Fiscal System (UFS) to capture the expenditure components of the centers' matrices. During the pilot phase, such data could be tracked and reported to the department using electronic spreadsheets on the pilot centers' personal computers.

Information Used To Budget Operating Costs Does Not Reflect Needs

The proposed statewide operations budget for the regional centers for fiscal year 1997-98 is approximately $227 million. Of this amount, $173 million, roughly 76 percent, is budgeted

The personal services funding formula does not consider fluctuating staffing levels and relies on old data.

for personal services costs, including the projected salaries and wages of the regional centers' administrative and direct service staff. To estimate these costs, the department uses a standard staffing pattern, called the Regional Center Core Staffing Formula (formula), although this formula does not consider fluctuating staffing levels among centers and relies on old data for estimating salaries. As a result, the department's estimate for regional center staffing does not represent the centers' true needs or costs and does not ensure that all clients receive equal access to staff and services.

Specifically, the formula is based on a list of positions, ratios for calculating the number of staff for each position, and the average salary for an equivalent state employee classification. Within the formula some positions are fixed, whereas others depend upon the number of clients served. For example, the department budgets one director for each regional center, but calculates case manager staff at a ratio of 1 per 62 clients. Case managers work with a client to determine his or her needs for services and assist the client in obtaining those services. To calculate staffing costs, the department multiplies the total number of positions by their equivalent average salary. The accuracy of the personal services estimate relies on these three interdependent factors. However, because the information it uses does not represent the regional centers' actual needs, the department's statewide budget estimate does not reliably project personal services costs.

For example, the position listing does not include computer positions, even though regional centers use a networked financial system that would reasonably require in-house computer specialists. Consequently, regional centers must use funds budgeted for other positions to pay for them, resulting in a funding shortage for other needed staff positions.

In calculating the statewide costs for regional center staffing positions, the department uses average salaries for an equivalent state position. However, the average salaries it uses are significantly lower than the state equivalent. Therefore, the formula underestimates the salaries necessary to attract and retain qualified employees. As a result, the regional centers may not employ enough case managers to adequately serve their clients.

According to a recent Budget Change Proposal (BCP) submitted to request additional regional center funding, the department recognizes that its formula does not supply the regional centers with adequate staff, particularly case managers. The BCP noted that the staffing formula was established in 1976 and has remained essentially unchanged. Additionally, despite using a

desired case manager-to-client ratio of 1 to 62 in the formula, the department estimated case managers currently support caseloads of 90 clients each and, therefore, "are unable to provide adequate case management services." As a result, the department is requesting funding to hire an additional 808 case managers statewide.

The Department Does Not Track or Uniformly Define Case Management Costs

The department does not track regional centers' case management costs using the UFS. In addition, the department has not developed a uniform definition of these costs for the regional centers to use. Case management costs are important because they tell how much regional centers spend directly on supporting clients' needs, as opposed to spending for indirect costs, such as equipment, office supplies, or rent. By failing to track these costs, the centers cannot assess their appropriateness, nor can the department analyze and compare these costs among regional centers. Further, the department cannot ensure that regional centers are properly staffed and that clients have equal access to case management services.

Although the Legislature requested the Bureau of State Audits to identify the amount of their operational budgets that regional centers spend on case management, the department's UFS, which reports all center expenditures, is not designed to provide this information. We obtained the centers' operations expenditure data from the UFS for fiscal year 1996-97. Although the department established a case management cost center within the UFS, we noted that four of the regional centers had not reported case management costs separately from other operational costs. When we asked these centers to segregate their case management costs for the two most recent fiscal years, we found that each center used a different method to determine these costs. For instance, one center calculated the ratio of staff positions performing case management duties to all other staff positions. Another regional center determined its ratio by comparing case managers' salaries to total employee salaries. The centers then multiplied their total operations expenditures by those ratios to determine their case management costs.

Because the UFS is not designed to identify case management costs, the department cannot ensure that regional centers are properly staffed and clients have equal access to services.

We also noted a wide disparity in spending for regional centers' case management expenditures reported in the UFS. Specifically, the centers that used the case management cost center, reported a range from 19 to 63 percent of total operations costs for fiscal year 1996-97. When we asked two

of the regional centers why there was such a difference in their case management expenditures, they told us that the UFS is an accounting system and was not designed to allocate shared costs. Shared costs are costs for activities, such as a regional center's rent, that indirectly benefit more than one function. These two regional centers also stated that the department had not established guidelines for separating case management costs from other operating costs. As a result, we found one regional center reporting only a portion of their case managers' salaries, wages, and benefits as case management costs, while another reported the costs for intake specialists, who evaluate people applying for regional center services; staff nurses; and most of their case managers. Because we found inconsistencies in the four centers' calculations of case management costs that did not use the cost center in the UFS, as well as inconsistencies in the data the other 17 regional centers reported in the UFS, we determined that we could not rely on either source of information.

After we noted inconsistencies in the case management cost data contained in the UFS, we asked the department's chief of program services and regional center support section whether the department provides guidelines to the regional centers on what expenditures are appropriate to include as case management costs. The chief stated that he could not find any case management cost guidelines. Furthermore, he stated that he was uncertain whether the department had ever issued such guidelines to the regional centers. This is consistent with our discussions with officials at two regional centers, who stated that the department had not provided any guidelines for segregating case management costs from amounts spent for other operating purposes.

The department could not provide any guidelines on what expenditures are appropriate to include as case management costs.

In addition, although the department has established a case management cost center within the UFS for regional centers to record these costs, the department has not designed a routine report to capture this information. The chief stated that the department does not have a standard report on case management expenditures but that it could produce an ad hoc report on any cost center if it were requested. The chief did not indicate if these reports were ever produced. Nonetheless, even if such reports were requested by the department, the value of the data would be questionable given the inconsistencies in application we noted by the centers and the lack of any case management cost guidelines provided by the department to the regional centers.

To identify case management costs for this audit, we reviewed the most recent audited financial statements for each regional center, which were for fiscal year 1995-96. Our review

revealed that eight audit reports contained a breakdown of operations expenditures based on employee functions and identified case management costs. An additional seven audit reports included functional breakdowns of operations expenditures but did not separately identify the costs for case management. The remaining six audit reports provided no breakdown of operations expenditures at all. Table 2 presents a summary of the eight regional center audit reports that identified case management costs.

Table 2

Case Management Versus Other Operating Costs
by Regional Center
Fiscal Year 1995-96
(dollars in thousands)

Regional Centers	Case Management	Percentage of Total Operating Costs	General and Administrative	Other Client Services	Total Operating Costs
Central Valley	$ 7,283	69%	$ 1,396	$ 1,876	$10,555
Eastern Los Angeles	2,502	40	2,000	1,743	6,245
Far Northern	4,254	69	1,715	217	6,186
Harbor	5,417	63	1,114	2,029	8,560
Inland	7,007	40	7,960	2,507	17,474
North Los Angeles	3,865	42	1,587	3,708	9,161
Redwood Coast	1,900	60	518	760	3,178
Westside	3,278	53	932	2,027	6,237
Total	**$35,506**	**53%**	**$17,222**	**$14,867**	**$67,596**

Source: Independent CPA Reports.

The table indicates only those costs the regional centers' independent auditors, not the department, deemed as case management. The case management costs for these eight regional centers ranged from 40 to 69 percent of total operations costs. Conversely, the four regional centers mentioned earlier reported case management costs for fiscal year 1996-97 that ranged from 64 to 85 percent of total operations costs. The disparity in ranges demonstrates that without consistent criteria for identifying and reporting case management costs, the regional centers do not have a reasonable basis to report them, nor does the department have the information it needs to compare these costs. Further, the

department cannot incorporate this information in its budget process to ensure that regional centers are adequately staffed and that all clients have equal access to services.

Conclusion

The purchase-of-services component makes up the majority of the regional centers' budget, and is not based on the separate needs of each regional center; rather, it is based on the budget awarded the previous year. The department's allocation of the budget is designed to ensure that each regional center receives at least the same amount of purchase-of-services funding as in the prior year, and does not consider the funds each regional center requires to meet its respective clients' needs. Therefore, when developing and allocating the regional center budget, the department ignores the unique needs of each of the regional centers. As a result, the department cannot ensure that all developmentally disabled people throughout the State have equal access to and receive the same level of regional center services. In addition, the department's estimate for regional center staffing does not reflect the centers' needs. The department recognizes that its staffing formula is deficient and is taking steps to change it. Finally, the department has not developed a uniform definition of case management costs nor does it track these costs by regional center. As a result of these deficiencies, the department cannot ensure that developmentally disabled clients have equal access to services throughout the State.

Recommendations

To better ensure that services are delivered equitably and cost-effectively, the department should take the following steps:

- In conjunction with the ARCA and selected regional centers that have shown wide variances in their purchase-of-services expenditures, develop and pilot a purchase-of-services master plan matrix that includes each type of developmental disability served, the severity of the disability, the service diagnosed for each disability type and severity, the maximum service level for each diagnosed service, and the cost.

- Include in the master plan the number of case managers needed to serve the estimated clients at each pilot regional center.

- During the pilot phase, identify the enhancements needed for the UFS to capture the expenditure components of the regional centers' matrices so that budget to actual expenditure comparisons can be made monthly.

The department needs to provide guidance to the regional centers about identifying costs appropriate for inclusion as case management costs.

Using the uniform methodology developed by the department, the centers should report case management costs quarterly. This information should also be included in the annual audit of the regional centers' financial statements.

The department should use the regional centers' case management information to budget for operations so that all centers are properly staffed with enough case managers to ensure client access to services.

The Legislature should display separately in the Budget Act those funds appropriated to the department for case management to ensure that the funds are spent for that purpose.

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Chapter 2

Despite Increasing and Varied Program Costs, the Department Does Not Investigate These Trends Among the Regional Centers

Chapter Summary

Our analysis of expenditures over the past five years showed that, while purchased-services costs in total grew by 61 percent for all regional centers combined, the rates of growth among centers varied widely. Also, for fiscal year 1996-97, the centers exhibited wide swings in their cost per client in several different service categories. While the Department of Developmental Services (department) does not investigate why these costs vary, we found there may be many reasons for the cost differences we noted, but these reasons became clear only after we contacted the regional centers. For example, some centers have enlisted community support to reduce costs and make their purchase-of-services funds go further while another center negotiates fees with service providers. By failing to analyze regional center expenditures to identify trends and causes for cost variances, the department overlooks information necessary to effectively and equitably budget for the regional centers' unique needs. This chapter discusses how these expenditures vary and their growth between fiscal years 1992-93 and 1996-97.

We obtained our expenditure and client data from the department's Uniform Fiscal System (UFS). The UFS is a shared network of computers allowing the regional centers to exchange expenditures and other information with the department. We extracted from the UFS the most recent five years' worth of expenditure data, which we use in the figures and tables in this chapter. (For additional information on the UFS, see Appendix B.)

The Department Does Not Monitor Purchase-of-Services Costs

In fiscal year 1996-97, regional centers spent more than $836 million, 81 percent, of their total expenditures on the purchase of services. Centers serve some clients themselves but mainly purchase services from community health professionals

or others specializing in providing services to the developmentally disabled. Day training, a program which teaches clients living and job skills, is one example of these services. We found that the department does not analyze the purchase-of-services expenditures reported by regional centers as we did and, as a result, the department may not ensure clients have equitable access to services. Specifically, the department does not analyze why costs vary among centers for similar services or track centers' expenditure trends to identify significant changes in specific categories.

While the department agrees an in-depth study of purchase-of-services categories would be a good idea, it believes that this analysis would take additional resources.

We sent a letter to the department asking why it does not analyze regional center expenditures to determine the causes of significant variances and trends. According to the chief deputy director, the department agrees that doing an in-depth study and analysis to discover the various differences between purchase-of-services categories as a means to better understand how regional centers meet client needs is a good idea. However, the chief deputy director believes that such an analysis would take additional resources. The chief deputy director also stated in his letter that this is a very complex issue that is affected by many variables and would require the resources to thoroughly investigate on a center-by-center basis, by purchase-of-services category, the needs of the consumer being met, the policies by which the regional center purchased the service, the rate system used to pay the vendor, what entity pays for the service, and how the service is being delivered. Such a study would take a considerable amount of time; however, it would be critical that sufficient resources be made available given the policy implications that could come from such an analysis. We agree that the type of in-depth study and analysis the chief deputy director describes would most likely require a certain commitment of resources. However, we believe the department could reap similar benefits by doing such a study and analysis on a pilot basis. The pilot should include a set number of regional centers that have shown variability in their purchase-of-services expenditures like the centers we discuss in this report. We believe such an approach would minimize the need for additional resources by either the department or the centers included in the pilot.

Analysis of Significant Regional Center Purchased-Services Categories

Figure 2 shows the distribution of statewide purchase-of-services costs during fiscal year 1996-97. When we compared the percentages for total program expenditures between fiscal years 1992-93 and 1996-97, we found they did not vary significantly. (For a description of the programs and services shown in

Figure 2, please see the Glossary.) As illustrated in the figure, three categories—day training, out-of-home community care facilities, and transportation—make up 70 percent of all purchase-of-services expenditures statewide. In the following sections, we discuss how these costs vary by regional center. Note that, although the nonmedical services costs represent 13 percent, a slightly larger segment than transportation services, we did not include it in our analysis because nonmedical services includes aggregate costs for a variety of smaller service categories that are not as significant in terms of dollars as transportation services are.

Figure 2

Purchase-of-Services Expenditures
Fiscal Year 1996-97

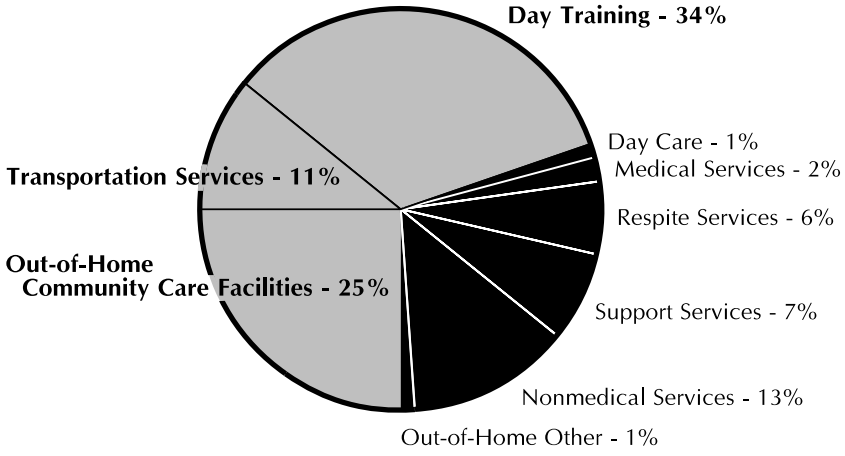


Figure 3 is a comparison of growth rates in total purchase-of-services expenditures by regional center. Although statewide percentages shown did not vary significantly between fiscal years 1992-93 and 1996-97, we found that among individual regional centers, spending for these services grew at varying rates.

