



Commonwealth of Massachusetts
Office of the State Auditor
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Making government work better

Official Audit Report – July 17, 2013

The Edinburg Center, Inc. Administration of Limited Unit Rate Service Agreements

For the period July 1, 2008 through June 30, 2011



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INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

On April 3, 2013, the Office of the State Auditor (OSA) issued an audit report ([No. 2012-0234-3C](#)) [on the Department of Developmental Services' \(DDS's\)](#) administration of its Limited Unit Rate Service Agreements (LUSAs). LUSAs are a form of a master contract agreement that can be used by DDS to purchase services from a preapproved contractor on an intermittent, limited-time basis for clients who are not already covered through an existing contract. Our overall audit of DDS's administration of LUSAs included a review of \$16.6 million in LUSA funding provided to 15 human-service contractors during fiscal years 2009 through 2011. Those transactions were a subset of the approximately \$62.2 million in total DDS LUSA expenditures for the three-fiscal-year period covered by our audit. The primary focus of our overall audit was to examine transactions processed during the accounts-payable period¹ at the end of each fiscal year, which disproportionately involved over half of all LUSA funding. As part of this audit, OSA engaged each of the 15 contractors, including the Edinburg Center, Inc. (Edinburg), for on-site testing. Edinburg received approximately \$757,103 of the above-stated \$62.2 million in total DDS LUSA payments. Approximately \$477,555 (63.1%) of the payments to Edinburg was processed during the accounts-payable periods for fiscal years 2009 through 2011. The overall audit of DDS was conducted as part of OSA's ongoing efforts to audit human-service contracting activity by state agencies and to promote accountability, transparency, and cost effectiveness in state contracting.

This supplemental report presents the results of our testing specific to Edinburg's accounts-payable-period LUSA transactions and should be read in the context of our overall report on DDS's administration of LUSA agreements. That report presents our system-wide audit, which determined that, although LUSA funding is supposed to be used for intermittent unanticipated services to clients as needed, DDS is not properly administering these contracts. Instead DDS Regional and Area Office staff have used LUSA contracts to provide additional year-end funding to some DDS human-service contractors for various purposes, many of which are not consistent with the intended use of these funds and resulted in unnecessary and excessive compensation to contractors. That report also documents other significant administrative problems, including improper retroactive

¹ The Commonwealth's fiscal year is divided into 13 accounting periods: one for each calendar month of the fiscal year ending June 30, and a thirteenth period known as the accounts-payable period. During the accounts-payable period, payments are processed for services provided during the fiscal year but not submitted and approved for payment before the June 30 fiscal year-end date. Accounts-payable-period processing generally continues through the end of August each year.

service authorization; irregularities in pricing, encumbering, and accounting for LUSA funding; and documentation at numerous contractors that was often inaccurate, misleading, missing, or otherwise deficient. DDS's practice of improperly administering and using LUSAs has led to the problems with the administration and use of these funds at various DDS contractors, such as Edinburg.

Highlight of Testing Results Specific to the Edinburg Center, Inc.

We found problems with \$477,555 of Edinburg's accounts-payable-period LUSA transactions, including inadequate documentation to substantiate that LUSA services were properly authorized, inadequate documentation to support LUSA billings, and LUSA contract funding not being used for its intended purposes, as follows:

- For \$338,477 in payments to Edinburg of \$413,244 subject to DDS service authorization requirements, DDS and Edinburg retroactively processed the authorization, in violation of DDS requirements.
- We found additional documentation problems for all of the above \$413,244 in LUSA payments to Edinburg, including \$74,767 in payments for which required service authorization documentation was absent. These problems also included inadequate documentation of client service delivery. The lack of adequate documentation violated provisions of the Commonwealth Terms and Conditions for Human and Social Services, and as a result, there was insufficient evidence to show that these LUSA payments had been properly authorized and accounted for; that they were not duplicative or excessive; and that the contractor had actually provided the LUSA services billed. Further, Edinburg's managers told us that the end-of-year LUSA payments were really made to reimburse Edinburg for costs such as overtime and staff-leave-time-related expenses and were not for permitted LUSA service activity as had been shown on Edinburg's LUSA invoices. Edinburg had no records that would substantiate the LUSA payments because the invoice numbers (unit rates and the number of service units) had simply been entered as instructed by DDS managers in order to arrive at agreed-upon total compensation amounts to be processed at year-end through the LUSA payment mechanism.
- Contrary to DDS contract requirements, DDS and Edinburg improperly used \$64,311 in LUSA funding during the testing period to pay for capital assets and other non-service items such as renovations, furniture, and appliances.

