

DEPARTMENT OF DEVELOPMENTAL SERVICES

1600 NINTH STREET, Room 240, MS 2-13
SACRAMENTO, CA 95814
TDD 654-2054 (For the Hearing Impaired)
(916) 654-1897



January 19, 2011

LaVesta Locklin, Board President
Inland Counties Regional Center, Inc.
P. O. Box 6127
San Bernardino, CA 92412-6127

Dear Ms. Locklin:

This letter is to notify you and the other Inland Regional Center (IRC) Board members of the Department of Developmental Services' (DDS or Department) decision to immediately place the regional center on probation and include special contract language (enclosed) in the next contract amendment.

The Department has serious concerns regarding the Board's performance in several contract areas: fiscal management of IRC and stewardship of the public dollars; compliance with the law and contract with the Department; establishment and implementation of policies and procedures ensuring a legally compliant work place; and building and fostering a collaborative and open working relationship with your community. Similar concerns have been raised by local families and providers of service, the Bureau of State Audits (BSA), and members of the Legislature.

I personally, along with Chief Deputy Director Mark Hutchinson met with you and other IRC Board members on October 28, 2010, regarding several of these issues. Also, as you know, the Department is in the process of auditing the regional center and Southwestern Transportation Company to follow up on issues raised in the BSA report. We recognize the remediating efforts the Board has taken, as well as the fact IRC has a relatively new executive director who was not in the Board's employment when most of the issues occurred. Nonetheless, since our October meeting, the extent and depth of the Department's concerns regarding IRC's performance have continued to grow. The totality of these issues as outlined below necessitates the Department's action to place IRC on probation and add contract provisions requiring corrective action.

Board Fiscal Management, Oversight of IRC, and Stewardship of Public Dollars

The BSA audit identified several issues regarding IRC's rate negotiations and contracting processes. In the contract with Southwestern Transportation Company, BSA raised concern that the contract violated the statutory rate freeze, the method used to establish the rate was in violation of Title 17 regulation, the contract did not adequately define the work to be performed, and if public funds were inappropriately spent.

LaVesta Locklin, Board President
January 19, 2011
Page two

In its follow-up audit, the Department has substantiated these BSA findings and made the troubling determination that IRC circumvented the Department's direction regarding disapproval of transportation rate increases. When DDS denied IRC's full request for an across-the-board rate increase, IRC restructured its transportation services under its transportation broker, Southwestern Transportation Company, to secure the disapproved rate increase for many of its transportation providers.

The Department recently became aware that IRC provided \$450,000 in purchase-of-service funds to California Housing Foundation in Fiscal Year (FY) 2005-06 for the start-up of the Bungalows project. This funding was provided contrary to the law which prohibited regional centers' use of purchase-of-service dollars for start-up funding unless the Department expressly approved an exception to address consumer health and safety. IRC did not request nor did DDS approve an exception.

Pursuant to Welfare and Institutions Code section 4418, regional centers develop and submit to the Department an annual community placement plan (CPP) including associated budget requests for review and approval. Statute further specifies that, "The department shall hold regional centers accountable for the development and implementation of their approved plans". A review of IRC's Department-approved plans, audited statements for California Housing Foundation, and IRC's expenditure claims data from FY 2004-05 through 2008-09, indicates IRC expended over \$3 million for housing acquisition without Department approval. IRC redirected the community placement funds approved for the start-up of residential services to the acquisition of housing in violation of the contract.

During the Department's audit, IRC has been unable to provide a property inventory as required by contract. Also, IRC provided equipment purchased with state funds to a private entity. The regional center did not have authority for this action nor did the action comport with the regional center's contract obligations relative to the disposition of equipment purchased through contract funds.

The IRC Board entered into an office space lease agreement with the California Housing Foundation at the same time it was a party to two other valid lease obligations for San Bernardino office space. IRC notified the Department of this situation in correspondence dated March 8, 2010. The Department had previously been informed in correspondence (enclosed) dated July 23, 2007, and November 8, 2007, that IRC planned to move all of its offices to one new headquarters building July 2009, when the current lease expired. In response to the March 8, 2010, correspondence, the

LaVesta Locklin, Board President
January 19, 2011
Page three

Department informed IRC that funding beyond that associated with currently occupied office space would not be allocated. While IRC has recently informed the Department that the lease obligations in question have been settled without using regional center contract funds, the Board's prior actions are of concern.

Employee and Community Complaints

As the contracting agency with the Department, it is the Board's responsibility to ensure that the regional center acts in accordance with the laws governing conflicts of interest, non-discrimination in the work place, and the California Fair Employment and Housing Act, and has sufficient policies and procedures in place to ensure its compliance with such laws and contract provisions. Likewise, it is the Board's responsibility to ensure the regional center has an open, collaborative working relationship with its community on behalf of the consumers it serves.

The Department has received a disproportionate number of complaints regarding the work environment within IRC. The complaints allege an environment that is intimidating, not open to the expression of concerns, and one that fosters fear of retaliation. These issues were also found in the recent BSA audit. Complaints from external parties are similar in nature as they include fear of retaliation, favoritism, conflicts of interest and nepotism in the awarding of regional center funding. Without even speaking to the validity of such complaints, the fact these concerns have been so consistently raised gives the Department serious concerns regarding the Board's oversight of the regional center.