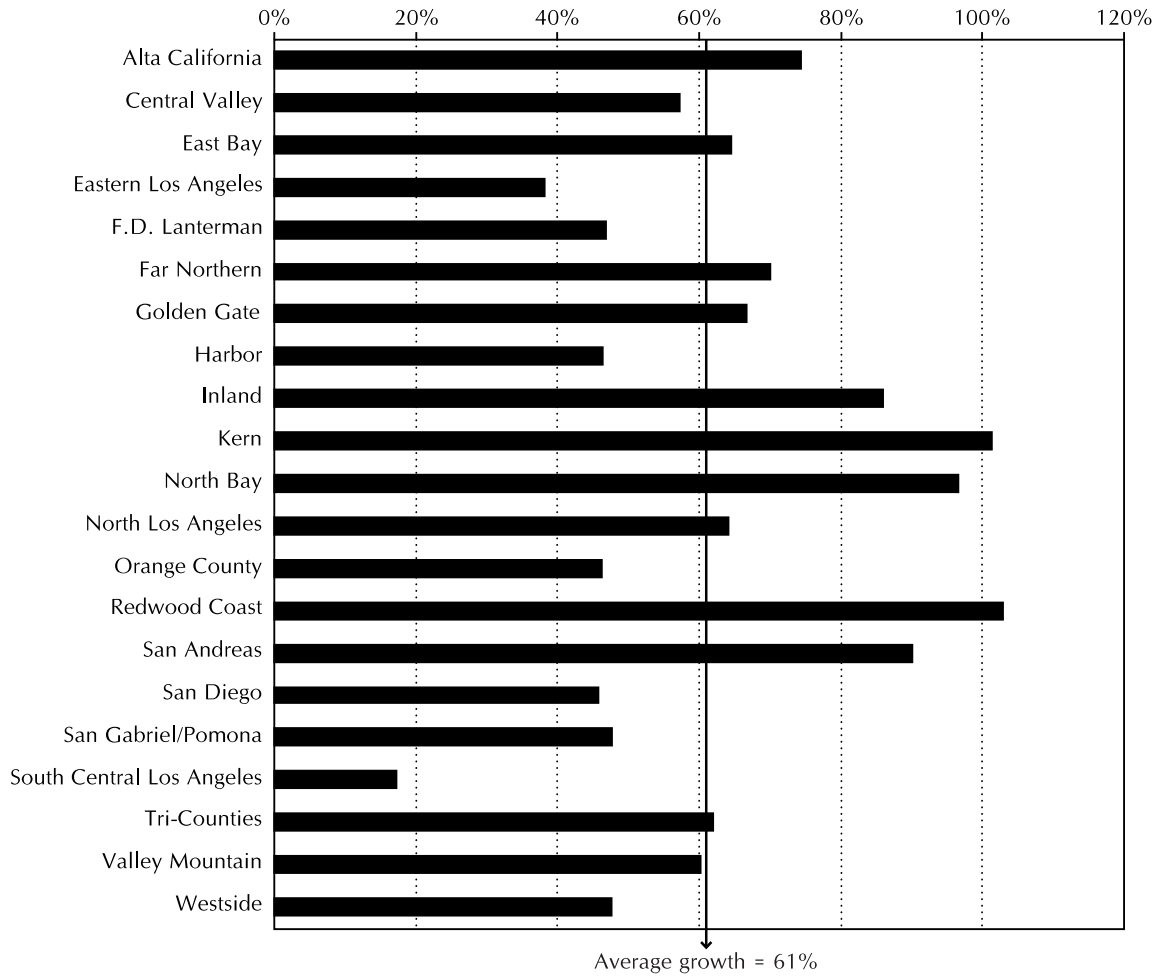
For example, the figure shows that Redwood Coast and Kern Regional Centers' expenditures for purchase of services grew by over 100 percent in five years while the South Central Los Angeles Regional Center's costs grew by less than 20 percent during the same period. To obtain more information regarding the differences, we contacted these three regional centers.

The chief of administrative services at the Redwood Coast Regional Center stated that because of the Coffelt Settlement, discussed in the Introduction, the center moved clients from

developmental centers into supported-living arrangements in the community. The center also expended extra effort to keep clients currently living in the community out of developmental centers. Supported living arrangements allow clients to live in the community in homes or apartments with professional assistance. However, according to the chief, the program is costly, especially when appropriate housing is difficult to obtain. To illustrate, he stated that beginning in 1993, the center has moved approximately six to ten clients each year into supported living arrangements at an additional cost upwards of $800,000 per year. As a result, Redwood Coast's purchase-of-services expenditures have more than doubled during the five-year period.

Figure 3

A Comparison of Growth in Purchase-of-Services Expenditures Fiscal Years 1992-93 to 1996-97



The Coffelt Settlement—moving clients from developmental centers to the community—meant extra costs for some regional centers.

The Coffelt Settlement also affected the Kern Regional Center, according to its chief of administrative services. Because Kern was closer to the Porterville Developmental Center than other regional centers and could provide more responsive care, Kern Regional Center took responsibility for clients at Porterville that were previously assigned to some of the other regional centers. As Kern placed many of these clients, as well as those originally assigned to Kern, in the community, its purchase-of-services costs rose**.** These clients required more expensive services, according to the chief. These statements seem to be borne out by the fact that Kern Regional Center experienced a 42 percent increase in the number of clients assigned to its day training program and a 32 percent increase in the number of clients assigned to its community care facilities between fiscal years 1992-93 and 1996-97. Both of these growth percentages are among the highest of the 21 regional centers. (See Appendix C for this analysis of Kern and other regional centers.)

When we interviewed the chief of administrative services at the South Central Los Angeles Regional Center regarding its fairly low increase in the purchase of services of less than 20 percent over the past five fiscal years, the chief told us that the center placed many former developmental center clients in the community as a result of the Coffelt Settlement. As such, the center emphasized the development of intermediate care facilities as a way to serve them. This approach saved the regional center purchase-of-services dollars because intermediate care facilities are funded by Medi-Cal. The chief also said that the center strengthened the standards it used to determine the most appropriate and cost-effective services for its clients. At the same time, the regional center enlisted the support of its community as a way to reduce costs. For example, the center encouraged its clients' families to find alternative social and recreational activities for those the regional center had previously provided.

Day Training Program

The day training program includes several types of community-based programs designed for different client groups. For instance, activity centers serve adults with basic self-care skills and an ability to interact with others. Adult development centers, on the other hand, serve those acquiring self-help skills. (See the Glossary for additional services offered under day training programs.)

Table 3 shows fiscal year 1996-97 day training expenditures, the average number of clients, and the average annual cost per client for each regional center ranked in order of cost per client. The table indicates that Far Northern Regional Center had the lowest service cost, at $6,541 per client. Conversely, Valley Mountain Regional Center had the highest cost of $12,044 per client. We contacted both these centers for their perspectives on these cost variances.

Table 3

Day Training Program
Average Annual Service Cost per Client
Fiscal Year 1996-97

Regional Centers	Annual Expenditures (in thousands)	Average Number of Clients[a]	Average Annual Service Cost per Client
Far Northern	$ 6,554	1,002	$ 6,541
North Los Angeles	14,992	2,213	6,775
Redwood Coast	3,045	444	6,858
F.D. Lanterman	7,351	971	7,571
South Central Los Angeles	14,623	1,886	7,753
East Bay	15,931	2,016	7,902
Alta California	17,570	2,187	8,034
San Gabriel/Pomona	14,671	1,819	8,065
Central Valley	15,589	1,899	8,209
San Diego	20,669	2,515	8,218
Tri-Counties	16,138	1,929	8,366
Harbor	10,362	1,226	8,452
Eastern Los Angeles	7,573	873	8,675
Kern	7,301	837	8,723
San Andreas	14,351	1,583	9,066
North Bay	8,581	938	9,148
Orange County	22,092	2,410	9,167
Golden Gate	17,119	1,785	9,590
Westside	13,319	1,370	9,722
Inland	19,973	1,988	10,047
Valley Mountain	16,850	1,399	12,044
Total Cost/Center Average	**$284,654**	**33,290**	**$ 8,551**

[a]The average number of clients was calculated by adding the monthly number of clients receiving the service and dividing by 12.

According to the director of fiscal and administrative services at Valley Mountain Regional Center, this center is heavily focused on keeping clients with relatively severe behavior problems in the community-based programs and out of developmental

centers as long as Valley Mountain can respond appropriately to their needs. However, this effort is costly because of the extra attention such clients require. Moreover, the director added that the center has had difficulty in assigning many of its clients who are ready for a supported employment position in the community because of the high unemployment rate in the area. Consequently, more of the regional center's clients are assigned to costlier nonwork day programs. Nevertheless, the director stated that day training costs per client at the regional center are going down. In contrast, the chief of administrative services at Far Northern Regional Center explained that its low day training cost per client is primarily a result of the center's rural location, where real estate and labor costs are relatively low.

Growth in the Day Training Program

Regional centers also varied significantly in their growth rates for day training costs per client. Figure 4 shows the changes between fiscal years 1992-93 and 1996-97. (For a table showing growth rates for day training costs, see Appendix C.)

As indicated in the figure, both Alta California and East Bay Regional Centers showed decreases of more than 5 percent in cost per client during the five-year period. Valley Mountain, Kern, and Inland Regional Centers, on the other hand, all experienced a 25 percent or more increase. We contacted staff at these centers for their views regarding these trends.

Three regional centers exhibited more than a 25 percent growth in their day training services.

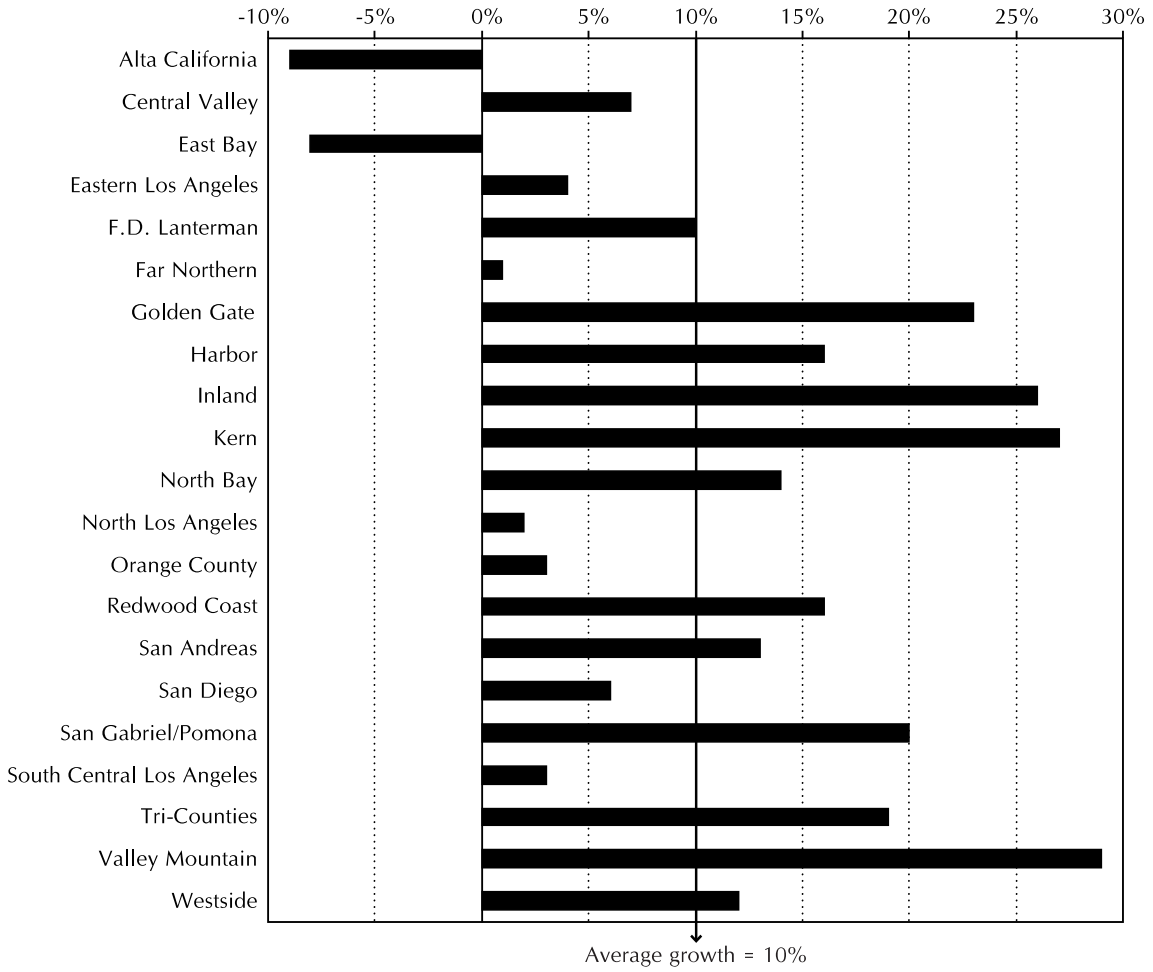
According to the chief of administrative services at the Alta California Regional Center, this center inadvertently submitted data in fiscal year 1992-93 that did not include all the clients that actually attended day training programs. In that fiscal year, the regional center had contracted for some of these services, and in those cases, it included only the contractor in their counts of client attendance rather than the actual numbers of clients receiving the services. According to the chief at Alta, this resulted in clients being undercounted by approximately 2,500 in fiscal year 1992-93. Using the regional center's revised estimate for clients served, the center actually experienced a 6 percent increase in its service cost per client in the day training program.

East Bay Regional Center's chief of administrative services stated that its decline in service cost resulted from two factors. First, the regional center worked regularly with its service providers to reduce expenses and negotiate lower rates.

Second, the center actively moves its clients from more expensive to less expensive programs once the client shows progress.

Figure 4

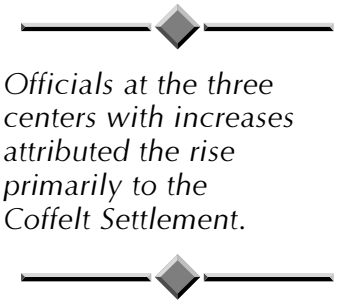
A Comparison of Growth in Day Training Service Cost per Client Fiscal Years 1992-93 to 1996-97



The director of fiscal and administrative services at Valley Mountain Regional Center stated that the center's day training costs increased when the Stockton Developmental Center closed and many of the developmental center's clients were assigned to Valley Mountain.

The chief of administration for the Kern Regional Center attributed the rise in day training cost per client to the fact that it had accepted many new clients because of the Coffelt Settlement. As the client base increased, the regional

center developed new programs to meet the demand. The center found that its new programs were more costly than existing programs with rates that had been established several years earlier.



Officials at the three centers with increases attributed the rise primarily to the Coffelt Settlement.

Inland Regional Center's chief of financial services attributes the increase in day training costs to two things. First, the center increased its use of adult developmental centers as opposed to activity centers. According to the chief, adult development centers are more costly than activity centers. However, because the center emphasizes integrating its clients into the community, Inland found that their clients made better progress at adult development centers. In addition, the regional center had to increase its use of behavior management programs when it took responsibility for clients coming out of developmental centers as a result of the Coffelt Settlement. Inland Regional Center found that these clients required intensive and costly behavior management treatment.

Community Care Facilities Service

Community care facilities provide a residential setting for adults and children whose needs no longer can be met at home or who choose to live in such a setting. This service can also incorporate family reunification plans. Regional centers contract for community care facilities.

Table 4 shows community care facilities expenditures, the average number of clients, and the average annual service cost per client of each regional center for fiscal year 1996-97. The centers are ranked in order of their service costs per client.

The table indicates Alta California Regional Center had the lowest service cost per client at $8,017, while Westside Regional Center, at $15,813 per client, had the highest. We contacted both of these centers about the cost differences.

The chief of administrative services at Alta California Regional Center commented that although community care facility rates are uniform throughout the State, the rates vary depending on the degree of disability. The chief believes that Alta may have a larger percentage of higher-functioning clients who require less intensive treatment. Therefore, more of Alta's clients are able to reside at facilities with lower rates, resulting in less cost.

On the other hand, Westside Regional Center's chief of administrative services stated that this center's costs were high relative to other centers because when Westside moved many higher-functioning clients into supported living arrangements,

the remaining community care facilities' population was made up mostly of clients requiring more attention. Therefore, the cost per client is higher for this population than those clients that were reassigned. However, the chief stated that Westside Regional Center was able to minimize the additional costs for clients in supported living arrangements. This was possible because the center established a nonprofit corporation called Home Ownership Made Easy to acquire condominiums and small homes in the regional center's area. The center was able to obtain funding for many of these residences from Housing and Urban Development grants.

