



# NORTH LOS ANGELES COUNTY

## REGIONAL CENTER

15400 Sherman Way, Suite 170 • Van Nuys, CA 91406-4211  
Main Number (818) 778-1900 • Fax (818) 756-6140

### INDEPENDENT AUDIT/REVIEW FAQs Frequently Asked Questions (“FAQs”), WIC, Section 4652.5

Effective June 9, 2016, Welfare & Institutions Code, Section 4652.50 was amended pursuant to ABX2-1, to increase the payment thresholds that require vendors/service providers to contract for an independent audit or independent review report.

#### **1. WHEN IS THE CHANGE IN THE STATUTE REGARDING THE INDEPENDENT AUDIT AND INDEPENDENT REVIEW REPORT EFFECTIVE?**

The change in statute regarding the independent audit and independent review report is effective **June 9, 2016**.

#### **2. WHAT ARE THE STATUTORY REQUIREMENTS FOR SERVICE PROVIDERS WITH A FISCAL YEAR ENDING PRIOR TO JUNE 9, 2016?**

Service providers, whose fiscal year end is prior to June 9, 2016, are subject to the statutory requirements that were in effect prior to June 9, 2016 and must provide regional center independent audit or independent review report of its financial statements relating to payments made by regional centers, subject to both of the following:

- A. If the amount received from the regional center or regional centers during the entity’s fiscal year is more than or equal to two hundred fifty thousand dollars (\$250,000), but less than five hundred thousand dollars (\$500,000), the entity shall obtain an **independent audit** or **independent review report** of its financial statements for the period. Consistent with Subchapter 21 (commencing with Section 58800) of Chapter 3 of Division 2 of Title 17 of the California Code of Regulations, this subdivision shall also apply to work activity program providers receiving less than two hundred fifty thousand dollars (\$250,000).
- B. If the amount received from the regional center or regional centers during the entity’s fiscal year is equal to or more than five hundred thousand dollars (\$500,000), the entity shall obtain an **independent audit** of its financial statements for the period.



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### **3. WHAT ARE THE STATUTORY REQUIREMENTS FOR SERVICE PROVIDERS WITH A FISCAL YEAR ENDING ON OR AFTER JUNE 9, 2016?**

Any service provider that receives payments from one or more regional centers shall contract with an independent accounting firm to obtain an independent audit or independent review report of its financial statements relating to payments made by regional centers, subject to both of the following:

- A. If the amount received from the regional center or regional centers during the entity's fiscal year is more than or equal to five hundred thousand dollars (\$500,000), but less than two million dollars (\$2,000,000), the entity shall obtain an **independent review report** of its financial statements for the period. Consistent with Subchapter 21 (commencing with Section 58800) of Chapter 3 of Division 2 of Title 17 of the California Code of Regulations, this subdivision shall also apply to work activity program providers receiving less than five hundred thousand dollars (\$500,000).
- B. If the amount received from the regional center or regional centers during the entity's fiscal year is equal to or more than two million dollars (\$2,000,000), the entity shall obtain an **independent audit** of its financial statements for the period.

### **4. WHAT IS THE DEADLINE FOR SUBMITTING THE INDEPENDENT AUDIT OR INDEPENDENT REVIEW REPORT TO THE REGIONAL CENTER?**

Beginning with the service provider's fiscal year ending on or after June 9, 2016, a service provider, who is subject to WIC, Section 4652.50, shall provide copies of its independent audit or independent review report and accompanying management letters, to the **vendor** regional center **within nine months of the end of the fiscal year for the service provider.**

### **5. WHAT ARE THE REGIONAL CENTER AND DDS REVIEW AND REPORTING REQUIREMENTS?**

Regional centers that receive independent audits or independent review reports are required by statute to both (a) review all independent audits or independent review reports received; and (b) require the service provider to provide resolution for all issues identified in the report that have an impact on regional center services. Regional centers shall take appropriate action, up to termination of vendorization, for lack of adequate resolution of issues.



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Regional centers are required by statute to 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. Regional center notification to DDS requires that the regional center provide DDS with the service provider's plan for resolution of the issue(s) identified in the report.

### **6. WHAT ARE THE CONSEQUENCES OF NOT PROVIDING THE REGIONAL CENTER WITH AN INDEPENDENT AUDIT OR INDEPENDENT REVIEW REPORT?**

Regional centers are required by statute and regulation to take appropriate action, up to termination of vendorization due to non-compliance with vendorization/contractual requirements, for the failure to provide an independent audit or independent review report

### **7. WHAT ARE THE CONSEQUENCES OF NOT PROVIDING THE REGIONAL CENTER WITH A PLAN FOR RESOLUTION OF THE ISSUE(S) IDENTIFIED IN THE INDEPENDENT AUDIT OR INDEPENDENT REVIEW REPORT?**

Regional centers are required by statute to take appropriate action, up to termination of vendorization, for the service provider's failure to provide adequate resolutions of issues identified or lack of adequate resolution of issues.

### **8. WHEN MAY A SERVICE PROVIDER APPLY FOR THE TWO-YEAR EXEMPTION**

Any service provider whose fiscal year ends after June 9, 2016, shall submit an independent audit or independent review report to the regional center, within nine (9) months after the completion of the service provider's fiscal year. The two-year exemption provision provided in statute from the independent audit or independent review report is prospective, not retroactive. As such, a service provider must provide an independent audit or independent review report for the service provider's fiscal year ending on or after June 9, 2016 to apply for the two-year exemption from the regional center.

Service providers whose fiscal year ends prior to June 9, 2016 are NOT eligible to seek the two-year exemption.

### **9. HOW DOES A SERVICE PROVIDER QUALIFY FOR THE TWO-YEAR EXEMPTION**

A service provider who is required to obtain an independent review report of its financial statement pursuant to WIC, Section 4652.5 (A) may apply to the regional center for, and the regional center shall grant, a two-year exemption from the independent review report requirement if the regional center



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does not find issues in the prior year's independent review report that have an impact on regional center services.

An entity required to obtain an independent audit of its financial statements pursuant to WIC, Section 4652.5 (B) may apply to the regional center for an exemption from the independent audit requirement, subject to both of the following conditions:

- (A) If the independent audit for the prior year resulted in an unmodified opinion or an unmodified opinion with additional communication, the regional center shall grant the entity a two-year exemption; AND
- (B) If the independent audit for the prior year resulted in a qualified opinion and the issues are not material, the regional center shall grant the entity a two-year exemption.

**10. IS THE REGIONAL CENTER REQUIRED TO REPORT THE TWO-YEAR EXEMPTIONS THAT ARE GRANTED BY THE REGIONAL CENTER?**

YES. A regional center is required by statute to annually report to DDS any exemptions the regional center has granted to service providers.

**11. IF AN INDEPENDENT AUDIT OR INDEPENDENT REVIEW REPORT IDENTIFIES ISSUES THAT HAVE AN IMPACT ON REGIONAL CENTER SERVICES, WHAT ACTION IS THE REGIONAL CENTER REQUIRED TO TAKE?**

The regional center and the service provider shall continue to work together to address the issue(s) raised in either the independent audit or independent review report.