DEPARTMENT OF FINANCE
CALIFORNIA
EDMUND G. BROWN JR. ▪ GOVERNOR
915 L STREET ▪ SACRAMENTO CA ▪ 95814-3706 ▪ WWW.DOF.CA.GOV

Transmitted via e-mail

May 4, 2012

Ms. Terri Delgadillo, Director
Department of Developmental Services
1600 Ninth Street
P.O. Box 944202
Sacramento, CA 94244-2020

Dear Ms Delgadillo:

Final Report—Department of Developmental Services Budget Methodology for the Developmental Centers

The Department of Finance, Office of State Audits and Evaluations, has completed its analysis of the Department of Developmental Services (DDS) budget methodology for the developmental centers. The enclosed report is for your information and use.

The draft report was issued April 23, 2012, and DDS' response to the draft report required further analysis. As a result of our analysis, the report was modified and Recommendation C was deleted. This report will be placed on our website.

We appreciate the assistance and cooperation of DDS. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Mark Hutchinson, Chief Deputy Director, Department of Developmental Services
Ms. Patricia Flannery, Deputy Director, Developmental Services Division, Department of Developmental Services
Ms. Karyn Meyreles, Deputy Director, Administration, Department of Developmental Services

Audit Report

Department of Developmental Services Budget Methodology for Developmental Centers

Prepared By:
Office of State Audits and Evaluations
Department of Finance

124300074SCR

April 2012

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Rick Cervantes, CPA
Supervisor

Staff
Derk Symons
Kelly Wyatt

Final reports are available on our website at http://www.dof.ca.gov

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814
(916) 322-2985

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BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND[1]

The California Department of Developmental Services (DDS) provides services and training programs to individuals with developmental disabilities. Services and training programs are provided through 21 nonprofit regional centers, a state-operated community facility, and 4 state-operated developmental centers (DC). The DCs are licensed and certified as Skilled Nursing Facilities, Intermediate Care Facilities for the Mentally Retarded, and General Acute Care hospitals.

The DC system provides the required intensive services to individuals that are not available in other settings. The DCs offer programs designed to increase levels of independence and functioning skills including identification of services, support, and options needed in preparation for transition into the local community.

The DCs follow a client centered approach that requires an annual assessment for each client to identify and plan service and treatment needs. The DCs use the Client Development Evaluation Report (CDER) to collect data on client diagnostic characteristics for placement into the DCs' nine preferred programs. CDER also measures and evaluates clients' personal skills and identifies challenging behaviors.

Services at the DCs range from specialized medical and dental care, physical and occupational speech therapies, language development, and life skills development. Residents under the age of 22 attend school classes while adults participate in vocational and skill-development programs. The DCs also provide a secure treatment program for clients that the court determined require treatment in a secure facility.

The resident population at the DCs has steadily declined from a client population of 5,713 in September 1994 to 1,797 as of December 2011 as a result of increased efforts to place clients in the community. As a result of the continued population decline, the Lanterman DC is scheduled for closure.

SCOPE

Pursuant to Assembly Bill 104 (2010-11), the Department of Finance, Office of State Audits and Evaluations (Finance), analyzed the fiscal years 2011-12 and 2012-13 budget methodology, including relevant data, formulas, and cost assumptions used in determining the annual statewide budget for the four DCs.

[1] Excerpts from www.DDS.CA.gov.

METHODOLOGY

To evaluate DDS' budget methodology for the DCs, we performed the following procedures:

- Interviewed management and key staff at DDS headquarters and two DCs to obtain an understanding of the budget process.
- Reviewed the budget methodology, relevant data, formulas, and cost assumptions including Level-of-Care and Non-Level of Care staffing and Operating Expenditures and Equipment to validate the accuracy of the components used in the budget formulas. We relied upon internally developed documents including budget change proposals, major assumptions, work plans, and spreadsheets. Because many of the components in the budget formulas were developed from 10 to 30 years ago, the original documents were no longer available.
- Reviewed the patient population data used to prepare the 2010-11 Governor's Budget.
- Reviewed the CDER process at the DCs and the CDER data used to prepare the 2010-11 and the 2011-12 Governor's Budget.