Table 4

Community Care Facilities
Average Annual Service Cost per Client
Fiscal Year 1996-97

Regional Centers	Annual Expenditures (in thousands)	Average Number of Clients[a]	Average Annual Service Cost per Client
Alta California	$ 11,457	1,429	$ 8,017
Central Valley	10,775	1,335	8,071
Inland	16,206	1,831	8,851
San Diego	13,256	1,438	9,218
Valley Mountain	10,086	1,088	9,270
North Los Angeles	8,329	859	9,696
San Gabriel/Pomona	11,858	1,222	9,704
South Central Los Angeles	8,731	884	9,877
Redwood Coast	2,061	203	10,153
East Bay	14,657	1,442	10,164
Far Northern	6,056	595	10,178
Orange County	15,616	1,458	10,711
F.D. Lanterman	8,679	773	11,228
North Bay	11,221	997	11,255
Eastern Los Angeles	4,446	359	12,384
Golden Gate	12,123	963	12,589
Tri-Counties	10,048	762	13,186
Harbor	7,199	544	13,233
Kern	4,468	329	13,581
San Andreas	15,849	1,112	14,253
Westside	7,100	449	15,813
Total Cost/Center Average	**$210,221**	**20,072**	**$10,473**

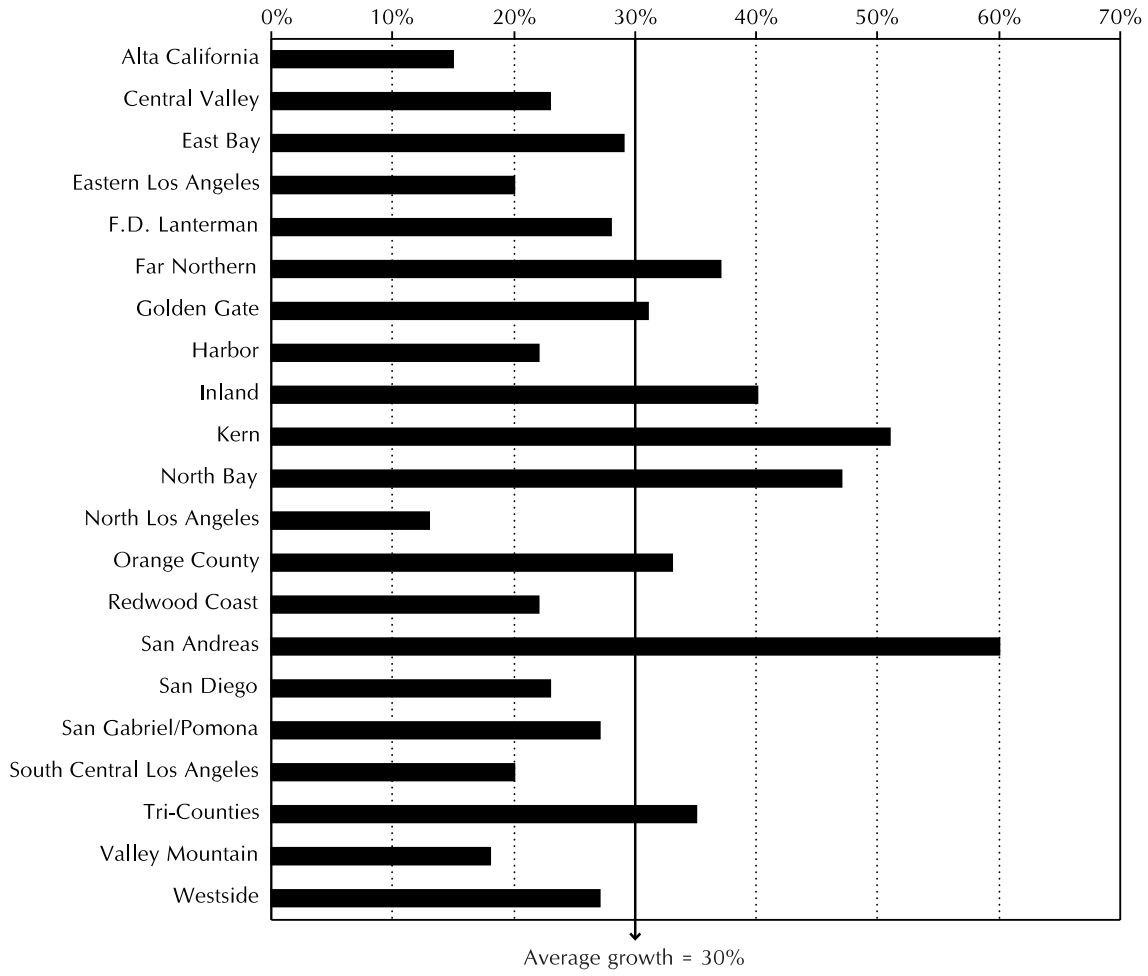
[a]The average number of clients was calculated by adding the monthly number of clients receiving the service and dividing by 12.

Community Care Facility Growth Rates

We also found that regional centers varied significantly in the growth rates of their community care facilities costs per client between fiscal years 1992-93 and 1996-97. Figure 5 shows the percentage of growth in costs per client over the five-year period. (For a table showing growth rates for community care facility costs, see Appendix C.)

Figure 5

A Comparison of Growth in Community Care Facilities Service Cost per Client Fiscal Years 1992-93 to 1996-97



Growth in community care facilities costs was double the average at one center.

The figure illustrates that San Andreas Regional Center experienced a 60 percent growth in facilities cost per client for this time period, while North Los Angeles Regional Center's cost increased by only 13 percent.

When asked about these differences, the chief of administrative services at San Andreas Regional Center attributed the large increase to the center's accepting clients from developmental centers because of the Coffelt Settlement. According to the chief, more clients were transferred to San Andreas than to most of the other regional centers. As these former developmental center clients typically require more intensive treatment, they added to San Andreas Regional Center's costs.

The executive director of North Los Angeles Regional Center attributed the modest increase in service cost per client to a number of reasons. For example, the center's case management staff work closely with families of minor children to develop residence planning that places a high emphasis on supporting children so the child can live with a family. If a family chooses to place a child outside the home, the regional center's staff offers the family choices emphasizing family-like settings, such as foster family living arrangements. The center also works closely with developmentally disabled adults and their families to develop a plan that offers a range of residence options, such as supporting the adult in the family's home, arrangements for supported living or independent living, and placement in an adult foster family. Finally, through its residence planning, the regional center worked with one provider to move over 50 clients from the most costly community care facilities into supported living arrangements.

Transportation Services

Regional centers purchase transportation services when there is no reasonable alternative. Optimally, adults with a developmental disability use public transportation, receive assistance from family and friends, or drive themselves. According to one regional center, transporting minor children to day care, preschool, social activities, and doctor visits is generally considered the families' responsibility. The school district transports disabled children in special education classes.

Regional centers incur costs when they use their own resources for transportation, for example, when they reimburse families for transportation expenses. Regional centers also incur expenses when contractors transport their day program clients.

To calculate the cost per client for transportation services, shown in Table 5, the department advised us to use the number of day program clients as well as those clients in the Department of Rehabilitation's Work Activity Program. We did not use the number of clients reported in the UFS because some regional centers did not include counts of clients transported by a contractor. We are aware that regional centers provide transportation for different categories of clients. However, because the data that represents the number of clients actually transported by the regional centers is not standardized or readily available, we used the method recommended by the department.

Table 5 shows the amount of transportation expenditures, the average number of clients transported, and the average cost per client for each regional center for fiscal year 1996-97, ranked in order of cost. As can be seen from the table, Orange County Regional Center had the lowest cost at $1,105, while East Bay Regional Center spent the most at $4,246 per client.

Some centers primarily rely on relatively inexpensive public and noncommercial sources of transportation while others use more expensive contracted services.

When we asked about the differences in these two centers' transportation costs, the chief of administrative services at Orange County Regional Center told us that the center was able to transport its clients to various day program activities at a relatively low cost for several reasons. First, only a small percentage of the regional center's total transportation expenditures represents relatively expensive contracts with transportation providers. Moreover, because these contracts are several years old, they were negotiated at lower rates than the more recent contracts entered into at higher rates by other regional centers. In addition, 60 percent of the center's clients use some form of relatively inexpensive public transportation. Finally, the center reimburses families and residential and day program providers that transport clients, which is less expensive than commercial transportation.

In contrast, the chief of administrative services of the East Bay Regional Center stated that the center's high transportation costs are attributable to the high transit costs in its geographic area, including higher insurance rates. Further, unlike the Orange County Regional Center, most of East Bay's transportation services are provided on a contract basis, which is more expensive than alternative forms of transportation such as public transit. The chief added that the center is considering reducing its use of contract carriers.

Table 5

Transportation Average Annual Service Cost per Client Fiscal Year 1996-97

Regional Centers	Annual Expenditures (in thousands)	Average Number of Clients[a]	Average Annual Service Cost per Client
Orange County	$ 3,050	2,760	$1,105
Westside	1,861	1,594	1,168
North Los Angeles	3,179	2,508	1,268
F.D. Lanterman	1,684	1,114	1,512
Inland	3,402	2,108	1,614
North Bay	2,232	1,172	1,904
Tri-Counties	3,952	1,972	2,004
Eastern Los Angeles	2,175	991	2,195
San Diego	6,088	2,638	2,308
Far Northern	2,441	1,041	2,345
Golden Gate	4,285	1,818	2,357
Redwood Coast	1,090	457	2,385
San Andreas	4,933	1,841	2,680
Alta California	6,416	2,300	2,790
San Gabriel/Pomona	5,972	2,023	2,952
Harbor	3,914	1,301	3,008
South Central Los Angeles	6,036	1,971	3,062
Valley Mountain	5,470	1,457	3,754
Central Valley	7,474	1,957	3,819
Kern	3,596	862	4,172
East Bay	9,562	2,252	4,246
Total Cost/Center Average	**$88,812**	**36,137**	**$2,458**

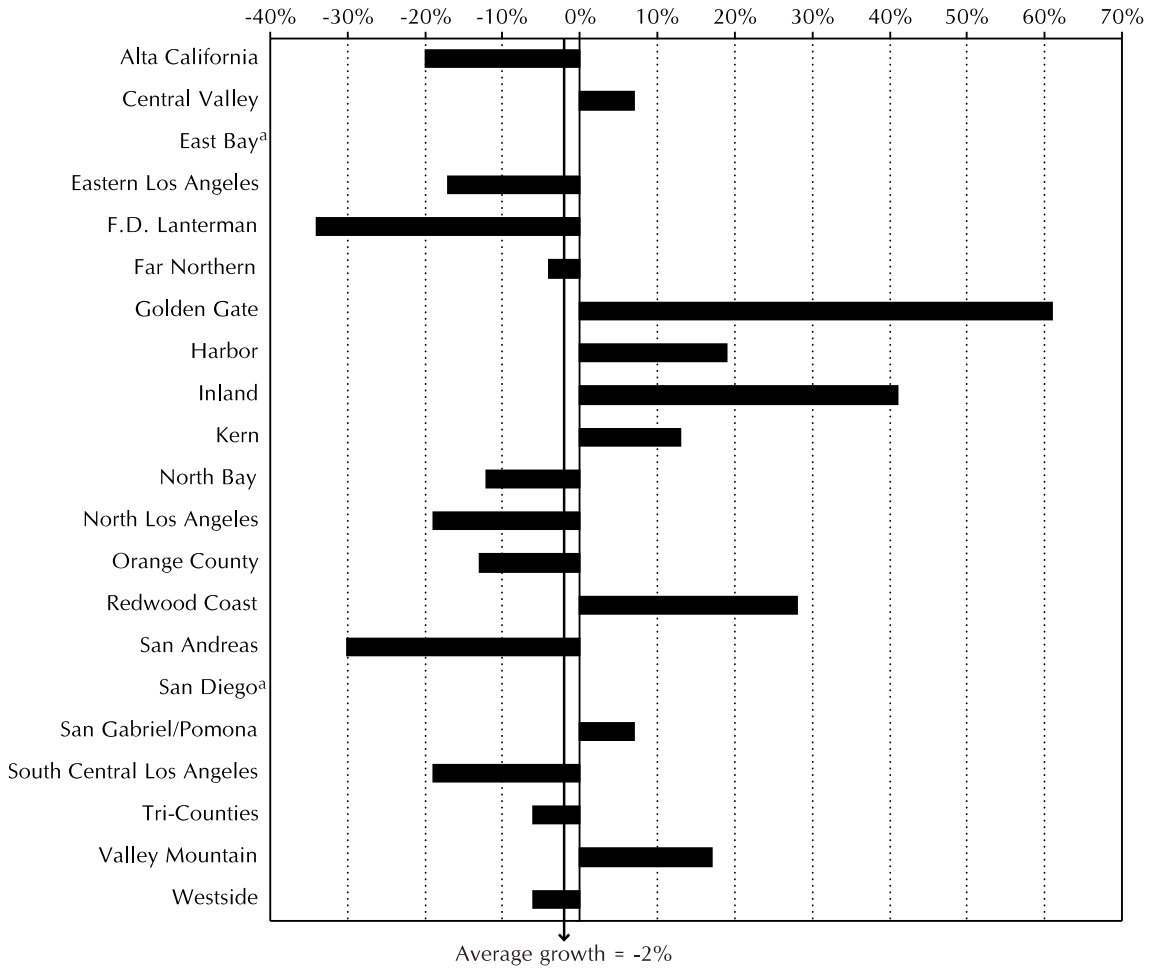
[a] The average number of clients was calculated by adding the monthly number of clients receiving the service and dividing by 12.

Transportation Services Growth Rates Are Inconsistent

Growth rates in transportation service costs per client also varied widely. Figure 6 compares the regional centers' costs per client between fiscal years 1992-93 and 1996-97. The figure shows that there was roughly a 35 percent decrease in transportation cost per client at F.D. Lanterman Regional Center, while the cost at Golden Gate Regional Center increased by more than 60 percent during the same time. (For a table showing growth rates for transportation costs, see Appendix C.)

Figure 6

A Comparison of Growth in Transportation Service Cost per Client Fiscal Years 1992-93 to 1996-97



[a]East Bay and San Diego Regional Centers showed no growth between fiscal years 1992-93 and 1996-97.

According to F.D. Lanterman Regional Center's chief of administrative services, beginning in fiscal year 1991-92, the center was able to reduce its contract costs by obtaining community cooperation. Specifically, the regional center entered into an agreement with residential providers and families to furnish transportation. Residential providers agreed to a flat rate of $176 per month, per client. The regional center also worked with families to develop a program based on zones representing varying distances between where families lived and the location of clients' day training. The center reimburses families using mileage rates approved by the Internal Revenue Service. As a result of these efforts, F.D. Lanterman Regional Center was able to reduce its transportation expenditures.

According to the chief, the most significant reduction was in the center's transportation contract expenditures. Our analysis showed that over the past five fiscal years, total contracted costs fell from $641,000 to approximately $1,000. During the same five-year period, we noted that F.D. Lanterman increased the average number of clients it serves from 926 in fiscal year 1992-93 to 1,114 in fiscal year 1996-97, an increase of more than 20 percent.

At Golden Gate Regional Center, transportation costs dramatically increased between fiscal years 1992-93 and 1996-97. The chief financial officer stated that, for many years, the center was able to contain its transportation costs because it had many small residential providers willing to transport clients for reasonable rates. However, beginning in 1992, many of those small residential providers found that transportation was more and more costly and they eventually stopped transporting the regional center's clients. As the center looked for alternatives, it found that its clients' families were not able to provide transportation, and other low cost or free transportation from community resources was not available. As a result, the chief stated that the center had no choice but to contract with a small pool of large transportation providers. In fast-growing San Mateo County, for example, where hundreds of the center's clients required transportation, only one transportation provider submitted a bid on the regional center's request for contract service. Consequently, because of the lack of competition, Golden Gate's contract costs rose significantly.

Transportation Costs Are Higher for Urban and Urban/Rural Centers

In Table 6 we compared average transportation costs for rural, urban/rural, and urban regional centers for fiscal year 1996-97. We categorized the centers' territories by their proximity to densely populated areas. (See Figure 1 on page 4 for a map of the 21 regional centers and the areas they serve.) Specifically, we categorized the centers as follows:

- Rural centers include Far Northern, Inland, Kern, Redwood Coast, and Valley Mountain.

- Urban/rural regional centers include Alta California, Central Valley, North Bay, San Andreas, San Diego, and Tri-Counties.

- Urban centers include East Bay, Eastern Los Angeles, F.D. Lanterman, Golden Gate, Harbor, North Los Angeles, Orange County, San Gabriel/Pomona, South Central Los Angeles, and Westside.

Table 6

Average Total Costs for Contract and Noncontract Transportation Services by Regional Center Category Fiscal Year 1996-97 (dollars in thousands)

	Rural	Urban/Rural	Urban	Average
Contract	$2,209	$3,452	$2,025	$2,562
Noncontract	991	1,538	2,146	1,558
Average	**$1,600**	**$2,495**	**$2,086**	**$2,060**

The table shows that regional centers in rural and urban/rural areas spend more than twice as much on their contract as on noncontract transportation costs. For centers in urban areas, noncontract costs are slightly higher than contract costs. Our analysis also indicated that six regional centers—Eastern Los Angeles, F.D. Lanterman, Inland, North Bay, San Gabriel/Pomona, and South Central Los Angeles—reduced contracting costs substantially, in part by finding alternative transportation methods. However, we noted that, in general, the State's 21 regional centers have not reduced their transportation contract costs significantly. Specifically, between fiscal years 1992-93 and 1996-97, regional centers decreased contract costs from 70 to 60 percent of the total amount spent for transportation.

Conclusion

We found that regional centers' purchase-of-services costs varied widely for each program category we analyzed. Regional center administrators gave many reasons for the differences we noted. We believe centers with low costs can recommend certain practices that may be useful to centers with higher costs per client.

