



WINDES & McCLAUGHRY
ACCOUNTANCY CORPORATION
Certified Public Accountants & Consultants
EXCEEDING EXPECTATIONS SINCE 1926

Independent Audit/Review Requirements for Service Providers & 15% Administrative Cost Cap

For more information on the audit process and how to prepare for an audit or review, please contact
Ron Kulek, CPA at Windes & McClaughry; 562-435-1191 or rkulek@windes.com.



New Audit/Review Requirement

Trailer Bill, SB 74 passed March 24, 2011

Trailer Bill Language (TBL) was passed that added Section 4652.5 to the WIC Code which requires service providers to contract with an independent accounting firm for an independent audit or review of its financial statements.



New Audit Requirement (cont'd)

- Statute applies to all entities receiving payments from one or more regional centers
 - The audit requirement does not apply to the following service providers:
 - Payments made to Service providers using usual & customary rates for services as defined by California Code of Regulations, Title 17, section 57210 (a)(19)
 - State & Local governmental agencies
 - The University of California
 - California State University



New Audit/Review Requirement (cont'd)

Amount Received from RC(s)

\$250,000 - \$499,999

\$500,000 +

Audit/Review

Independent Review or Audit
of Financial Statements

Independent Audit
of Financial Statements

Review vs. Audit



New Audit Requirement (cont'd)

- Service Providers to provide copies of Independent Review/Audit to vendoring Regional Center within thirty (30) days after completion.
- Effective date of requirement applies to entity's fiscal year at the time of the statute enactment of March 24, 2011
 - Example, if the Entity's fiscal year ended on June 30, 2011, an independent audit/review of the FY end June 30, 2011 expenditures would need to be performed & submitted to RC's during fiscal year 2011-2012
 - Example, if the Entity's fiscal year ended on December 31, 2011, an independent audit/review of FY end December 31, 2011, would need to be performed and submitted to RC's during calendar year 2012
- Regional Centers review reports and require resolution for issues identified.



New Audit Requirement (cont'd)

- Regional Centers shall notify DDS of all qualified opinion reports or reports noting significant issues that directly or indirectly impact regional center services within thirty (30) days after receipt.
 - RC Notification to DDS must include plan for resolution of issues.
 - RC's are required to take appropriate action, up to termination of vendorization for lack of adequate resolution of issues

- Service Provider and Regional Center compliance with this new requirement will be monitored through DDS audits.



Accounting Basics

- Generally Accepted Accounting Principles (GAAP)
- Cash vs. Accrual Basis (Accrual basis required by GAAP)
- Accounts Payable and Accounts Receivable
- Calendar Year vs. Fiscal Year

- Financial Statements:

For-Profit

- ✓ Balance Sheet
- ✓ Income Statement
- ✓ Statement of Cash Flows
- ✓ Notes to the Financial Statements

Non-Profit

- ✓ Statement of Financial Position
- ✓ Statement of Activities
- ✓ Statement of Cash Flows
- ✓ Statement of Functional Expenses
- ✓ Notes to the Financial Statements



Financial Statement Service Comparison

Review	Audit
Limited assurance	All procedures performed under a review
Analytical procedures applied to the financial statements to identify account balances or relationships that appear unusual	Risk assessment review of internal control design and financial reporting environment
Inquires of management and company personnel to investigate findings and propose adjustments	Substantive testing of accounting records to support account balances to obtain reasonable assurance
Obtain and review significant agreements for financial statement implications	May test the effectiveness of internal controls
Obtain engagement and representation letters from management	Obtaining corroborative evidence from third parties for items such as accounts receivable, debt obligations, and legal contingencies.
Prepare GAAP basis financial statements consisting of accrual basis balance sheet and statements of income and cash flows with accompanying footnotes	Reporting on internal control deficiencies identified and recommendations for improvements
	An audit provides a reasonable basis for expressing an opinion on the financial statements that they are fairly presented in accordance with GAAP.



Independent Review Minimum Requirements

Review of Financial Statements	Independent Review Report
An inquiry as to the entity's accounting principles & practices & methods used in applying them	Certification that the review was performed in accordance with standards established by the AICPA
An inquiry as to the entity's procedures for recording, classifying, and summarizing transactions & accumulating information	Certification that the statements are the representations of management.
Analytical procedures designed to identify relationships or items that appear to be unusual	
An inquiry about budgetary actions taken at meetings of the board of directors or other comparable meetings	
An inquiry about whether or the financial statement have been properly prepared in conformity with GAAP & whether any events subsequent to the date of the financial statements would have a material effect on the statements.	Certification that the review consisted of inquiries and analytical procedures that are lesser in scope than those of an audit
Working papers prepared in conjunction with a review of financial statements describing the items covered as well as any unusual items, including their disposition.	Certification that the accountant is not aware of any material modifications that need to be made to the statements for them to be in conformity with generally accepted accounting principles



Timing & Deadlines

- Effective Date of New Requirement is March 24, 2011
- Audits and Reviews are Annual
- Nonprofit Integrity Act of California — Nonprofits with gross revenues over \$2 million, due 9 months after year ends
- Tax Returns — For-profit Corporations — 2 1/2 months after year end, and can file for 6-month extension
- Nonprofit Form 990 — 4 1/2 months after year end, and can file for 6-month extension.