Conclusions were developed based on our review of documentation made available to us and interviews with DDS management and key staff directly responsible for developing the budget estimates. This review was conducted during the period December 2011 through April 2012.

Except as noted, this performance audit was conducted in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States. In connection with this audit, there are certain disclosures required by government auditing standards. The Department of Finance is not independent of DDS, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, the Department of Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

Overall, the Department of Developmental Services' (DDS) budget methodology for the developmental centers (DC) is reasonable, accurately calculated, and the components in the formulas are generally supported. Specifically, the budget methodology takes into account relevant budgetary drivers including the DC client population, Client Development Evaluation Report (CDER), and the prior expenditure levels. However, many of the staffing standards used in the budget formulas were developed 10 to 30 years ago. Additionally, the CDER system is not currently functioning as intended for budgetary purposes. Appendix A describes the budget methodology currently followed by DDS. Additional comments related to the DC budget development process are as follows:

Client Population Forecast

The population forecast methodology used to prepare the DCs' budget is reasonable. Based on a comparison of the population forecast used for the 2010-11 Governor's Budget and the average population for 2010-11, the population forecast generally reflected the population changes in the DCs.

Client Development Evaluation Report System

One of the intended uses of the CDER system is to calculate the staffing requirements for budget purposes based on each client's prioritized needs and classification into one of nine preferred programs. The CDER system combines all the data entered from the DCs and identifies the number of clients in each preferred program. This information is used by DDS to calculate the budgeted staffing level using the Level-of-Care (LOC) staffing standards for each of the preferred programs.

However, the CDER system currently does not correctly classify the clients within the nine preferred programs as intended for budgetary purposes due to a 2009 system update. As a result, DDS uses the 2008-09 CDER historical preferred program classifications with manual annual adjustments for client deaths, placements, and admissions. While the annual population adjustments generally reflected the number of clients at the DCs, the preferred program classifications may not be accurate because the underlying classification data is approximately four years old.

Personal Services

DDS uses client population, CDER designations, and staffing standards to quantify LOC and Non-Level-of-Care (NLOC) positions authorized in the annual state budget. The methodology to develop the LOC and NLOC portions of the budget was reasonable and amounts were accurately calculated. Generally, the LOC and NLOC staffing levels could be traced to budget change proposals, major assumptions, or spreadsheets.

The staffing standards used by DDS were developed approximately 10 to 30 years ago. The client population has decreased by 3,916 (69 percent) in the last 17 years. Also, there has been a growth in the percentage of clients with increased needs including severe behaviors, dual diagnosis, and an aging population.[2] These population changes could impact the resources required to meet client needs.

Operating Expenditures and Equipment

For Operating Expenditures and Equipment (OE&E), most cost categories are carried forward from the current year to the budget year with minimal adjustments. Those OE&E cost items directly related to the needs of the DC clients are adjusted according to changes in the projected population. The population driven per client costs, which include food, clothing, drugs, labs, and supplies have not been adjusted for many years and DDS was unable to provide documents showing approval of the unit cost per client used to prepare DDS' annual budget.

Recommendations:

A. Because some of the staffing standards and OE&E client costs were developed 10 to 30 years ago, DDS should consider whether the LOC and NLOC staffing standards and OE&E per client costs used to develop the DC budget should be adjusted to reflect current DC client needs.

B. Modify the CDER program for budgetary purposes, or use another tool, to reliably classify the current clients at the DCs in the correct preferred program.

[2] Excerpts from www.DDS.CA.gov.

DEVELOPMENTAL CENTERS' BUDGET PROCESS

The Department of Developmental Services' (DDS) budget includes funding for the four developmental centers (DCs).