We based our analysis on the UFS expenditure data that the department has access to. Yet, the department does not use this data to perform the kind of analysis we did and, as a result, does not follow up on the results to determine how or why regional centers differ in their spending patterns. By failing to investigate expenditure trends and cost variances and determine their causes, the department is overlooking information necessary to effectively budget for the regional centers' unique needs and to ensure equity in the services provided.

The regional centers we contacted to help explain the variances in the costs of services we discussed in Chapters 1 and 2 of our report, gave us a variety of reasons why their expenditures ranged the way they did. Many of the centers described ways they contained purchase-of-services costs. For example, South Central Los Angeles Regional Center encourages its clients' families to provide social and recreational activities for them in situations where previously the regional center had done so. In addition, the F.D. Lanterman Regional Center relies on community cooperation in furnishing transportation to its clients, whereby residential service providers and the clients' families are reimbursed at set rates for transporting clients. While we applaud the cost-containment techniques and family participation benefits of these approaches, they appear to indicate that clients of these regional centers may not be receiving the same level of state-provided social, recreational, and transportation services as the clients of some other regional centers.

Recommendations

The department needs to take the following steps to improve its budgetary oversight of the regional centers:

- Analyze causes of expenditure variances and trends in the data it currently collects to determine if variances are the result of disparate treatment in providing purchased services to clients.

- Use regional centers' cost information in the department's budget preparation process.

- Identify practices effective in containing costs. The department should then encourage other regional centers to incorporate those worthwhile practices in their own operations.

Chapter 3

The Department Does Not Adequately Administer the Regional Center Performance Contract Program

Chapter Summary

The Legislature intended performance contracts to measure regional centers' efforts to help their clients attain more independent, productive, and normal lives. However, many of the measures in the performance contracts are "process" measures focusing on completing specific tasks rather than on measuring improvements in service and client progress. Further, the Department of Developmental Services (department) may inadvertently encourage the centers to reduce, rather than improve, services by tying incentive awards to centers' purchase-of-services and operational savings.

Moreover, the incentive award structure may actually be a disincentive. Because centers may retain only half the savings they generate, they are better off spending any surplus instead of meeting their performance measures. This is particularly true because the department does not take corrective action when centers do not meet their performance measures. In addition, the department does not ensure that performance measures are truly met before awarding incentive funds, nor does it ensure centers spend incentive funds as planned. Finally, the department has not complied with a number of sections of the Lanterman Developmental Disabilities Services Act (Lanterman Act) that require it to monitor regional center activities or report on program effectiveness.

Performance Contracts Are Intended To Increase Program Accountability

Performance contracts should focus on client progress such as improved quality of life.

In 1992, Senate Bill 1383 introduced performance contracts to increase the centers' accountability for their performance. Also, the Legislature intended to ensure that the system established by the Lanterman Act focused on individual client progress and cost-effectiveness. Further, the Legislature intended the measures to encourage collaboration among the centers' various constituencies to bring about systemic change.

To comply with the law, the department subsequently implemented guidelines requiring each center to develop performance contracts in conjunction with clients and other interested parties, such as family members, centered on the individual's freedom to choose services, independence, and quality of life. The department phased in the performance contract program over three years, with seven centers participating in calendar year 1994. By calendar year 1996, all 21 regional centers participated.

The performance contracts cover a five-year period, with yearly evaluations. If a regional center meets all of its performance measures for a given year, it can receive incentive funds. The department computes these awards from operational and purchase-of-services savings the center generated in the previous fiscal year and approves them for one-time expenditures promoting the center's five-year performance contract goals. The incentive award is equal to 50 percent of the savings generated and must be spent by the end of the fiscal year in which the award is made. For example, if a center saves $10,000 in operations and purchase-of-services costs in fiscal year 1995-96, and meets all of its performance measures contained in its 1996 performance contract, the center would receive $5,000 in incentive funds. It must spend the incentive funds by June 30, 1997.

Performance Measures Do Not Always Focus on Client Progress or Quality of Service

Many regional center performance contracts contained "process" measures that do not measure client progress or improved services.

We reviewed all 11 of the 21 regional centers' 1996 performance contracts that received incentive awards, totaling $6.8 million. While some performance contracts resulted in additional services or choices for clients, such as new care facilities or day programs, 10 of 11 contracts also contained a number of process measures. Some of these measures included commitments to publish a number of newsletter articles on certain topics, send clients to conferences, develop service-specific resource guides for clients, or ensure the availability of information pamphlets to people seeking services. These measures indicate the centers' ability to complete an activity; they do not assess whether clients benefit from the activity.

The deputy director for the department's Community Services Division agreed that many performance measures were process measures. However, the deputy director also stated that these activities almost always impact client outcomes or service quality favorably. Nevertheless, we fail to see how a center or

the department can identify the impact the production of newsletters or resource guides has on clients achieving more independent, productive, and normal lives or improvements in the quality of service provided.

Further, several regional centers' performance measures merely reflected a continuation of current practices, or promised compliance with current departmental requirements and the Lanterman Act. For instance, one center agreed to "orient new board members to regional center operations." Another contract required the center to meet existing department requirements for maximizing federal reimbursements. Finally, several contracts stipulated that the racial and ethnic composition of the governing boards would reflect the service areas' population; however, this is already required by Section 4622 of the Welfare and Institutions Code.

These examples demonstrate that performance measures set by the regional centers do not always comply with legislative intent to focus on client progress or the quality of service provided. These activities do not sufficiently measure regional center performance, lead to long-term improvements in performance, or promote systemwide change.

Incentive Awards May Encourage Regional Centers To Reduce or Eliminate Client Services

We asked the 11 regional centers that received incentive awards for their 1996 performance contracts to identify how they generated the cost savings funding these awards. Some centers responded that the savings were the result of cutting services to avoid projected purchase-of-services deficits that never materialized. Specifically, two centers did the following:

- Eliminated camp for adult clients;
- Reduced the number of available out-of-home respite days from 21 to 15 days; and
- Reduced the number of in-home service hours from 15 to 12 hours per month.

The structure of the department's incentive award may inadvertently encourage regional centers to cut services rather than improve them.

Although these centers were responding to projected deficits that never materialized, services to clients were cut and the dollar savings were later used to reward these centers. By tying performance contract incentive awards to

purchase-of-services and operational savings, the department may be inadvertently encouraging regional centers to reduce services, rather than improve them.

The Department's Incentive Plan May Discourage Cost Savings

During our review of four regional centers, we noted that three chose to use part of their operations surplus in fiscal year 1996-97 to pay over $1 million for employee bonuses rather than wait to see if they had met their performance measures and thus qualify to receive only 50 percent of their surplus as an incentive award.

Rather than return its savings to the department for a 50 percent incentive award, one center spent its surplus to pay $500,000 in employee bonuses.

For example, during our review of the Orange County Regional Center, we noted that, for fiscal year 1996-97, it projected an operations and purchase-of-services cost savings of approximately $4 million. This center also entered into a 1997 performance contract with the department. However, rather than return its savings to the department or qualify for half that money as an incentive award in fiscal year 1997-98, the center instead used its savings on various one-time expenditures during fiscal year 1996-97, including approximately $500,000 for employee bonuses.

Although the center did not violate its financial or performance contract with the department, its conduct demonstrates that the department's retention of half the centers' savings may discourage some regional centers from meeting performance contract objectives. Specifically, if the center had strived to meet all of its performance measures in its 1997 performance contract, it would have received only approximately $2 million (50 percent of the $4 million projected savings). Therefore, the center had no incentive to meet its 1997 performance measures. Furthermore, to the extent other regional centers follow the example set by the Orange County center, the department may be inadvertently undermining its attempt to improve regional center performance. Finally, we question the center's decision to pay bonuses when employee performance has no apparent tie to the objectives in its performance contract.

We asked the department if it is appropriate for centers to spend operations funds on employee bonuses not linked to a performance measure. According to the chief deputy director, centers do not require department approval for bonuses unless they use incentive funds. Otherwise, the department has no authority in the personnel matters of these private, nonprofit corporations.

The Department Does Not Take Action When Regional Centers Fail To Meet Performance Measures

Although the department may take corrective action if a regional center fails to meet its performance objectives, it has not done so. Enforcement measures can include the following actions:

- Providing technical assistance, such as on-site visits to review operations;
- Removing fiscal incentives;
- Mandating technical assistance from the Association of Regional Center Agencies (ARCA) or from other regional centers; or
- Terminating or not renewing contracts.

Although participating in the program since inception, one center failed to meet its performance measures for three years in a row.

As previously mentioned, the performance contract program was implemented in 1994 and was phased in over three years. Therefore, calendar year 1996 was the first year all 21 regional centers had performance contracts with the department. The San Andreas and South Central Los Angeles Regional Centers have been in the program since 1994. However, San Andreas Regional Center has failed to meet its performance measures every year since 1994. In addition, although it met its performance measures in 1996, South Central Los Angeles Regional Center failed to meet its performance measures in the first two years.

According to the chief of the regional center monitoring section, the performance contract is only one tool in assessing a center's overall performance. The chief explained that the department has taken actions against both South Central Los Angeles and San Andreas Regional Centers in the form of special contract language in December 1995 and July 1995, respectively. Special contract language may require a center to report to the department at specific intervals on how the center is addressing a particular problem. We do not dispute that the department has taken such steps; however, these actions relate to the centers' fiscal management and general program oversight and were not in response to the centers' failure to meet their performance objectives.

The department does not take corrective actions when regional centers fail to meet their performance measures.

In addition, the chief showed us letters sent to these two regional centers regarding their mid-contract reviews. Until the law was changed in September 1997, the department conducted these reviews midway through each center's five-year contract to assess progress in meeting five-year goals. The reviews also included public input, and client and service provider surveys. However, neither of the letters demonstrates that the department took any corrective action over these two centers' failure to meet their performance measures. Furthermore, although the department's use of sanctions is discretionary, its failure to take corrective measures overlooks the intent of the performance contract to improve regional center performance and accountability.

The Department Is Inadequately Administering Its Performance Contract Program

The department's role in administering the regional centers' performance contracts includes reviewing them for content and compliance with the Lanterman Act, evaluating performance contract year-end reports prior to awarding incentive funds, and assessing the centers' plans for spending these funds. We found, however, that the department does not always perform these duties vigilantly. Specifically, the department does not require centers to prove they met all performance measures and, therefore, may award incentive funds to centers not meeting their measures. In addition, the department does not always require the regional centers to fully explain their intended use of incentive funds or monitor how these funds are actually spent. By failing to adequately monitor the performance contract program, the department is not ensuring that the program is improving regional center performance.

Regional centers must submit a year-end report to the department each January 15. We reviewed the performance contracts and year-end reports prepared by each of the 11 regional centers awarded incentive funds and found the department's decision to award incentive funds is based mainly on the information the centers report. We believe the department's current practice for awarding incentive funds is insufficient.

The Department Fails To Ensure Centers Meet Performance Measures

The year-end reports are required to include each performance goal and objective from the original contract, identify any changes made to these goals and objectives, and describe the progress the regional center made in achieving each one. The department uses the reports to determine whether a center has met all of its performance measures and should therefore receive incentive funds.

The department relies on untested year-end reports to award millions in incentive awards.

In fiscal year 1996-97, the department awarded $6.8 million to 11 regional centers for meeting their 1996 performance contracts. We found that 5 of these centers' year-end reports simply reiterated nearly all of their performance measures and stated "met," "completed," "done," or "achieved." Most also provided the dates the centers felt they had accomplished the measures. The remaining 6 centers' reports contained similar statements, but gave a little more information to describe the steps taken. Nonetheless, the department's current practice is insufficient because the reports are not adequate assurance that the measures were truly achieved.

In addition, we found that 6 of the 11 regional centers modified their performance contracts from the original. The modifications included omitting performance measures entirely or changing existing measures in some manner. While the department allows the regional centers to modify their performance measures with input from their respective constituencies as well as departmental approval, it was unable to document that it had approved modifications or omissions in four of the six contracts. For example, the South Central Los Angeles Regional Center's contract included a performance measure to "assist 20 [clients] to identify and utilize adult education and/or personal improvement programs, i.e. human sexuality, career choices, grooming, nutrition, etc.," which was not in the center's year-end report. Additionally, the Alta California Regional Center developed a performance measure to "***establish*** an agency-wide management information system." However, in its year-end report, Alta modified the measure as follows: "***Develop a plan*** for an agencywide management information system by December 31, 1996." The department could not provide any evidence that the changes were approved.

Despite these unapproved changes, the department still awarded approximately $3.9 million in incentive funds to these four centers. According to the chief of the regional center monitoring section, the department compares the centers' performance contracts to their year-end reports. The chief

provided us with summary sheets to demonstrate this point but the summaries included only one center, South Central Los Angeles Regional Center, that had modified its performance contract. Furthermore, the summary provided no evidence that the department had approved omitting one of the center's performance measures. The chief did not supply documentation that the department methodically compares the centers' year-end reports to the approved contracts and any subsequent changes made. Without verifying that the regional centers have met agreed-upon performance measures, the department may miss opportunities to improve center performance. In addition, it is not ensuring targeted services are delivered, and is not holding the centers accountable for inadequate performance. Finally, the department risks awarding incentive funds to regional centers that have not met all of their performance measures satisfactorily.

The Department Does Not Monitor Regional Centers' Expenditures of Incentive Funds

The department approves vague and incomplete incentive award expenditure plans.

The department requires each eligible center to submit a plan detailing the intended use of its incentive award. However, the department approves vague and incomplete expenditure plans. In addition, the department does not monitor whether the regional centers spend incentive funds according to their approved plans.

Specifically, we reviewed the plans submitted by each of 11 centers receiving incentive awards and found that some did not state specifically how the funds would be spent. For example, the Tri-Counties Regional Center stated, "[These incentive funds] will be utilized for one-time expenditures in order to meet the objectives of our 1997 performance contract." Although this plan lacked sufficient detail, the department approved it and awarded the center approximately $350,000.

In response to our inquiry on March 16, 1998, the chief of the regional center monitoring section confirmed that centers must inform the department, in writing, about their plans for incentive funds. The chief referred to correspondence from the centers to demonstrate that the plans were obtained. However, this information does not explain why the department approves plans, such as the one from Tri-Counties, without requiring the center to specify the use of the funds.

One center used incentive funds to pay employee bonuses that the department failed to detect.

In addition, we found that the North Bay Regional Center submitted a plan to spend its $1.3 million award to fund staff and client training, quality assurance activities, and other projects, but used $54,000 for unapproved employee bonuses.

We asked the department for its views on regional centers spending incentive funds on staff bonuses when this was not in the approved expenditure plan. According to the chief deputy director for the department, regional centers must obtain department approval to spend incentive funds and the department "expects funds to be used for the purposes approved." The chief deputy also stated that centers may propose using surplus operations funds for employee bonuses, provided this action is otherwise consistent with department guidelines and evaluated on a case-by-case basis.

While the department requires expenditure plans and expects these funds to be used accordingly, such a process is meaningless without monitoring to ensure that regional centers adhere to their plans. In the case of North Bay Regional Center, the department could not detect the deviation from its plan because it does not review the actual expenditures. As a result, the department runs the risk that centers will spend these funds in ways the department did not approve.

The Department Fails To Sufficiently Monitor the Regional Centers' Effectiveness

The Lanterman Act contains at least five provisions requiring the department to monitor regional center activities or report on program effectiveness. However, the department has failed to implement three. In addition, in 1997 the Legislature passed two bills, Senate Bill 391 and Senate Bill 1039, which amended several sections of the Lanterman Act and contained an additional nine provisions. We assessed the department's progress regarding the implementation of these laws. Figure 7 summarizes the requirements of the Lanterman Act and the new provisions of Senate Bills 391 and 1039, as well as the department's efforts to implement them.