Recommendations of the State Auditor

OSA's overall audit report on DDS's administration of LUSA contracts recommended that responsible oversight agencies, including the state's Operational Services Division and the Office of the State Comptroller, review the issues detailed in the report and take whatever actions they deem appropriate to address those issues, including strengthening their oversight over these DDS

transactions. The payments to Edinburg are covered by that recommendation. In accordance with the recommendations of the overall report and the testing results specific to Edinburg, Edinburg should implement appropriate control measures to ensure that all LUSA services are performed, documented, billed, and accounted for in compliance with applicable requirements.

OVERVIEW OF AGENCY

The Edinburg Center, Inc. (Edinburg), located in Lexington, Massachusetts, was incorporated on January 19, 1977 as a nonprofit corporation. Edinburg provides a continuum of community-based day services to clients in the communities of Acton, Arlington, Bedford, Belmont, Boxborough, Burlington, Carlisle, Chelmsford, Concord, Lexington, Lincoln, Littleton, Maynard, Stow, Waltham, Watertown, Wilmington, Winchester, and Woburn. Edinburg’s mission, according to its Web site, is “to provide an array of innovative services which promote personal growth and independence, foster hope and enhance the quality of life of people with mental health conditions, co-occurring substance use conditions and/or developmental disabilities.” To achieve this, the Center offers five core services: adult mental-health services, developmental-disabilities services, child and family services, employment services, and community intervention.

Edinburg is one of the Department of Developmental Services’ (DDS’s) nonprofit contractors primarily serving eastern Massachusetts. Edinburg annually receives over \$5.8 million in contract payments from DDS. Revenues and support from other state agencies and public and private sources raise total revenues for Edinburg to approximately \$18.1 million per year.

DDS’s Limited Unit Rate Service Agreement (LUSA) contract payments to Edinburg, including the accounts-payable-period transactions covered by our testing for fiscal years 2009 through 2011, were as follows:

Fiscal Year 2009 through 2011 LUSA Funding

Fiscal Year	Total LUSA Payments for Fiscal Year	LUSA Payments Processed During Accounts-Payable Period	Accounts-Payable-Period Percent of Annual Total
2009	\$ 247,988	\$ 118,002	47.6%
2010	347,897	297,386	85.5%
2011	<u>161,218</u>	<u>62,167</u>	38.6%
	<u>\$ 757,103</u>	<u>\$ 477,555</u>	63.1%

SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor (OSA) conducted an audit of the Department of Developmental Services' (DDS's) administration of Limited Unit Rate Service Agreement (LUSA) contracts for the period July 1, 2008 through June 30, 2011 (No. 2012-0234-3C). The scope of that audit included an assessment of the process and related internal controls DDS has established over its administration of LUSA contracts and the use of LUSA funding at 15 selected DDS contractors, together accounting for approximately \$16.6 million (26.7%) of the \$62.2 million in LUSA payments for the three-fiscal-year period covered by our audit. Based on our analysis of data contained in the Massachusetts Management Accounting and Reporting System, we determined that during our audit period, 12% of all LUSA payments, which are supposed to be provided on an as-needed basis, had been processed during the last month of the fiscal year and that an additional 51% of all LUSA payments had been processed during the Commonwealth's accounts-payable period. This expenditure pattern for LUSA services was in marked contrast to the pattern for DDS's non-LUSA contractor payments, for which fewer than 4% were processed during the accounts-payable period and fewer than 5% were processed during the last month of the fiscal year. Based on this analysis and the results of prior audits that identified issues with LUSA transactions, we concluded that LUSA payments processed late in the year, particularly during the accounts-payable period, might pose disproportionately high risks of improper use or other irregularities. The Edinburg Center, Inc. (Edinburg) was one of the 15 contractors selected for on-site testing as part of the overall DDS audit. Edinburg accounted for approximately \$757,103 in LUSA payments for the three-fiscal-year period. Approximately \$477,555 of Edinburg's payments was processed during the Commonwealth's accounts-payable periods.