Developmental Centers

DDS budgets for all of the DC programs as a whole, and then allocates the funds to the individual DCs. The budget methodology for the DCs focuses on quantifying the incremental changes in three major areas:

- Level-of-Care (LOC) staff
- Non-Level-of-Care (NLOC) staff
- Operating Expenditures and Equipment (OE&E)

LOC

The LOC staffing is primarily driven by population changes and client need designations. As the number of clients in the programs change, the number of LOC staff also change to reflect the staffing needs of the clients. LOC staff includes the medical professionals providing programmatic treatment to the DC clients, such as nurses, doctors, physical and speech therapists, and educators. Based on the medical diagnosis, the Client Development Evaluation Report (CDER) designates clients into one of nine preferred programs, e.g., Autism, Physical Development, or Social Development. The staffing standards established for each preferred program are used to quantify the LOC staffing requirements to calculate the projected costs included in the annual state budget.

LOC Budget Year Development Process

To develop the budget for the upcoming budget year, DDS performs the following:

1. Each DC starts with the current year ending client populations, as identified by the CDERs, in the nine preferred programs as of June 30th. To arrive at the budget year populations, the projected number of client deaths and placements in the community is subtracted, and the projected number of new admissions is added. These population forecasts are sent to the Developmental Services Division (DCD). However, DCD does not use the recent CDER data. DCD currently uses historical CDER data with annual adjustments for client deaths, placements, and admissions to calculate the DC population forecasts.

2. DCD reviews the forecasts for outliers and omissions and performs a comparison to a three or five year historical trend of deaths, placements, and admissions.

3. DCD makes adjustments to the forecasts if they are inconsistent with the historical trends, and confers with the DC on major adjustments.

4. Projected program populations are entered into a staffing calculation worksheet to determine the LOC staffing needs.

5. Population adjustments are made to specific positions to allow for clients on temporary leave. In addition, staffing calculations incorporate increased efficiencies resulting from compatible and overlapping duties of LOC staff and NLOC staff, and other ongoing administrative actions.

6. For occupational and physical therapist (OT/PT) and speech therapist (ST) positions, DDS is authorized to transfer the funds between personal services and OE&E for unfilled positions.

7. The change in positions and the associated costs or savings between the current year and the budget year LOC staffing levels is generated, taking into account the transfer between personnel and OE&E for OT/PT and ST unfilled positions. OE&E directly associated with the change in the client populations, such as food, clothing, drugs, and lab supplies are also calculated and included in the overall adjustments.

8. The budget appropriation represents the DC program in total. That total represents all changes to LOC and OE&E that are directly related to the population projections.

NLOC

The NLOC staff consists of positions required to operate the facility and direct and indirect care staff including DC administrators, dentists, podiatrists, custodial, plant operations, and food service employees (i.e. staff that do not provide programmatic treatment). NLOC staffing levels are based on the projected average population for each DC, square footage, acreage, or a required minimum. Changes in these factors affect the NLOC staffing levels required to provide services. The changes in NLOC positions and the associated costs or savings are calculated by facility, then consolidated and included in the annual State Budget.

OE&E

The budget for most of the cost categories within OE&E is carried forward from prior year with no changes. Some cost categories such as food, clothing, drugs, and the transfer for OT/PT and ST contracts are adjusted annually as a result of known changes in the projected population. DDS updates the budget for any new Control Sections, Budget Letters, and costs that are expected to fluctuate annually such as education fund adjustments for the state lottery and legal services.

Response

DEPARTMENT OF DEVELOPMENTAL SERVICES
1600 NINTH STREET, Room 240
SACRAMENTO, CA 95814
TDD 654-2054 (For the Hearing Impaired)
(916) 654-1897

April 27, 2012

Dave Botelho, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Botelho:

This letter provides response to the Draft Audit Report entitled "Department of Developmental Services Budget Methodology for Developmental Centers", prepared by the Office of State Audits and Evaluations (OSAE), Department of Finance. The Department appreciates the time and effort extended on the part of the OSAE auditors in reviewing the extensive amount of current and historical information to evaluate the current practices associated with the budgeting methodology.