Figure 7

Department's Efforts to Monitor Regional Center Effectiveness

● Implemented by the department ◑ Partially implemented by the department ○ Not implemented

LANTERMAN ACT - Existing Provisions	**4631(c)**	○ Requires the department to publish a report of the financial status of all regional centers and their operations within 30 days after the end of each quarter.
	4640.6(a)	◑ Requires the department to ensure that regional center staffing patterns demonstrate that direct service coordination (case management) is the highest priority.
	4640.6(c)	● States that contracts between the department and regional centers may include any staffing and delivery of services requirements that the department deems necessary to ensure maximum cost-effectiveness and that the needs of clients and their families are met.
	4753 AND **4836**	○ ○ Require the department to implement an evaluation system to obtain information on program effectiveness as well as to report yearly to the Legislature on the progress and effectiveness of the developmental disabilities system.
SB 391	**4418.1(h)**	◑ Requires the department to monitor the regional centers' actions to correct violations of clients' legal, civil, or service rights.
SB 1039	**4434(a)** AND **4434(b)**	○ ● Require the department to ensure that the regional centers comply with federal and state laws and provide high quality services to their clients.
	4434(d)	◑ Requires the department to review a variety of regional center publications, including purchase-of-service policies, instructions and training materials, and regional center board meeting agendas and minutes.
	4500.5(d)	○ Requires the department to ensure that clients receive the services identified in their individual program plans.
	4501	○ Requires the department to ensure that the regional centers meet their statutory, regulatory, and contractual obligations.
	4629(e)(1)	● Requires the department to assess annually each regional center's achievement of its performance objectives and make that information available to the public.
	4629(e)(2)	○ Requires the department to monitor the regional centers to ensure that their performance measures are developed using a public process, are specific and measurable, and that regional centers are complying with their performance contracts.
	4646.5(c)(3)	● Requires the department to review a random sample of individual program plans at each regional center to assure that these plans are developed and modified appropriately.

As noted in Figure 7, the department is not complying with Section 4631(c) of the Lanterman Act. According to the chief deputy director, the department has not complied with this section for several years because the timing of financial information received from the regional centers limits the value of the report. However, the chief deputy stated that financial data is shared whenever the Legislature or any other interested party asks for it.

The department does not comply with several provisions of the Lanterman Act.

The chief deputy further stated that the department is working to meet the requirements of Section 4640.6(a) in several ways. Specifically, the department conducts ongoing technical assistance visits with certain regional centers and is negotiating with the ARCA to require all centers to maintain an average case manager-to-client ratio of 1 to 62 in fiscal year 1998-99. In addition, the department has recently submitted a budget change proposal requesting additional funding to support this ratio.

With regard to Section 4640.6(c), the department furnished documents demonstrating its compliance. The department also included language in its fiscal year 1997-98 regional center contracts in response to this provision.

We asked the department what steps it had taken to comply with Sections 4753 and 4836 of the Lanterman Act. According to the deputy director for the Community Service Division, Section 4753 of the Lanterman Act predates her employment with the department. However, some departmental staff believe this section relates to the Client Development Evaluation Report (CDER), although the deputy director could not say definitively whether the CDER satisfies this provision.[2] We reviewed the CDER and noted that while it is used to record client disability, age, gender, and other important facts, it is not a tool that can be used to report on program effectiveness as Section 4753 requires. Moreover, in response to our letter dated March 16, 1998, requesting information on compliance with these two sections of the law, the department did not elaborate on further examples of how it meets these requirements.

This same letter requested the department to describe its plan to implement Section 4418.1(h). The chief deputy director said the department contracted with two consultants to comply with this section of the Lanterman Act. The section requires the department to monitor the corrective actions taken by regional centers and maintain reports. However, these activities are not

[2] The CDER is an assessment instrument used to document a client's developmental and diagnostic status when entering the regional center and periodically thereafter.

part of the scope of the consultants' contracts. Therefore, the department's response only partially addresses its intent to comply.

Regarding the department's efforts to implement Sections 4434(a), 4500.5(d), and 4501 of the Lanterman Act, the chief deputy noted that the department recently developed a Home and Community-Based Service (HCBS) waiver application that addresses these requirements. The HCBS is a program whereby federal Medicaid funds reimburse the department for certain services provided to the developmentally disabled. The department's application appears to address these provisions; however, these items have not been implemented, merely proposed. In addition, the department stated that it has requested additional staffing to comply with this section and others added by Senate Bill 1039. The chief deputy also stated that the department provides regional centers with technical assistance, training, and information necessary to comply with Section 4434(b) in delivering high quality services for clients.

Although the department intends to follow up with regional centers to assure corrective action is taken, it could not provide the criteria used to initially identify the findings.

When we asked about the status of Section 4434(d), the chief of the regional center monitoring section provided a letter sent to the centers requesting the required information. The letter refers to the department's responsibility to "collect and review" these documents. The chief also stated that the department is in the process of reviewing the purchase-of-services guidelines and developing criteria for reviewing the other documents. With regard to reviewing the purchase-of-services guidelines, the chief stated that the department will contact the centers about its "findings and will follow-up . . . as appropriate to ensure corrective action is taken." However, the chief did not give us the criteria used to identify the findings; therefore, we cannot determine if the department has fully implemented the requirements of this section. Further, the chief indicated the department's actions on the remaining documents depended on approval of additional staffing.

We did find that the department appears to have implemented Section 4629(e)(1) of the Lanterman Act. As discussed elsewhere in this chapter, although it could improve its oversight in this area, the department does review each center's progress for meeting its performance objectives. Furthermore, according to the chief of the regional center monitoring section, the department makes this information available to the public upon request. The chief also stated that the department plans to consider Section 4629(e)(2) in developing its 1999 performance contract guidelines. Therefore, it appears that the department plans to implement this section.

The department reviews client individual program plans as required.

Finally, according to the chief deputy director, the department reviewed a sample of regional centers' individual program plans, as required under Section 4646.5(c)(3), between December 1997 and February 1998. As a result, the department appears to have implemented the requirements of this section.

Conclusion

The regional centers' performance contracts may not meet the Legislature's intent because many do not always measure client progress. The contract measures instead frequently focus on completing specific tasks that do not measure client outcomes or improved quality of service. In addition, by linking incentive award funds to purchase-of-services and operational cost savings, the department may inadvertently encourage regional centers to reduce rather than improve services.

Furthermore, the performance contract incentive awards may actually be a disincentive. Because the department awards the regional centers only 50 percent of any savings generated, the centers are better off spending any surpluses instead of meeting their performance measures for one-half the reward. This is particularly true because the department does not take corrective action when centers do not meet their performance measures. In addition, the department fails to verify that centers actually meet performance measures and monitor how centers spend incentive awards. Finally the department has failed to comply with a number of monitoring and reporting requirements contained in the Lanterman Act.

Recommendations

The department should ensure that the performance measures set by the regional centers meet the purpose the Legislature intended, including measuring how well the centers' services result in positive outcomes, such as their clients attaining more independent, productive, and normal lives. For example, the regional centers could use the goals established in the clients' individual program plans to measure client progress as a result of receiving appropriate services.

The department should develop incentives that encourage regional centers to meet their performance measures without sacrificing client service. For example, the department could request a separate incentive fund in the annual budget.

Regional centers meeting the type of performance measures intended by the Legislature would share these funds. Further, we recommend the department instruct each center awarded incentive funds to spend portions on staff and service providers, improving the regional center facility, and on clients whose improvements resulted in the award.

The department should use the corrective action available to it to ensure that all regional centers are working to meet performance measures included in their contracts.

The department should develop and implement procedures to more effectively administer the regional center performance contract program, including:

- Requiring more compelling evidence that performance measures were met.

- Approving in writing all changes to performance contracts.

- Comparing original performance objectives to those contained in year-end reports.

- Ensuring that centers clearly indicate the planned use of the incentive funds.

- Reviewing, approving, and monitoring the regional centers' expenditures of incentive funds to ensure they are used in the planned and approved manner.

The department should comply with each section of the Lanterman Act. Specifically, the department should:

- Submit all regional center year-end performance reports to the Legislature to meet its responsibility under Sections 4753 and 4836 of the Lanterman Act to evaluate and report on program effectiveness.

- Report on the financial status of the regional centers within 30 days following each quarter, as required by Section 4631(c), or move to have this language removed from the Lanterman Act.

- Continue conducting technical assistance visits with the regional centers and complete its negotiations with the ARCA to reduce case manager-to-client ratios to comply with Section 4640.6(a).

- Fully implement Section 4418.1(h) of the code by monitoring the centers' resolution of complaints regarding violations of clients' legal, civil, or service rights.

- Implement Sections 4434(a) and 4501 by ensuring that regional centers operate in compliance with federal and state laws and meet their statutory, regulatory, and contractual obligations.

- Fully implement Section 4434(d) by developing guidelines and procedures for reviewing the information collected from the regional centers, such as purchase-of-services policies.

- Continue plans for the HCBS waiver application to ensure that clients receive the service identified in their individual program plans under Section 45005(d).

- Develop 1999 performance contract guidelines in accordance with Section 4629(e)(2), as planned.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

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Appendix A

Department of Developmental Services' Budget and Allocation Processes

Annual Budget Process

The Department of Developmental Services (department) prepares budget estimates for the 21 regional centers semi-annually. The first estimate is due to the Department of Finance (DOF) on October 1 of each year. Once approved, this estimate is included in the Governor's Budget and Budget Bill. The second estimate, called the May Revision, updates the first using more current data. The May Revision is due to the DOF on April 1 of each year and is used to amend the Budget Bill for final legislative action. Once the Legislature approves the regional centers' statewide budget, the department can spend an amount equal to its approved budget to reimburse the regional centers for their expenditures.

Components of the Regional Center Budget Estimate

The regional centers' budget consists of four components, estimated separately. These components are purchase of services, operations, Part H/other agency costs, and Program Development. The total budget for the regional centers for fiscal year 1997-98 is approximately $1.2 billion. The four components of the budget are described in further detail below.

Purchase of Services: The fiscal year 1997-98 budget for purchase of services is approximately $914.6 million, or 78 percent, of the total regional center budget and funds many client services. These include day programs, and out-of-home and other services, constituting approximately 28 percent, 38 percent, and 34 percent, respectively, of the total purchase-of-services budget.

Operations: The fiscal year 1997-98 budget for this component is approximately $227.2 million, or 20 percent, of the total regional center budget and funds administrative support and case management. Administrative support represents personal services and operating expenses for regional center staff who do not provide direct services to the clients, such as regional center directors, fiscal managers, support staff, etc. Case management

represents personal services and operating expenses for direct services staff, such as physicians, psychologists, supervising counselors, and case managers.

Part H/Other Agency Costs: The fiscal year 1997-98 budget for this component is approximately $20.2 million, or 2 percent, of the total regional center budget. It represents estimated expenditures for other state agencies to provide services to children under 36 months of age, such as the California Department of Education's Early Start Program. Additionally, it covers continued services to children between 36 months and 43 months of age who do not meet diagnostic criteria for regional center eligibility and who are awaiting preschool special education programs. Since funding for these costs represents a minor portion of the total regional center funding, it is not discussed further.

Program Development: The fiscal year 1997-98 budget for this component is approximately $1.1 million, or less than one percent, of the total regional center budget. It represents funds set aside for grants to service providers to develop new and innovative programs and facilities for developmentally disabled people. Since funding for program development is immaterial in comparison to total regional center funding, it is not discussed further.

Development of Purchase-of-Services and Operations Budget Estimates

Purchase of Services: As stated in Chapter 1 of this report, the department uses historical expenditures to estimate the purchase-of-services base amount, which accounts for approximately 85 percent of its purchase-of-services budget. Most of the remaining 15 percent of the purchase-of-services budget component represents items that the department estimates using total caseload measures, and expected growth in service needs. These items include increased demand for purchase of services due to increased caseload and services affected by federal or state program requirements, such as federal and state minimum wage increases.

Operations: Similar to the purchase-of-services budget, the department uses a variety of techniques to estimate the regional centers' operations costs. However, the majority of these costs, approximately 76 percent, are for personal services. To project personal services costs, the department uses a statewide staffing pattern based on a standard list of regional center positions, ratios for calculating the number of staff for each position, and the average salary for each position's

equivalent state employee classification. For example, the staffing pattern assumes each regional center staffs only one of certain positions like a director or financial officer. Several positions are determined using ratios of staff to caseload, such as case managers. To calculate personal services costs, all the positions are multiplied by the average wage paid to an equivalent state employee.

Allocation Process Through Contract Amendments

As previously stated in Chapter 1, once the Legislature approves the department's budget for regional centers, the department distributes or allocates the budget among the regional centers using an established allocation approach, developed annually by the Association of Regional Center Agencies (ARCA) Finance Committee with technical assistance from the department. The ARCA board of directors grants approval, then the department approves it and uses the allocation approach to divide the purchase-of-services and operations budget among the regional centers. For example, the allocation approach directs the department to allocate several very small segments of the purchase-of-services and operations budget to the regional centers proportionately based on client caseload.

The department allocates the majority of the budget to the regional centers in two stages during the fiscal year. It allocates both the purchase-of-services component and the operations component using an amendment to the regional centers' contracts. Amendments are necessary because the department contracts with each center for a five and one-half year term. Therefore, the department estimates the yearly contract amounts until the annual budget for the regional centers is approved. The department generally makes the following contract amendments:

- **First Contract Amendment**: The first amendment is usually made in August. It allocates at least 96 percent of the total purchase-of-services component and 98 percent of the total operations component of the regional centers' budget.

- **Second Contract Amendment**: The second amendment is made in December. At that time, the department distributes most of its remaining budget to the regional centers. A small amount may be set aside until special program needs are determined.

- **Subsequent Contract Amendments**: The department can make subsequent contract amendments. However, it makes these amendments later in the fiscal year and primarily to shift funds among regional centers with surpluses to those that estimate deficits, to account for client transfers, and to move funds among operations and purchase-of-services allocations categories. Additionally, it distributes any remaining funds for special programs as needed.

Appendix B

The Department of Developmental Services' Uniform Fiscal System

We obtained our expenditure and client data from the department's Uniform Fiscal System (UFS). The UFS exists on a network of computers shared by the department and the regional centers. The department and each center use computers connected by a shared network, which allows the free exchange of data.

Data is collected and entered into the UFS according to the following process. Each regional center decides what services are appropriate for its clients based on diagnoses of need. These diagnoses are used to develop an individual program plan for each client. The regional center then matches the client's service needs with one or more service providers, such as health professionals or community businesses that specialize in providing services to developmentally disabled clients.

Once centers match the client's service needs to service providers, they create a computer authorization file containing the client's identification number, each service provider's number, service codes designating each service to be provided, and authorized service rates and limits. Regional centers pay service providers in accordance with the instructions contained on each client's authorization file. For example, if a provider bills for 40 hours but the authorization file shows a service limit of 30 hours, the regional center will pay for only 30 hours. The regional centers prepare monthly reports of all the bills paid and amend each client's authorization file accordingly.

The department reimburses the regional centers for the services purchased for their clients based on claim reports showing the amount of services purchased. In addition, centers update the UFS weekly with expenditure data, including client and service provider identification, the date of the service, the cost, and service code. As a result, the department has detailed information about the costs claimed by the regional centers.

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Appendix C

Selected Purchase-of-Services Categories Growth in Costs for Fiscal Years 1992-93 to 1996-97

		DAY TRAINING COST GROWTH								
		Annual Expenditures (in thousands)			Average Number of Clients[a]			Average Annual Service Cost Per Client		
Regional Centers	**Five-Year Average Caseload**	**Fiscal Year 1992-93**	**Fiscal Year 1996-97**	**Percent Increase**	**Fiscal Year 1992-93**	**Fiscal Year 1996-97**	**Percent Increase**	**Fiscal Year 1992-93**	**Fiscal Year 1996-97**	**Percent Increase**
Redwood Coast	1,766	$ 2,292	$ 3,045	33%	388	444	14%	$5,907	$6,858	16%
Kern	3,350	4,037	7,301	81	589	837	42	6,854	8,723	27
Far Northern	3,534	4,912	6,554	33	762	1,002	31	6,446	6,541	1
Westside	3,791	8,167	13,319	63	944	1,370	45	8,651	9,722	12
Eastern Los Angeles	4,063	6,065	7,573	25	727	873	20	8,343	8,675	4
F. D. Lanterman	4,245	5,512	7,351	33	804	971	21	6,856	7,571	10
North Bay	4,340	6,520	8,581	32	815	938	15	8,000	9,148	14
Golden Gate	4,937	11,533	17,119	48	1,479	1,785	21	7,798	9,590	23
Valley Mountain	5,483	11,172	16,850	51	1,194	1,399	17	9,357	12,044	29
San Andreas	5,578	9,364	14,351	53	1,164	1,583	36	8,045	9,066	13
Harbor	5,607	8,458	10,362	23	1,164	1,226	5	7,266	8,452	16
Tri-Counties	5,733	9,679	16,138	67	1,377	1,929	40	7,029	8,366	19
South Central Los Angeles	5,810	10,868	14,623	35	1,437	1,886	31	7,563	7,753	3
San Gabriel/Pomona	6,177	9,381	14,671	56	1,400	1,819	30	6,701	8,065	20
North Los Angeles	7,275	10,877	14,992	38	1,632	2,213	36	6,665	6,775	2
Central Valley	7,276	10,351	15,589	51	1,354	1,899	40	7,645	8,209	7
East Bay	7,965	13,249	15,931	20	1,537	2,016	31	8,620	7,902	(8)
Orange County	7,989	16,314	22,092	35	1,835	2,410	31	8,890	9,167	3
Alta California	8,133	11,195	17,570	57	1,267	2,187	73	8,836	8,034	(9)
San Diego	9,771	15,968	20,669	29	2,069	2,515	22	7,718	8,218	6
Inland	11,171	12,593	19,973	59	1,577	1,988	26	7,985	10,047	26
Total Cost/Center Average		**$198,507**	**$284,654**	**43%**	**25,515**	**33,290**	**30%**	**$7,780**	**$8,551**	**10%**

[a]The average number of clients was calculated by adding the monthly number of clients receiving the service and dividing by 12.