Steps of an Audit

1. Engage An Auditor
2. Planning/Meetings With Management
3. Entrance Conference/Opening Meeting
4. Internal Control Documentation and Risk Assessment
4. Fieldwork
5. Communication With Management
6. Report Drafting
7. Management Response
8. Exit Conference/Closing Meeting
9. Report Distribution
10. Follow-up



What's in the Report?

1. Independent Auditors' Report
2. Financial Statements Including Notes to the Financial Statements
3. Supplementary Information (Optional)
4. Management Letter/Report on Internal Control Deficiencies Identified and Recommendations for Improvement (if Identified)



Advice & Miscellaneous

- Auditors Are Subject to Peer Review
- How to Find an Auditor?
- How Much Will it Cost?
- How Long Will it Take?

Be Prepared! Get Organized!



15% Administrative Cap

Trailer Bill, SB 74 passed March 24, 2011

Trailer Bill Language (TBL) SB 74, added Section 4629.7 to the WIC Code requiring all regional center contracts or agreements with service providers, in which rates are determined through negotiations between the regional center and the service provider, expressly require that no more than 15% of regional center funds be spent on administrative costs.



New 15% Administrative Cap (cont'd)

- Statute applies to all service providers in which rates are determined through negotiations between the regional center and the service provider
- The 15% Administrative Cap Requirement does not apply for the following types of services:
 - Payments made to Service providers using usual & customary rates for services as defined by California Code of Regulations, Title 17, section 57210 (a)(19)
 - Payments made to Service Providers using rates for services established by DDS
 - Day Programs under service codes 505, 510, 515
 - Supported Employment Services under service codes 950, 952
 - Work Activity Program under service code 954
 - ILS Services under service code 520
 - Infant Development Program under service code 805
 - In Home Respite Agency under service code 862
 - Respite Service Family Member under service code 420
 - Residential ARM rates under service codes 905, 910, 915, 920
 - SSP Restoration under service code 065
 - Personal & Incidental (P&I) Expense under service code 400
 - Fiscal Management Services under service code 490, 491



Administrative Costs

Salaries, Wages & employee benefits for managerial personal whose primary purpose is the administrative management of the entity, including but not limited to directors and CFO's.	Salaries, Wages & employee benefits of employees who perform administrative functions, including, but not limited to, payroll management, personnel functions, accounting, budgeting, and facility management.
Facility and occupancy costs, directly associated with administrative functions.	Taxes
Maintenance & Repair	Interest
Data processing & computer support services	Property Insurance
Contract & procurement activities, except those provided by a direct service employee	Personal liability insurance directly associated with administrative functions.
Training directly associated with administrative functions	Depreciation
Travel directly associated with administrative functions	General expenses, including, but not limited to communication costs and supplies directly associated with administrative functions.
Licenses directly associated with administrative functions	



New 15% Administrative Cost Cap

- 15% Administrative Cost Cap applies to all existing and new negotiated contracts & agreements
- 15% Administrative Cost Cap applies to Expenditures, not profit.
- RC's will be working with service providers to update all contracts & agreements to reflect new statutory requirement
 - Some service providers may need to send cost statements to support their rate of reimbursement
- Should it be determined that the negotiated rate is comprised of more than 15% administrative costs, adjustments must be made to the rate to comply with the law.
- Service Provider & Regional center Compliance will be monitored thru DDS audits



WINDES & McCLAUGHRY
ACCOUNTANCY CORPORATION
Certified Public Accountants & Consultants
EXCEEDING EXPECTATIONS SINCE 1926

Questions?



WINDES & McCLAUGHRY
ACCOUNTANCY CORPORATION
Certified Public Accountants & Consultants
EXCEEDING EXPECTATIONS SINCE 1926

Landmark Square

111 West Ocean Boulevard, Suite 2200

Long Beach, CA 90802

Von Karman Towers

18201 Von Karman Avenue, Suite 1060

Irvine, CA 92612

Del Amo Financial Center

21515 Hawthorne Boulevard, Suite 840

Torrance, CA 90503

Figueroa at Wilshire

601 East Figueroa at Wilshire, Suite 4950

Los Angeles, CA 90017

www.windes.com