The procedures completed at Edinburg were performed as part of the overall DDS audit, which was conducted in accordance with generally accepted government auditing standards. Our overall objectives for the DDS audit were to:

- Obtain information required to assess the system of internal controls DDS has established over its administration of LUSA contract funding.
- Determine whether LUSA funding is being used as intended and in compliance with applicable laws, regulations, policies, and procedures by conducting audit testing of a

judgmental sample of DDS human-service contractors that received significant LUSA funding.

Our audit testing at DDS and selected contractors, such as Edinburg, produced evidence that certain data involving the classification of DDS LUSA expenditures did not reliably represent the actual agreement between DDS and contractors regarding the true purpose and use of the state funding. We provide a complete description of our data reliability and methodology in our overall DDS audit report, No. 2012-0234-3C.

We selected Edinburg for on-site testing, focusing on accounts-payable-period transactions; conducted interviews with management and staff; reviewed prior audit reports where available; and reviewed applicable laws and regulations. We also obtained and reviewed policies and procedures, accounting records, and supporting source documents and performed tests of these records and transactions, where necessary. We performed testing on all identified accounts-payable-period LUSA transactions, so our findings do not involve the use of projections based on samples. At the conclusion of field work, we met with Edinburg managers to discuss testing results pertaining to Edinburg. We also solicited Edinburg information and input regarding DDS system-wide LUSA issues for use in the overall LUSA audit project.

TESTING RESULTS

1. QUESTIONABLE USE OF \$477,555 IN LUSA FUNDS

Our testing identified a number of problems with the granting, receipt, and use of Limited Unit Rate Service Agreement (LUSA) funds that the Department of Developmental Services (DDS) provided to the Edinburg Center, Inc. (Edinburg). These included DDS and Edinburg retroactively processing service authorization approval for LUSA transactions, contrary to DDS requirements; Edinburg maintaining insufficient authorization, invoicing, and service delivery documentation for \$413,244 in transactions; and DDS improperly using \$64,311 of LUSA funding to pay Edinburg for non-service items.

LUSA contractual agreements are designed to be relatively flexible in order to address client service needs. DDS's Purchase of Service Manual states that LUSA contracts are "for purchasing intermittent, as-needed services for developmentally disabled individuals needing limited time placements." The LUSA's purpose is to provide a contract that can be accessed at any time during its multiyear term to pay for unexpected services for clients authorized by DDS where, because of special circumstances, services have not been included within the scope of an existing state-funded program contract. DDS has established separate categories for LUSA agreements (residential, day, work, and support service), and LUSA services may only be provided within the scope of the categories for which a contractor has been approved.

DDS requires that in order to obtain funding to pay for LUSA services, DDS managers and contractors such as Edinburg complete an Authorization for Services process before services begin. The process uses an Authorization for Services Form (ASF) signed by a DDS manager, typically an Area Director, to establish the specific type of service, service date ranges, appropriation source, and amount of LUSA funding that will reimburse the contractor for services provided to the client.²

In addition to obtaining ASF approval, contractors must maintain service delivery and related documentation as required by Section 7 of the Commonwealth Terms and Conditions for Human and Social Services, which specifies that:

² Certain exceptions to this authorization requirement involve DDS's use of LUSA funds for transactions that should instead have been processed through other payment mechanisms, and DDS has not uniformly required use of ASFs for those transactions. However, apart from the improper transactions for capital asset and other non-service items described in Section c., those exceptions do not apply to the transactions with Edinburg.