Regional Centers	Five-Year Average Caseload	COMMUNITY CARE FACILITIES COST GROWTH								
		Annual Expenditures (in thousands)			Average Number of Clients[a]			Average Annual Service Cost Per Client		
		Fiscal Year 1992-93	Fiscal Year 1996-97	Percent Increase	Fiscal Year 1992-93	Fiscal Year 1996-97	Percent Increase	Fiscal Year 1992-93	Fiscal Year 1996-97	Percent Increase
Redwood Coast	1,766	$ 1,671	$ 2,061	23%	200	203	2%	$ 8,355	$10,153	22%
Kern	3,350	2,242	4,468	99	249	329	32	9,004	13,581	51
Far Northern	3,534	4,142	6,056	46	558	595	7	7,423	10,178	37
Westside	3,791	5,233	7,100	36	419	449	7	12,489	15,813	27
Eastern Los Angeles	4,063	3,588	4,446	24	347	359	3	10,340	12,384	20
F. D. Lanterman	4,245	6,973	8,679	24	793	773	-3	8,793	11,228	28
North Bay	4,340	6,850	11,221	64	894	997	12	7,662	11,255	47
Golden Gate	4,937	8,912	12,123	36	926	963	4	9,624	12,589	31
Valley Mountain	5,483	8,300	10,086	22	1,053	1,088	3	7,882	9,270	18
San Andreas	5,578	9,101	15,849	74	1,022	1,112	9	8,905	14,253	60
Harbor	5,607	5,739	7,199	25	531	544	2	10,808	13,233	22
Tri-Counties	5,733	6,892	10,048	46	705	762	8	9,776	13,186	35
South Central Los Angeles	5,810	7,349	8,731	19	892	884	-1	8,239	9,877	20
San Gabriel/Pomona	6,177	9,564	11,858	24	1,254	1,222	-3	7,627	9,704	27
North Los Angeles	7,275	8,240	8,329	1	962	859	-11	8,565	9,696	13
Central Valley	7,276	8,559	10,775	26	1,306	1,335	2	6,554	8,071	23
East Bay	7,965	10,397	14,657	41	1,317	1,442	9	7,894	10,164	29
Orange County	7,989	10,944	15,616	43	1,360	1,458	7	8,047	10,711	33
Alta California	8,133	9,557	11,457	20	1,368	1,429	4	6,986	8,017	15
San Diego	9,771	9,210	13,256	44	1,231	1,438	17	7,482	9,218	23
Inland	11,171	10,579	16,206	53	1,678	1,831	9	6,305	8,851	40
Total Cost/Center Average		**$154,042**	**$210,221**	**36%**	**19,065**	**20,072**	**5%**	**$ 8,080**	**$10,473**	**30%**

[a]The average number of clients was calculated by adding the monthly number of clients receiving the service and dividing by 12.

		TRANSPORTATION COST GROWTH								
		Annual Expenditures (in thousands)			Average Number of Clients[a]			Average Annual Service Cost Per Client		
Regional Centers	Five-Year Average Caseload	Fiscal Year 1992-93	Fiscal Year 1996-97	Percent Increase	Fiscal Year 1992-93	Fiscal Year 1996-97	Percent Increase	Fiscal Year 1992-93	Fiscal Year 1996-97	Percent Increase
Redwood Coast	1,766	$ 818	$ 1,090	33%	438	457	4%	$1,868	$2,385	28%
Kern	3,350	2,270	3,596	58	613	862	41	3,703	4,172	13
Far Northern	3,534	1,927	2,441	27	787	1,041	32	2,449	2,345	(4)
Westside	3,791	1,294	1,861	44	1,042	1,594	53	1,242	1,168	(6)
Eastern Los Angeles	4,063	2,158	2,175	1	815	991	22	2,648	2,195	(17)
F. D. Lanterman	4,245	2,136	1,684	-21	926	1,114	20	2,307	1,512	(34)
North Bay	4,340	1,848	2,232	21	857	1,172	37	2,156	1,904	(12)
Golden Gate	4,937	2,212	4,285	94	1,514	1,818	20	1,461	2,357	61
Valley Mountain	5,483	3,976	5,470	38	1,240	1,457	18	3,206	3,754	17
San Andreas	5,578	4,835	4,933	2	1,258	1,841	46	3,843	2,680	(30)
Harbor	5,607	3,151	3,914	24	1,244	1,301	5	2,533	3,008	19
Tri-Counties	5,733	3,049	3,952	30	1,425	1,972	38	2,140	2,004	(6)
South Central Los Angeles	5,810	5,657	6,036	7	1,491	1,971	32	3,794	3,062	(19)
San Gabriel/Pomona	6,177	4,245	5,972	41	1,543	2,023	31	2,751	2,952	7
North Los Angeles	7,275	2,960	3,179	7	1,881	2,508	33	1,574	1,268	(19)
Central Valley	7,276	5,098	7,474	47	1,422	1,957	38	3,585	3,819	7
East Bay	7,965	7,150	9,562	34	1,691	2,252	33	4,228	4,246	0
Orange County	7,989	2,578	3,050	18	2,026	2,760	36	1,272	1,105	(13)
Alta California	8,133	4,655	6,416	38	1,341	2,300	72	3,471	2,790	(20)
San Diego	9,771	5,004	6,088	22	2,175	2,638	21	2,301	2,308	0
Inland	11,171	1,950	3,402	74	1,707	2,108	23	1,142	1,614	41
Total Cost/Center Average		**$ 68,971**	**$88,812**	**29%**	**27,436**	**36,137**	**32%**	**$2,514**	**$2,458**	**(2)%**

[a]The average number of clients was calculated by adding the monthly number of clients receiving the service and dividing by 12.

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Glossary

Association of Regional Center Agencies (ARCA): An association, composed of an executive director and the board president from all regional centers, whose purpose is to examine issues of common concern, develop positions, share information, and provide an organized mechanism for the regional centers' communication with state government.

Case Manager: The individual with responsibility for implementing, overseeing, and monitoring the client's individual program plan, and for maintaining the client's records. The case manager is also known as a regional center client program coordinator, counselor, or service coordinator.

Client: A person with a developmental disability who is receiving regional center services, is an applicant for services, or has been referred for services pursuant to the Lanterman Developmental Disabilities Act.

Day Care: Care and supervision provided to a client unable to care for her/himself. Day care services include the following:

- **Child Day Care:** Care and supervision for a developmentally disabled child under 18 years of age who is living at home, is unable to care for her/himself, and whose parents are employed full-time outside the home.

- **Adult Day Care:** Nonmedical care and supervision of adults 18 years or older on less than a 24-hour basis.

Day Training: Community-based programs serving individuals for less than 24 hours daily, including:

- **Activity Center:** These centers serve adults with most basic self-care skills, some ability to interact with others or make their needs known, and who respond to instructions. Activity centers develop and maintain the functional skills required for self-advocacy, community integration, and employment.

- **Adult Development Center:** Centers that help adults acquire self-help skills. Individuals who attend these centers generally need sustained support and direction to interact with others, make their needs known, and respond to instructions. Adult development center programs develop and maintain the functional skills required for self-advocacy, community integration, employment, and self-care.

- **Behavior Management Program:** These services are for adults with severe behavior disorders and/or dual diagnosis who, because of their behavior problems, are not eligible for any other community-based day program. A client who is dual diagnosed is developmentally disabled and mentally ill.

- **Independent Living Program:** Independent living trains adult clients for a self-sustaining, independent living situation in the community. Independent living programs focus on functional-skills training for clients with basic self-help skills and those who, because of their physical disabilities, do not possess basic self-help skills. These programs employ aides to assist adult clients in meeting their personal needs.

- **Infant Development Program:** These services provide training and activities for infants and their families. They are designed to encourage the development and adjustment of the infants and to prepare them for entrance into local schools or other appropriate facilities.

- **Social Recreation Program**: A program that provides community integration and self-advocacy training in recreation and leisure pursuits.

- **Work Activity Program:** These services, funded and monitored by the State Department of Rehabilitation, teach clients work-related and other skills necessary for success in vocational training programs, or supported or competitive employment.

Developmental Center: The Department of Developmental Services directly operates five developmental centers throughout the State: Agnews, Fairview, Lanterman, Porterville, and Sonoma. The developmental centers provide services, including training, care, treatment, and supervision, in a structured health facility on a 24-hour basis. The developmental centers are licensed and certified acute care hospitals.

A Skilled Nursing Facility and/or Intermediate Care Facility/ Developmentally Disabled (ICF/DD) facility may be included within the center.

Generic Agency: Any agency with a legal responsibility to serve all members of the general public and which is receiving public funds to do so. With regard to the developmentally disabled population, a generic agency is the service provider of first resort, and the regional center, the last.

Individual Program Plan: A written plan developed for regional center clients by an interdisciplinary team. The individual program plan describes the client's goals and the services and support necessary for the client to meet them.

Interdisciplinary Team: A group of persons convened to prepare a client's individual program plan. The interdisciplinary team ensures that services and support focus on the individual and his/her family. The team considers the needs and preferences of the individual and the family where appropriate, as well as promotes community integration of clients to allow them to lead independent, productive, and normal lives in stable, healthy environments.

Lanterman Developmental Disabilities Services Act (Lanterman Act): A California statute contained in the Welfare and Institutions Code (Sections 4500 et seq.). The Lanterman Act defines developmental disabilities and client rights, and describes the roles and responsibilities of the regional centers, the department, the State Council on Developmental Disabilities, and the local area boards. The law states that facilities and services should be established that sufficiently meet the needs of each person with developmental disabilities, regardless of age or degree of handicap, and at each stage of life. Also, it states services should enable persons with developmental disabilities to approximate the pattern of everyday living available to nondisabled people.

Medical Services: Services that improve or maintain the client's health. Medical services include physical, occupational and respiratory therapy; dentistry; speech pathology; audiology; psychiatry; laboratory services; and medical equipment and supplies.

Nonmedical Services: These services assist the client and/or family to effectively address specific issues or situations related to the developmental disability of the client. Nonmedical services are not designed to improve or maintain the client's health. They include tutoring, alcoholism treatment, dance or music therapy, and art programs.

Out-of-Home Community Care Facilities: Facilities licensed by the Community Care Licensing Division of the State Department of Social Services to provide 24-hour, nonmedical residential care to developmentally disabled children and adults. These facilities furnish clients with personal care, supervision, and/or assistance essential for self-protection or for daily living.

Out-of-Home Other: The provision of other personal care, protection, supervision, assistance, and guidance in accordance with the needs of developmentally disabled people in a home or facility licensed by a state agency. This includes the following out-of-home facilities:

- **Intermediate Care Facilities:** Health facilities licensed by the Licensing and Certification Division of the State Department of Health Services to provide 24-hour services to developmentally disabled people.

- **Intermediate Care Facility/Developmentally Disabled (ICF/DD):** A licensed residential health facility that provides care and support services to developmentally disabled people whose primary need is for developmental training and who have a recurring, but intermittent, need for skilled nursing services.

- **Intermediate Care Facility/Developmentally Disabled-Habilitative (ICF/DD-H):** A licensed residential health facility, with 15 beds or less, furnishing 24-hour personal care, developmental training, and habilitative and supportive health services to residents with developmental disabilities.

- **Intermediate Care Facility/Developmentally Disabled-Nursing (ICF/DD-N):** A licensed residential health facility with 4 to 15 beds furnishing 24-hour nursing supervision, personal care, and training in habilitative services to medically fragile, developmentally disabled people, or to people with a significant developmental delay that may lead to a developmental disability if not treated. Such people must have been certified by a physician as not requiring skilled nursing care.

- **Nursing Facility:** A licensed health facility or a distinct part of a hospital with continuous skilled nursing and supportive care for patients needing extended skilled nursing care. It provides 24-hour inpatient care and, as a minimum, includes physician, skilled nursing, dietary and pharmaceutical services, and an activity program.

Purchase-of-Services Funds: That portion of a regional center's budget used to reimburse a service provider for client services, such as day care, residential care, client transportation, and medical, respite, and support services.

Regional Center: A diagnostic, counseling, and service coordination center for developmentally disabled people and their families established and operated by a private nonprofit community agency or corporation contracting with the State.

Respite Services: Intermittent or regularly scheduled temporary nonmedical care and/or supervision for developmentally disabled clients. Respite services include the following:

- **In-Home Respite Services:** Services furnished in the client's own home and designed to relieve family members from the constant demands of caring for a client; assist family members in maintaining the client at home; provide appropriate care and supervision to protect the client's safety in the absence of family members; and assist the client with basic self-help needs and other activities of daily living, including interaction, socialization, and the continuation of daily routines ordinarily performed by the family member.

- **Out-of-Home Respite Services**: Services provided in a licensed residential facility.

Service Code: A three-digit number assigned by the department identifying a type of purchased service.

Service Contract: An agreement entered into between a regional center and a nonresidential service provider specifying the provider's level of payment and units of service used to charge for client services.

Service Provider: A person, program, or entity authorized to provide services to regional center clients. A service provider must obtain an identification number from a regional center.

Supported Living Services: Services provided to adults with developmental disabilities who choose to live in their own homes. These services are offered regardless of the degree of disability and are provided for as long and as often as needed. The choice to live in a supported living arrangement must be specified in the client's individual program plan. Typically, a service agency works with the client to coordinate needed services.

Transportation Services: Services provided to clients enabling them to participate in programs and/or other activities identified in their individual program plan. These services include help with boarding and exiting a vehicle and assistance and monitoring while being transported. Services can be obtained from a variety of providers such as a public transit authority, specialized transportation companies, day program and/or residential providers, and family members. Transportation services also include mobility training, which trains developmentally disabled adults to use normal and independent modes of transportation.

Agency's response to the report provided as text only:

State of California–Health and Welfare Agency
DEPARTMENT OF DEVELOPMENTAL SERVICES
1600 Ninth Street
Sacramento, CA 95814
TDD 654-2054 (For the Hearing impaired)
(916) 654-1897

April 6, 1998

Mr. Kurt R. Sjoberg
State Auditor
Bureau of State Audits
660 "J" Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

The Department of Developmental Services (DDS) staff have reviewed a draft copy of the report prepared by the Bureau of State Audits (BSA) entitled "Department of Developmental Services: Regional Center Budgets Are Not Based on Client Needs, and Departmental Oversight Could be Improved." This report was prepared in accordance with the 1997-98 Budget Act, Chapter 282, Statutes of 1997 which directed the BSA to conduct an analysis of the DDS' regional center expenditures including operations and the purchase of services. We believe that the report contains useful findings and recommendations that will be of assistance to DDS as it plans for the future. The BSA was given a very difficult task, and we appreciate the effort that went into producing the report.

Enclosed are DDS' comments to the specific findings and recommendations in the BSA report. We appreciate the opportunity to respond and we understand that our comments will be included in the final report when issued.

If you have any questions, please contact me at (916) 654-1897 or Paul Carleton, Deputy Director, Administration Division, at (916) 654-3234.

Sincerely,

Cliff Allenby

Cliff Allenby
Director

Enclosures

cc: See next page

"Building Partnerships, Supporting Choices"

c: Doug Arnold
Paul Carleton
Eileen Richey
Roberta Marlowe
Ken Buono
Dale Sorbello
Rita Walker
Patsy Nelson

DEPARTMENT OF DEVELOPMENTAL SERVICES

Response to the
Bureau of State Audits' Report Entitled
"Department of Developmental Services: Regional Center
Budgets Are Not Based on Client Needs, and
Department Oversight Could Be Improved"

April 6, 1998

OVERVIEW

The Department of Developmental Services (Department or DDS) believes that the Bureau of State Audits' (BSA') report contains useful findings and recommendations that will be of assistance to the Department as it plans for the future. It is apparent that the BSA made a good faith effort to understand an exceedingly complex and dynamic system. The BSA was given a very difficult task, and the Department appreciates the effort that went into producing the report.