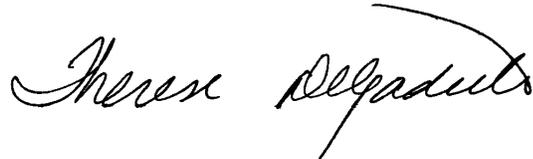
The enclosed special contract language provisions reflect the corrective actions that must be taken within the specified timelines. As previously noted, the Department will shortly be issuing the results of its current audits of IRC and Southwestern Transportation Company and at that time will consider the need for additional contract action. In addition, following submission of the materials required by the enclosed special contract language and the audit release, the Department will notify IRC of repayment requirements for disallowed expenditures.

The Department takes the issues raised in this correspondence and the action to place IRC on probation very seriously. We appreciate the Board and the new Executive Director's recent efforts to address concerns and look forward to your timely remediation of the issues raised in this letter and compliance with the conditions of

LaVesta Locklin, Board President
January 19, 2011
Page four

probation. If you have any questions about this correspondence, please feel free to contact either me at (916) 654-1897 or Rita Walker, Deputy Director of DDS's Community Operations Division, at (916) 654-1958.

Sincerely,

A handwritten signature in black ink, appearing to read "Terri Delgadillo". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

TERRI DELGADILLO
Director

Enclosures

cc: Carol Fitzgibbons, Executive Director
Inland Regional Center
P. O. Box 6127
San Bernardino, CA 92412-6127

Stacy McQueen, Interim Chair
Area Board XII
650 East Hospitality Lane, Suite 280
San Bernardino, CA 92408-3584

**INLAND REGIONAL CENTER SPECIAL CONTRACT LANGUAGE
(JANUARY 2011)**

ARTICLE X. ADDITIONAL PROVISIONS

1. Board Fiscal Management, Oversight of Contractor and Stewardship of Public Dollars

- a. Contractor shall develop and submit to the State a plan of correction detailing how contractor will ensure compliance with Article IV, Section 4, State Property, of its contract with the State. Contractor shall also prepare an inventory of all state property maintained by the regional center and submit this information to the State by March 31, 2011.
- b. Contractor shall conduct a review of all rates negotiated from July 1, 2008 to present, to ensure compliance with rate freezes, median rate requirements, and other applicable laws and regulations and submit by March 31, 2011, the outcomes of this assessment, a list of the rates negotiated by vendor, the vendor's corresponding service code and plans of corrective action, as needed.
- c. Contractor shall conduct an analysis and accounting of all purchase of service funds used for start-up of new programs not approved in its community placement plan from fiscal year 2002-03 to present. The accounting is to include the amount expended, the recipient of the funding, the purpose of the funding and the date the funding was awarded, and must be submitted to the State by March 31, 2011.
- d. Contractor shall conduct an analysis and accounting of all purchase of service funds used for Housing Services (Service Code 101) from fiscal year 2002-03 to present. The accounting is to include the amount expended, recipient of the funding, the UCI numbers of the consumers for whom the Housing Services was sought, the purpose of the funding and the date the funding was awarded, and must be submitted to the State by March 31, 2011.
- e. Contractor shall advise the State by March 31, 2011, of its intent and action relative to the continuation of the Bungalows project.
- f. Contractor shall develop a plan to ensure it has adequate processes and safeguards in place to guarantee it expends community placement plan funding allocated by the State solely for its approved purpose. Contractor shall submit this plan of correction to the State by March 31, 2011.

- g. Contractor shall submit to the Department by February 15, 2011, the Board approved procurement policy.
- h. Contractor shall submit to the State its board training materials pursuant to WIC 4622(g) by March 31, 2011. Contractor shall also assess whether unmet Board training needs exist, develop a plan of correction and submit to the State by March 31, 2011, the results of this assessment and corresponding plan of action.

2. Employee and Community Complaints

- a. The Board must take swift action to address and remediate the culture within the organization which has discouraged employees from raising issues for fear of intimidation and retaliation and improve its relationship with the community.
- b. Contractor shall develop and submit to the State by March 31, 2011, the actions to be taken to ensure the working environment at the regional center is in compliance with the contract and law.
- c. Contractor shall develop and submit to the State by March 31, 2011, its plan to fully identify and address community concerns and to develop an open and collaborative relationship.
- d. Contractor shall conduct a complete review to ensure current conflict of interest disclosure statements are on file for all employees and Board members. Contractor will review such statements to identify any conflicts requiring elimination or request for a waiver from the State, and take appropriate action accordingly as required by law. Contractor shall provide documentation that such corrective action has been taken. Contractor shall submit to the State by March 31, 2011, documentation as to actions taken and outcomes.
- e. Contractor shall develop and submit to the State by March 31, 2011, a Board approved Conflict of Interest Policy addressing both employees and Board members. Contractor shall also submit along with this policy, an employee and Board member training plan on the policy, including implementation timelines.
- f. Contractor shall submit its Board approved Whistleblower Policy to the State by February 15, 2011, for review.

3. Meetings with State

- a. Contractor's Board Chairperson, Executive Committee members and Executive Director shall personally meet with the State every 90 days

to assess Contractor's progress in addressing identified performance issues. The State may, at its discretion, schedule meetings less frequently than every 90 days.