The Contractor shall maintain records, books, files and other data as required by 808 CMR 1.00 and as specified in a Contract and in such detail as shall properly substantiate claims for payment under a Contract, for a minimum retention period of seven (7) years beginning on the first day after the final payment under a Contract, or such longer period as is necessary for the resolution of any litigation, claim, negotiation, audit or other inquiry involving a Contract.

It is essential that, in addition to authorization, invoice, and accompanying summary service delivery reports, contractors maintain documentation sufficient to verify that invoiced services were actually delivered and to establish that the services rendered were not within the scope of activity already covered and reimbursed by regular, non-LUSA, program contracts. Documentation of compliance with the activity and reimbursement restriction is of particular concern, since DDS's regular non-LUSA contracts have typically been established using payment rates that have been increased by as much as 17.6% to ensure that contractors are appropriately reimbursed for full program costs where programs are underutilized for legitimate reasons such as unanticipated vacancies or client hospitalizations. As explained by applicable Operational Services Division (OSD) policy:³

The inclusion of a utilization factor in unit rate contracts may result in a situation where a specific contractor is serving consumers at a higher utilization level than negotiated or anticipated and thus reaches the maximum obligation of the contract (or "bills out") before the end of the contract period. In this case, the contractor is required to provide services up to the total capacity purchased by the contract . . . for the remainder of the contract period with no additional funding. The application of a utilization factor does not result in the contractor delivering "free" services; rather, in these cases, a contractor has merely been fully reimbursed for the costs associated with the program in a shorter period of time than the full contract duration

As a result, if a LUSA agreement is erroneously used to pay for services that have already been effectively reimbursed through a regular contract, the contractor may improperly receive excessive or duplicative reimbursement of program costs.

The subsections below describe the Edinburg-related issues identified as part of testing procedures performed.

a. Retroactive Authorization of LUSA Services Totaling \$338,477

Despite the above-described ASF processing requirement established by DDS, of \$413,244 in accounts-payable-period LUSA payments to Edinburg that were subject to service authorization requirements, DDS had paid \$338,477 for services that DDS and Edinburg had retroactively

³ OSD Procurement Policies and Procedures, "How to Draft a Request for Response" (issued November 1, 2005, revised August 13, 2007).

authorized, in violation of the requirements. Retroactive authorizations had been processed in each year of the testing period as follows.

Retroactive Authorization Amounts

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Total
Retroactive Authorization	\$83,002	\$200,000	\$55,475	\$338,477

As described in the next section, these amounts exclude payments totaling \$74,767 for which documentation available at Edinburg was not sufficient to determine whether authorization had been properly processed in a timely manner.

b. Inadequate Documentation Related to \$413,244 in LUSA Service Authorizations and Payments

We found documentation problems for LUSA payments totaling \$413,244. These problems included ASF documentation deficiencies and missing or inadequate documentation of client service delivery. Adequate documentation is required by the previously quoted provisions of the Commonwealth Terms and Conditions for Human and Social Services, and without it, there was insufficient evidence to show that these LUSA payments had been properly authorized and accounted for; that they were not duplicative or excessive; and that the contractor had actually provided the LUSA services billed.

Documentation inadequacies were identified for each year of the testing period, as follows:

Service Authorization and Documentation Deficiencies

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Total
Major Documentation Deficiencies	\$108,002	\$243,075	\$62,167	\$413,244

ASF documentation was absent for \$74,767 in payments. As described further below, even when ASF documentation was present, it appeared from statements made by Edinburg managers that authorizations may not have been issued for the purposes stated on the documents.