However, before responding to the specific findings and recommendations in the report, it is essential to point out that many of the findings in the report are not surprising as they are a reflection or result of the basic tenets of the law that underlies the regional center system in California. When what became known as the Lanterman Developmental Disabilities Services Act (Lanterman Act. Welfare and Institutions Code Division 4.5) was enacted in 1969, the Legislature was explicit in stating that the regional centers were to be private, non-profit agencies, each directed by the policies and decisions of a locally established board of directors. The Legislature chose not to establish a uniform state-operated or county-operated system such as was used in many other portions of the country. Rather, the Legislature established a private system, one that would be responsive to the needs of individuals with developmental disabilities and their families in various portions of the State. This decision was made in recognition of the tremendous variability that existed across a State as large and diverse as California.

Given this legislative intent, it is understandable that the regional centers, over the years, have evolved divergent policies and chosen different ways of serving the individuals within their catchment areas. There appears to be an underlying assumption in the BSA report that these variations are somehow "wrong" and should be remedied by DDS or regional center action. Such an assumption is antithetical to the basic tenets of the Lanterman Act. The BSA report also seems to assume that DDS and the regional centers have the authority to change the variances; again, this is questionable under the Lanterman Act. (1)* (2)

Second, the BSA report seems to assume that the differences among regional centers are somehow "bad" for consumers and that they reflect "inequities" from a consumer's perspective. In other words, the BSA report assumes that variations in the regional centers' expenditure patterns mean that the needs of people are being less well met in portions of the State where (1)

*California State Auditor's comments on this response begin on page 87.

expenditures are lower than in regions where expenditures are higher. There is no evidence to
(3) support this conclusion, either from the BSA report or from other sources.

Third, the report does not appear to recognize that the differences among the regional centers
(4) reflect policies and priorities established by each local community. The regional centers do not operate in a vacuum. Each regional center is expected to be responsive to what members of its local community think is important, to provide services that are appropriate for meeting the needs of individuals in that community. This is why regional centers have board meetings that are open to the public, why they have been required to have consumer advisory committees, service provider committees and other advisory committees that allow them to hear what the "community" thinks are priorities and issues that need to be resolved. It also is why they have been required by the Legislature and the Department to take major policy decisions – such as developing objectives in performance contracts or determining how to respond to severe unallocated budget reductions – to the community for input and ideas and to develop solutions or priorities in conjunction with their local communities. One of the factors that creates variation among regional centers is the way in which policies and priorities have evolved over the years in response to these community priorities.

Fourth, the BSA report does not reflect an acceptance of another basic tenet of the Lanterman
(5) Act, that regional centers are expected to seek out and obtain other sources of funding for services prior to expending their own monies. The regional centers are expected to use "generic" services whenever possible, if those services will help the individual meet the goals and objectives in his or her Individual Program Plan (IPP). Generic services are publicly funded agencies that provide services to the general public and not to some single category of persons. The public school system, county hospitals, Medi-Cal, community health agencies, county social service agencies and local parks and recreation agencies are examples of generic agencies. Regional centers also are required by the Lanterman Act to obtain funding from insurance companies and other third party payors prior to expending their own funds. Some of the variation among regional centers relates to the differential availability and use of these "other" sources of funding. In the residential services area, for example, large variations among the regional centers result from the differential availability and use of Intermediate Care Facilities (ICFs) of various types, which are partially federally funded and which appear in the budget of the Department of Health Services rather than that of DDS.

Fifth, following national trends and as enacted in California in SB 1383 (Chapter 1011, Statutes of 1992), regional centers are expected to maximize the use of "natural supports" in providing services and supports to individuals with developmental disabilities. Natural supports are those services that can be provided by family, friends, neighbors, co-workers and other individuals with whom the person with developmental disabilities relates. This is part of the basic premise of the Lanterman Act that maximum effort should be made to ensure that persons with developmental disabilities are treated as citizens and members of their local neighborhoods and communities as are other members of the public. Just as the rest of us can call on friends or relatives when our cars break down or we miss the bus, so are the families or friends of persons

with developmental disabilities expected to "help out" in an unpaid or minimally paid basis. Again, variability in regional center expenditures can result from the differential application of this principle.

It also is important to mention that the law recognizes that even though there is an open-ended entitlement to services, there is a closed-ended budget. Once the budget is enacted and allocated, the regional centers are required to live within their allocations, subject to the provisions of Section 4791 of the Lanterman Act.

In summary, it is the Department's contention that a significant part of the variability among regional centers that was identified in the BSA report is a reflection of the dictates of the Lanterman Act and of how the regional centers have implemented that Act in conjunction with their local communities. The BSA report seems to assume that such variations are wrong and should be eliminated. The Department believes that a change in the Lanterman Act would be required to eliminate this variability. If so, then a public policy forum needs to be convened to address these issues. Under existing law, the Department cannot enforce standardization. The BSA report recognizes this when it states that the ARC decision making this program an entitlement also limited the Department's responsibility to "simply promoting uniformity and cost-effectiveness in the regional centers' operation. Moreover, it held that the department cannot control how centers provide services to their clients." [p. Int-3] (1)

In what follows, the Department will discuss how it has addressed the issues of uniformity and cost-effectiveness, given the strictures of both the Lanterman Act and the ARC decision. It also will provide specific responses to the BSA findings and recommendations.

PURCHASE OF SERVICE: BUDGETING AND ALLOCATION PROCESS

The major point made in Chapter One is that the budget process currently used does not adequately request sufficient funds to meet individual consumer's needs. We disagree with that statement. As was discussed in the prior section, there is no evidence that the needs of consumers in one part of the state are being less well met than those who live elsewhere, or that the variation across regional centers is proof that consumers are being treated in an inequitable manner. Indeed, our experience with the regional centers over the years would indicate that both high and low per capita regional centers believe they are meeting consumers' needs consistent with the law. Second, both consumers and their families express satisfaction with services in both high-expending and low-expending regional centers. Third, if one was to measure the "success" of the amount of funds budgeted by the level of increase over the past several years along with the fact that the Department has not had a deficiency in the appropriation over those same years, then there has been sufficient funding. This was especially true during the four years of unallocated reductions when $106.5 million of permanent base reductions were made without a deficiency occurring. (6) (7) (6)

The BSA's description of the Department's budgeting methodology does not accurately reflect the total process. It should be clarified that the reason the Department "rolls" forward an amount
(8) from the previous year is to make sure that the ongoing services provided in the preceding year are not disrupted. The majority of consumers' IPPs, and therefore their services, do not change significantly from year to year so not only it is important to maintain the base, but it is an accurate measure of existing expenditures from which to build the next budget.

In addition, the Department does consider the future funding needs of those consumers. It is necessary to consider both the additional needs these consumers may have and the needs that new consumers will have. The Department takes these both into account when it funds caseload
(9) growth separately, based on historical trends and based on assumptions provided by DDS' program staff that reflect changes in policy or program direction or known circumstances at a particular center.

That said, the Department agrees that the budgeting and allocation processes should be reviewed. However, if changes in those processes were to be contemplated, then it is critical to consider the following factors.

First, before making changes to the allocation process, the policy issue of the legitimacy of cost variances between regional centers needs to be resolved. The Administration and the Legislature need to agree whether standardization is the desired result. As has been discussed, the basic philosophy of the Lanterman Act is that each community has the right to establish local priorities and policies for consumers who live within its region. Consequently, the law permits or even encourages variances. A public-policy discussion of this issue needs to occur prior to implementing any changes in the budgeting or allocation methodology. Over the past several years, this issue has been discussed with regional centers and a consensus on a resolution has not been achieved. Even assuming that regional centers agree that their costs variances need to be reduced, many feel that they do not have sufficient authority to effect those changes, given the variability built into the Lanterman Act.

Second, assuming the public policy discussion results in consensus that less variability among regional centers is the desired outcome, then the issue becomes one of how this increased uniformity can be achieved. The Department disagrees that such a system could be devised through the kind of "matrix" of consumer characteristics, based on diagnoses such as level of mental retardation, that is recommended in the report. The characteristics and needs of the consumers are much more complex than is indicated in the "matrix" envisioned in the BSA
(10) report. Persons with developmental disabilities also have diverse medical conditions, behavior challenges, disabilities other than or in addition to mental retardation, and a variety of strengths and capabilities. They and their families also have preferences about the kinds of services they need and require, and these have to be identified using a Person-Centered Planning process and given a high priority under the Lanterman Act. As a result, there is no set or standard service that is "diagnosed for each disability type" as proposed by BSA.

There is no system in place to link an individual's IPP goals with the budget-building process. Even if there were such a system, it would not be an accurate projection of a center's needs. As was mentioned above, there are various other factors, such as ability to develop needed resources, use of generic resources, use of natural supports, community priorities for services, and other factors unrelated to specific individuals' IPPs, which influence the budget of particular regional centers. All of these factors – IPP-related as well as community resource- and priority-related – would have to be taken into account to devise a more effective budgeting and allocation system.

MONITORING PURCHASE OF SERVICE COSTS

In Chapter Two, the BSA seems to assert that the Department has not conducted any analyses of purchase of service trends or is unaware of what factors create these differences. We disagree with this assertion.

While the Department does not do the type of analysis that is recommended in the BSA report on an ongoing basis, the Department does monitor its POS costs. These costs are monitored on a monthly basis and for those centers who are projecting a deficit, or which are very close to a deficit, we do a more in-depth analysis. (11)

On a monthly basis regional centers project costs and the department reviews those projections. For those regional centers that experience fiscal problems, and for which the department and ARCA conduct a technical assistance review, a more detailed analysis is conducted. This includes reviewing expenditures by purchase of service category and by service code to determine what is going on with that center's expenditure patterns, with patterns and anomalies being then discussed with the center. Both department staff and ARCA representatives share "best practices" and other ideas that may help the regional center meet consumers' needs and stay within their contract allocation. In addition, the Department collected those ideas that regional centers implemented during the years of unallocated budget reductions to effect cost savings and has shared that information with all regional centers. (11)

The issue of cost variation has been discussed with the ARCA Finance committee over the years and an analysis of variances among regional centers within purchase of service categories was conducted by the department for fiscal years 1993-94 and 1994-95. The analysis was very similar to that conducted by the Bureau of State Audits. In addition, every year an analysis of per capita costs is conducted which takes into consideration funds spent in other departments, in order to determine equity adjustments in the allocation process. (12)

The Department agrees with the points made in Chapter Two that a study would need to be conducted to determine the many variables, both individual and community, that create the differences in spending in the purchase of service categories. We believe this is a critical first step before any changes are made in how services are delivered. As the Department has

conducted its various purchase of service analyses, as well as through the many discussions and technical assistance visits with regional centers, we have identified several of the variables that create or influence the cost variances. Among these variables are priorities and preferences of the local community in establishing POS standards for its regional center, rates, availability of generic resources, availability and use of health facilities such as ICFs, use of EPSDT and other federally funded programs such as Adult Day Health Facilities, and ability of the regional center to attract providers of service, which relates to cost of living issues in various geographic areas. These are some of the variables that were discussed with the BSA auditors and which would be included in a study of this issue. Because of the variability across regional centers, a pilot of selected centers would not suffice to identify all of the variables that create these difference. For these reasons, we disagree that such a study should be done on a pilot basis.

Both time and resources would need to be allocated to this study. The study should identify what variables are creating the differences among the centers. It also needs to recommend solutions so that decisions can be made about what if any changes are needed and how those changes will occur. Depending on the types of changes that are recommended, changes in law or regulation may be needed, as well as additional funds to implement the changes. Any proposed changes to the system need to be widely discussed in a public arena and need to involve the stakeholders of our system. Our experience has indicated that when the Department has worked with high per capita regional centers to reduce purchase of service costs, considerable resistance is met from the community. Expenditure trends of regional centers are based on years of history and their specific priorities, availability of services, and wishes of their consumers and parents. Given that the majority of costs involve where a person lives, their day program, transportation to get to the day program, and support services to families, change is very difficult to make without affecting families or providers.

CASE MANAGEMENT

We agree that the department needs to establish guidelines on the reporting of case management costs and then have the regional centers report this information in the Uniform Fiscal System.
(13) We disagree that the costs should be scheduled separately in the budget. As pointed out in the report, the core staffing formula, which was developed in the mid 1970s, needs to be updated. The formula was developed when regional centers were very small, and when consumers' and families' expectations were not as great as today. Over time, services have expanded enormously, and both state and federal requirements have changed and increased. Also, unallocated reductions have made it more difficult for regional centers to meet the out-dated standards currently used. How a regional center effected those reductions, and in what areas, has created differences in the system on staffing patterns. Therefore, it becomes very difficult to hold people accountable to specific standards until the staffing model has been updated and funded. Regional centers need the flexibility to bring their case management ratios down to 1:62 and at the same time address other critical needs.

The Department will be entering into a contract in the current fiscal year to have an independent review of the core staffing formula. It is anticipated that the study will be completed in time to request any additional needed resources during the Governor's budget process for the 1999-2000 fiscal year budget.

The independent study of the core staffing formula will include an analysis of the impact of consumers' needs and characteristics on the number and type of case managers. Case managers should be allocated not only on a per capita basis but also to reflect consumers' needs. For example, persons with severe medical problems require nurse case managers who will be able to oversee the programs that serve these individuals to ensure the consumers' health and safety. Children living at home may live with families who are more or less able to provide appropriate guidance and developmental effort; it may be necessary to have case mangers with unique skills to handle these kinds of situations. Similarly, people with severe behavior challenges or people moving out of the developmental centers may need case managers with different kinds of skills as well as different staffing ratios.

PERFORMANCE CONTRACTS

Although the Department has concerns about many of BSA's conclusions, it does agree with most of the recommendations contained in Chapter Three and plans to implement changes immediately. The Department agrees that the incentive program needs to be revisited and that the review and documentation process for performance contracts needs to be more rigorous. We also agree that more monitoring is needed to ensure regional centers' implementation of performance contract objectives and that incentive award funding is consistent with the plans and documentation submitted. The Department will revise its performance contract guidelines and, in fact, has purposely held off making revisions for this year pending the BSA report. Also, staff have been directed to revise internal procedures to address the weaknesses identified by the BSA in the Department's administration of the performance contract process.

The Department agrees with the BSA's comments about the importance of measuring client outcomes. The Department believes that this will require a multi-faceted approach including revising the Client Development Evaluation Report (CDER) to make it more outcome focused, and improving the accuracy and integrity of existing databases. This will require increasing the resources that are dedicated to this effort; the Legislature was just sent a request for enhancing resources for this purpose.

It should be pointed out that the Department is moving toward an outcome-oriented model in various ways. Not only are we proposing that a Consumer Outcome Element be added to CDER, we also have introduced the Life Quality Assessment process, through which consumers residing in out-of-home settings are visited every three years to determine their outcomes and satisfaction on a number of variables, including independence, integration, and productivity. The

Department's various longitudinal quality of life studies also measure these and other dimensions widely recognized as associated with quality outcomes.

The Department shares BSA's opinion that the existing incentive structure needs to be revised. As the BSA report suggests, it is possible that the existing structure may be encouraging some regional centers to spend down year-end savings, which is not what the incentive was designed to to do. The Department will look carefully at the incentive system, as well as at other aspects of the performance contracting process, using the recommendations in the BSA report.

However, the Department disagrees with several BSA statements in Chapter Three. First, we disagree with the assertion that the Department's regional center performance contracts are not achieving their Legislative intent, particularly in failing to focus on consumer outcomes. The BSA did not directly assess the extent to which the performance contracting process was helping consumers to attain ".... more independent, productive, and normal lives." The BSA focused on
(14) administrative processes association with reviewing and approving performance contracts. Thus, the Department finds it difficult to understand how the BSA can come to the broad conclusion that the performance contracts are not achieving their Legislative intent. Moreover, the clearest outcome measures currently used are the satisfaction surveys which DDS is giving to all consumers, families and service providers. Thus far, satisfaction with regional center services is
(15) very high. Changes in level of satisfaction will be analyzed when data from multiple years are available.