As noted in the draft audit report, the Department's budget methodology for Developmental Centers (DC) was originally developed 30 years ago. Nevertheless, the Department was able to locate most of the documentation, beyond the requirements of State record retention, associated with the initial study used to establish the formula scheme used today and subsequent changes to the formulas. The OSAE auditors diligently reviewed all information provided for these earlier years.

The Department is pleased that the auditors concluded that ***"Overall, the Department of Developmental Services' budget methodology for the developmental centers is reasonable, accurately calculated, and the components in the formulas are generally supported."***

The auditors included three recommendations to further improve the budgeting process in their report, which we address below.

<u>Recommendation A</u>: Because some of the staffing standards and OE&E client costs were developed 10 to 30 years ago, DDS should consider whether the LOC and NLOC staffing standards and OE&E per client costs used to develop the DC budget should be adjusted to reflect current DC client needs.

Response: As noted in the report, the standards were developed many years ago. The DC system has evolved as population has declined (69 percent in the last 17 years) leaving higher percentages of residents with increased needs including severe behaviors, dual diagnosis and aging population. The Department appreciates OSAE's recommendation regarding the current standards for staffing and OE&E per resident costs and will review the standards to ensure they continue to meet the changing needs of the DC system.

Recommendation B: Modify the [Client Development Evaluation Report] program for budgetary purposes, or use another tool, to reliably classify the current clients at the DCs in the correct preferred program.

Response: The Department agrees with the OSAE recommendation to utilize updated Client Development Evaluation Report (CDER) data and has developed the 2012 May Revision budget accordingly. The result was better alignment of resources to match the need for individuals with a dual diagnosis, with minimal impact in overall staffing cost.

The CDER, a data collection document on client characteristics, underwent a three year transition to a newer version currently in use system wide. As noted by the auditors, the budgeting formulas had not yet been revised to utilize the new CDER data. This was most notably the case for those with a dual diagnosis in mental health. Therefore, the Department retained the client characteristic percentages (mix) from the 2008 CDER for budgeting purposes, even though the remaining residents generally had higher needs. The Department believes this adjustment will better reflect the entire population in the budget development process.

Recommendation C: Identify or develop documentation for the unsupported annual adjustments to LOC nursing staff levels.

After learning of the request for this documentation on April 18th, the Department was able to locate support for the annual adjustments in historical documents dating back to the 1980's and has submitted them to OSAE. The documentation addresses adjustments specific to specialized care and services, e.g. pharmacy automation, made between fiscal years 1980-81 through 1994-95. The auditors indicated they would review the documentation and will consider revising the final report based on the information provided. DDS was advised to address this finding in its response; therefore, we have resubmitted the supporting documentation as an attachment. We will continue to search archives for any additional information, as necessary.

Thank you again for the opportunity to provide OSAE with a response to the audit recommendations to improve the budget methodology for Developmental Centers.

Sincerely,

(original signed by Mark Hutchinson)

TERRI DELGADILLO
Director

Enclosures

Evaluation of Response

The Department of Finance, Office of State Audits and Evaluations reviewed the Department of Developmental Services' (DDS) response, dated April 27, 2012, to our draft audit report. The following comments relate to Recommendations B and C. Comments are not provided on Recommendation A where DDS agrees. The additional documentation provided by DDS was not included for brevity, and consisted of support for annual adjustments made to Level-of-Care (LOC) nursing staffing levels.

Recommendation B

DDS agrees with the recommendation and states that it has taken corrective action by using updated CDER data for the 2012 May Revision. However, DDS did not clearly indicate whether CDER was modified or if another method was used to ensure correct client classifications for budgetary purposes.

Recommendation C

DDS provided documentation on April 27, 2012 supporting the annual adjustments to LOC nursing staff levels. After review of the documentation, the report was modified to remove Recommendation C related to the identification or development of supporting documentation. This documentation was originally requested in January 2012.