Required documentation of actual service delivery was also inadequate (e.g., unsigned timesheets) or so ambiguous as to be questionable. Examples of the type of documentation that should be maintained include contemporaneously prepared, employee-signed, daily time/service documentation records for one-on-one services to individual clients, correlating to invoice submissions. Edinburg typically retained only copies of invoices and Service Delivery Reports, which are monthly calendars listing individual clients and the days or hours for which they were being billed. Those documents are prepared by administrative support personnel who themselves lack the personal knowledge necessary to attest to the accuracy of the billing submissions, and the billing documents are therefore insufficient for compliance-assurance purposes. Contemporaneously prepared service delivery documentation necessary to verify the accuracy of Edinburg's invoices and service delivery reports was not made available for testing. Documentation both in Edinburg's year-end financial report filings with OSD⁴ and in Edinburg's records was also not sufficient to adequately correlate to service delivery information, DDS LUSA payments, and service delivery costs to the organization's operational programs as needed to ensure that payments were outside the scope of regular DDS contracts and did not result in excessive or duplicative reimbursement. Because these deficiencies were so extensive, it was not possible to perform the analysis and testing required to reasonably estimate the extent to which the compensation DDS provided to Edinburg was excessive. However, Edinburg managers told us that the end-of-year LUSA payments were really made to reimburse Edinburg for costs such as overtime and staff-leave-time-related expenses and were not for permitted LUSA service activity as had been shown on Edinburg's LUSA invoices. Edinburg had no records that would substantiate the LUSA payments because the invoice numbers (unit rates and the number of service units) had simply been entered as instructed by DDS managers in order to arrive at agreed-upon total compensation amounts to be processed at year-end through the LUSA payment mechanism.

c. Improper Transactions, Totaling \$64,311, for Non-Service-Item Reimbursements

LUSA agreements are supposed to be used to provide direct services to clients, rather than to directly reimburse contractors for capital items such as vehicles or other non-service items such as employee overtime costs. Pursuant to rules and regulations established by OSD and the Office of the State Comptroller (OSC), contractors providing human services to state agencies

⁴ Uniform Financial Statements and Independent Auditor's Reports, also known as UFRs.

are, with limited exceptions, reimbursed only for providing units of service such as a day of residential service programming to a client. However, contractors often require the use of capital assets such as property and equipment to provide these services. Such items are typically treated as capital-asset items, and contractors are allowed to charge the costs of the capital items they purchase over their useful life against their state contracts. OSD has also established a Capital Item Procurement Policy that, under special circumstances, allows DDS and other state agencies either to lend state-owned assets to contractors for program use or to reimburse contractors for the preapproved purchase of certain capital items. Those special arrangements are carefully restricted to protect the Commonwealth's title interest in the assets and, in addition to requiring preapproval, require that purchased items be competitively procured and that purchases be limited to movable assets such as vehicles, appliances, and furniture rather than fixed assets such as buildings, heating systems, or other property improvements such as driveway paving. State capital-item reimbursements must also be separately accounted for through special contracting forms promulgated by OSD and be recorded in the state accounting system using special expenditure classification codes different from the ones established by OSC for use in purchasing human-service program and support services. Regardless of whether a particular non-service item is a capital item or another form of non-service activity such as non-capitalized small-value items, none of these non-service items should be purchased through the LUSA contracting mechanism, since the purchase of these items would not be consistent with the specified purpose of LUSA funding.

Despite these restrictions, we found that DDS and Edinburg improperly used \$64,311 in LUSA funding during the testing period to purchase capital asset and other non-service items rather than LUSA-related services. This included purchases by Edinburg of home appliances, furniture, flooring, office equipment, and renovations. Of the \$64,311 total, \$53,240 was for the purchase of items classifiable as capital assets.

Recommendations

OSA's overall audit report on DDS's administration of LUSA contracts recommended that responsible oversight agencies, including OSD and OSC, review the issues detailed in the report and take whatever actions they deem appropriate to address those issues, including strengthening their oversight over these DDS transactions. The payments to Edinburg are covered by that

recommendation. In accordance with the recommendations of the overall report and the testing results specific to Edinburg, Edinburg should implement appropriate control measures to ensure that all LUSA services are performed, documented, billed, and accounted for in compliance with applicable requirements.

Edinburg's Response

In response to the issues detailed in this report, Edinburg officials provided the following comments:

We appreciate your acknowledgement that the findings in your review should be read in the context of your overall report on DDS's administration of LUSA agreements. DDS has made several changes to its utilization of Limited Unit Rate Service Agreements, and The Edinburg Center will ensure that any services provided under LUSA agreements are performed, documented, billed, and accounted for appropriately.