Second, the Department also disagrees with the assertion that newsletters, resource guides, training sessions and similar performance contract objectives are solely "process measures" that are unrelated to consumer outcomes. The dissemination of information about services and resources, training families, establishing family support groups or consumer advocacy groups,
(16) and other activities that BSA may characterize as "process measures," can and do favorably impact consumers and their families. Moreover, the BSA report fails to recognize that regional centers' performance contract goals and objectives are developed in collaboration with their local communities and such "process measures" not only reflect the wishes of those communities but are regularly recommended for inclusion in the performance contracts. The "process" measures are the methods or objectives by which the overall goals are obtained.

(17) Third, the BSA appears to believe that it is inappropriate for a performance contract to include a legislative requirement as an objective. The Department disagrees. The service philosophies and specific statutory requirements embodied in the Lanterman Act provide an excellent framework and guide for crafting performance contract objectives. Including such goals and objectives provides an increased focus for the community and its regional center in an area of particular importance or interest to that community. For example, SB 1383 amendments to the Lanterman Act established supported living as a legislative priority. It would be very appropriate for a regional center to include objectives to advance this legislative priority by including supported living as a priority objective in its performance contract.

Fourth, the Department disagrees with the way in which BSA's conclusions are presented in this chapter. While the Department's monitoring of performance contracts could be improved, it is not true that the Department has "failed" to ensure that performance contracts were met. The Department also has difficulty with the statement that it does not penalize centers when they do not meet the performance measures in their contracts. The Department has not defined achievement at less than 100 percent as a failure to meet performance objectives or as warranting penalties. Indeed, such action could serve as a disincentive to centers developing numerous and complex performance contract objectives. The criteria for assessing a regional center's success in meeting its performance objectives are set forth in the Mid-Contract Review Guidelines. As stated in those guidelines, achievement of less than 70 percent of its first two years' objectives may result in the Department placing a center on probationary status. It should be kept in mind, also, that the Department reviews the totality of a regional center's performance to determine its status, not just compliance with performance contract objectives. It is possible for a regional center to perform quite well with regard to its performance contract yet to warrant sanctions because of other performance or operational problems.

(18)

(19)

Finally, the Department questions the validity of the statement that regional centers may be reducing or eliminating services to generate incentive funds. The BSA report indicates that, when regional centers were asked how they generated the cost savings later used to fund their incentive awards, several centers responded that they either reduced or canceled services. As written, it appears that some regional centers implemented cost savings for the express purpose of generating funds for incentive awards. DDS would be very concerned if this occurred and, in any event, would strongly oppose any such action by a regional center. DDS believes that there may be some confusion around the interaction between performance contracts, expenditure plans, and the requirements in law for regional centers to maintain expenditures within the amount of funds allocated. In fiscal year 1995-96 regional centers were required to develop expenditure plans showing how they would ensure the delivery of services throughout the fiscal year within their contract allocation. These expenditure plans included, if necessary, various cost-savings measures they would take to achieve this end. The examples given, reducing total respite hours and so forth, sound like the kinds of cost-saving methods that some regional centers proposed in their expenditure plans. It is possible that the regional centers were unclear about the question being asked, or confused the incentive program with the expenditure plans in their responses. These are quite discrete. It makes little sense for a regional center to reduce current-year funding for consumer services solely to receive a maximum of 50 percent of the amount saved that can then only be used on client-related services in the next year.

(20)

SPECIFIC LAWS

The Department believes it is in substantial compliance with the list of statutory provisions listed in Chapter Three. Our reasons for this contention are included in the following table.

CITE	DDS POSITION
Page 3-12, Comments on 4418.1 (h)	DDS believes it has fully implemented this provision via the addition of a "Rapid Response Quality Feedback System" to the contracts for the Center of Outcome Analysis and Berkeley Planning Associates. These are the two organizations currently responsible for tracking and monitoring those persons who move from a developmental center into the community. As part of their contract, a summary of consumer information is collected during an interview for consumers who moved from a DC to a community setting. If the summary identifies situations that relate to health and safety, the summary is provided to the department and forwarded to the regional center for follow-up. Regional centers are required to return a copy of the summary to the Department within 30 days of receipt with information on the actions taken and the outcome. (21)
Page 3-12, Comments on 4434 (a) 4500.5 (d) 4501	The BSA extends DDS little or no credit for implementing these provisions, whereas DDS believes it is in substantial compliance. For example, DDS currently conducts comprehensive Early Start compliance reviews at the regional centers, performs biennial federal program audits of regional centers, reviews the annual regional center independent financial audits, performs focused program and/or fiscal reviews of regional center, conducts technical assistance visits, reviewed a sample of individual program plan at every regional center during December 1997 through February 1998 to ensure compliance with the law, etc. DDS has also surveyed, within the last two years, approximately 100,000 individual consumers/families and providers to assess their satisfaction with the services of 14 regional centers. Approximately 50,000 more such surveys are scheduled to be mailed to the remaining seven regional centers next month. Moreover, DDS proactive monitoring efforts will be expanded if the Governor's existing FY 1998-99 budget proposal for additional staffing to implement SB 1039 is approved. (22)

Page 3-12, Comments on 4629 (e)(2)

This is an inaccurate reflection of the Department's activities and compliance with statute. Prior year's performance contract guidelines which are issued annually to the centers have required centers to: develop the goals/objectives in collaboration with the community; conduct one or more public meetings prior to the regional center board adopting the goals/ objectives; provide at least 10 calendar day advance notice of the public meeting (s); provide public notice in a manner to ensure adequate notice to the community; submit to DDS copies of any written testimony received; make written copies of the proposed goals/objectives available for release at the time the public meeting (s) was noticed; and submit to DDS the community's issues, comments received and action taken in response to those comments. Likewise, the guidelines on performance contracts require the centers submit annual measurable objectives and baselines. The new requirements added by SB 1039 will be incorporated into the Department's 1998 Performance Contract Guidelines. (23)

Page 3-12, Comments on 4631 (c)

As noted by BSA, DDS has not used this 1970's vintage provision for many years. Regional centers do not submit their budget projection to DDS until mid-September. It was agreed that any projection earlier in the year would not be credible. Thus, it would not be useful to report 30 days after the end of the first quarter on the fiscal status. When asked by the Legislature or any other interested party, fiscal status information is shared. DDS has not been asked for this information, nor has it received any complaints from the Legislature regarding the Department's compliance with this old statutory provision. This is one of numerous statutory sections in the Lanterman Act that should be updated or deleted because they are outdated, obsolete or do not comport with or conflict with current service philosophy. (24)

Page 3-12, Comments on 4640.6 (a)

DDS believes it has fully implemented this provision by: (1) identifying this as an issue when conducting technical assistance visits where problems appear to be attributable to excessively high caseload ratios, (2) negotiating contract language for FY 1998-99 with the Association of Regional Center Agencies that will require all regional centers to establish and maintain an overall average case manager to client ratio of 62:1. Additional contract language requires that all regional centers report to DDS by February 15, 1999, on the status of implementing this requirement, and (3) crafting a proposal included in the Governor's FY 1998-99 budget that will provide $62.2 over two fiscal year to provide resources for regional centers to achieve a 1:62 case manager to client ratio. (25)

Page 3-12, Comments on 4753

Section 4753 is an early provision in the Lanterman Act that required the Department to implement an evaluation system, effective January 1, 1979, that measures consumers' outcomes. This provision relates to the Client Development Evaluation Report (CDER), as described on page II.2 of the CDER Manual, dated March 1986. When originally discussed with the BSA, the Department thought this was referring to the CDER but it could not say so definitively. However, subsequent research reveals that this section does refer to the CDER. Therefore, the Department has complied with this section. (26)

Page 3-12, Comments on 4836

This annual reporting requirement relates to Community Living Continua established approximately two decades ago. The Department's recollection is that there were three Community Living Continuum projects established statewide. These projects lasted only a few years and none currently exist. The Department met the requirements at the time, but the annual reporting requirements are no longer applicable. (24)

Comments

California State Auditor's Comments on the Response From the Department of Developmental Services

To provide clarity and perspective, we are commenting on the Department of Developmental Services' (department) response to our audit report. The numbers correspond to the numbers we have placed in the response.

(1) The department is incorrect. We made no assumptions about the cost variances between the regional centers being wrong or bad. What we did do was determine there were wide swings in costs per client for all the service categories we analyzed and that the department performs no analysis to discover the cause and whether there may be inequities in the level of services provided among centers. Further, we determined that the processes used by the department to budget and allocate regional center funds are not based on individual client needs.

(2) Contrary to the department's contention, we fully considered the roles of the department and regional centers in our report. Moreover, regional centers have both authority and discretion to identify the types and levels of services appropriate for their clients, choose the methods of delivery for the services provided, and marshal the kinds of community support used to augment purchased services. All these factors influence the cost of regional center services. In addition, the regional centers have authority to compare among themselves the levels of service being provided to like-type clients or their families and to ensure that differences in the levels of services among centers are appropriate, are linked to the clients' individual program plans, and will contribute to the client and family goals contained in the plans. Likewise, the department has the authority to budget and allocate regional center funding using methods that reflect their individual needs.

(3) Again, the department is incorrect. We make no such assumption, but the department apparently does. Specifically, as stated on page 14 of our report, the department makes attempts to equalize spending among centers by making an annual "equity" adjustment. This adjustment provides additional funds to centers whose per-client spending is less than the 21-center average.

④ This is not true. We did recognize the differences in regional centers' policies and priorities, as evidenced by the regional centers' responses found in Chapters 1 and 2 of our report. These responses cite the many factors the centers believe drive their purchase-of-services costs.

⑤ On pages 1 and 2 of our report, we discuss the regional centers' other sources of funding; however, the scope of this audit is the funds the department provides the centers. In addition, we doubt that the use of generic services explains the $20 million spending difference required to serve comparable numbers of clients as was the case with the F.D. Lanterman Regional Center compared to the North Bay Regional Center, and the differences in spending between the Harbor and San Andreas Regional Centers discussed on pages 10 and 11 of our report.

⑥ The point we make in Chapter 1 is not about the sufficiency of regional center funding. Rather, it's that the process used by the department to budget and allocate center funding does not ensure that all developmentally disabled people throughout the State have equal access to and receive the same level of regional center services. Further, because the department does not build the budget based on needs, we could not determine nor does the department know whether regional center funding is sufficient.

⑦ The department's response is inconsistent with its actions. The department claims that both high and low per capita regional centers believe they are meeting clients' needs; however, the department gives low per capita centers additional funds in an effort to bring them up to the same purchased-services spending level as higher per capita centers. This would not be necessary if the department truly believed that the services provided by high and low per capita regional centers were equitable.

⑧ The department claims that its budgetary method ensures a continuity of services. The department's budgetary method does not require the regional centers to demonstrate the effectiveness of services, nor does its method originate from an analysis of services regional centers provide their clients. Consequently, the department's current budgetary process erroneously equates spending ability with service needs.

⑨ The department does estimate growth in services separately; for fiscal year 1997-98, growth was reflected in approximately 15 percent of the $914.6 million purchased-services budget. Furthermore, the funds estimated for growth are not dedicated exclusively to this purpose. The department fails to mention that some of these funds are used to make up for shortages in other areas unrelated to growth. For example, the department

uses growth funds to ensure each regional center receives its base allocation and any applicable equity funding. Therefore, while the growth portion of the budget does consider future funding needs, the estimate is minimal when compared to the total and is not used solely for this purpose.

(10) The department has mischaracterized and oversimplified our proposed matrix. The matrix is flexible enough to reflect all the variables the department feels are relevant to its budgetary process. In addition, the matrix is intended to be a tool to stimulate discussion and analysis of current regional center service practices and funding differences. We believe this is a logical first step for the department and regional centers to take in understanding the cost and service differences among the centers.

(11) The department states that it monitors the regional centers' purchase-of-services costs monthly. However, this review is performed only on individual centers' total purchase-of-services costs and does not address the cost variances that occur among regional centers, either in total or by service category. In addition, the department's analysis is focused on identifying centers that are projecting a purchase-of-services funding deficit. This type of analysis reacts to an individual center's projected funding shortfall, but is ineffective in monitoring and investigating the causes for cost variances and spending trends among centers.

(12) The department purports to have performed an expenditure analysis for fiscal years 1993-94 and 1994-95. However, as stated on pages 14 and 24 of our report, in a letter dated March 16, 1998, we asked the department why it had not performed analytical techniques similar to the ones we used to identify and investigate service cost variances. At that time, neither the chief deputy nor anyone else from the department mentioned that such an analysis existed or what actions the department took as a result. In addition, the equity adjustment the department refers to examines only total purchase-of-services costs by regional center and in no way is comparable to the purchase-of-services cost analysis we performed in our report.

(13) We disagree with the department's belief that past case management practices dictate future regional center case management needs. Furthermore, the department already identified through a recent Budget Change Proposal that it needs funding to hire an additional 808 case managers over the next two fiscal years to reach its desired case manager-to-client ratio of 1 to 62. We realize that the department has yet to establish guidelines defining the types of

direct and indirect costs that regional centers should designate as case management. However, we believe that the direct salary and benefit costs of case managers already identified as necessary to maintain a 1 to 62 client ratio is a good first step and should be separately scheduled in the budget. That way, the Legislature is assured that these funds are used exclusively for this important purpose.

(14) The department is incorrect in stating that the bureau focused only on administrative processes associated with reviewing and approving performance contracts. As stated on page 42 of our report, we reviewed each 1996 performance contract from the 11 regional centers receiving incentive funds for that year. Our review revealed that most of these contracts contained few performance measures that concentrated on beneficial impacts on clients.

(15) We disagree with the department's conclusion. The surveys it refers to are sent in conjunction with a regional center's mid-contract review. While surveys are one tool that can be used in assessing client satisfaction, they are not linked to the performance measures contained in the contracts so that those surveyed have some comparative basis on which to gauge their satisfaction, and are not a substitute for rigorous assessment of regional center performance. Moreover, because the mid-contract review effectively takes place once every five years, the department's satisfaction survey should not be relied upon as an indicator of client service.

(16) The department has made a statement for which it has no support. Based on our knowledge of the department's performance contract review process, it does not require the regional centers to ascertain the effectiveness of these efforts and thus evidence their achievement of their performance objectives. Therefore, we question how the department can conclude that the measures we have identified as process measures have a favorable impact on clients. We are not saying that the process measures cited by the department are bad, but they do not link the activities with the benefits intended to be derived from the activities, which is the purpose of performance measurement.

(17) The department has missed the point. Regional center performance measures are intended to challenge the centers to improve the benefit to clients or the quality of service. We do not believe that merely complying with current legislation challenges the centers' performance. In addition, we do not believe regional centers should be monetarily rewarded for something they are already contractually required to achieve.

⑱ On page 45 of our report, we outline the corrective actions the department may take when a regional center fails to meet its performance measures. These actions include technical assistance from the department, the ARCA, or other regional centers. We do not view actions such as intervention and counseling to help centers set appropriate performance measures as a disincentive or a penalty. In fact, we believe these are proper steps to take when a center has demonstrated an inability to set performance measures that can be fulfilled.

⑲ The department again refers to its mid-contract review. Since this review takes place once every five years, it is not sufficiently frequent to influence or modify regional center performance.

⑳ We changed the text on pages 43 and 44 of our report in response to the department's earlier concerns. Therefore, the department's point is no longer valid.

㉑ Because the department has failed to describe to the bureau how it will monitor the actions the regional centers take to correct violations identified under Section 4418.1(h) of the Lanterman Act, credit for partial implementation is appropriate for the explanation provided.

㉒ The information the department provides in its response is not consistent with information it provided in the course of the audit. In a letter dated March 16, 1998, we asked how the department was implementing these code sections. The department responded by providing us a copy of its Medicaid Waiver application dated March 20, 1998. Because this document contains actions the department is proposing to perform as opposed to those it is currently engaged in, the department has not demonstrated its current implementation of Sections 4434(a), 4500.5(d,) or 4501 of the Lanterman Act.

㉓ As the department clearly states in its response to our report, the new requirements added by SB 1039 will be incorporated into its 1998 Performance Contract Guidelines. This is an action the department is planning to take and, until that time, we cannot consider Section 4629(e)(2) of the Lanterman Act fully implemented.

㉔ It is the department's responsibility to keep the language in the Lanterman Act current. Therefore, the department should take the appropriate steps to remove "outdated" language as opposed to ignoring these requirements under existing law.

(25) Again, except for the technical assistance visits the department refers to, these are all actions it is planning to take in the future. Therefore, until that time, we cannot consider Section 4640.6(a) of the Lanterman Act fully implemented.

(26) As stated on page 51 of our report, the CDER is a snapshot of a client's age, gender, etc., and is not a tool that can be used to measure program effectiveness

cc: Members of the Legislature
Office of the Lieutenant Governor
Attorney General
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps