Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – July 25, 2013

Seven Hills Family Services, Inc. Administration of Limited Unit Rate Service Agreements

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

TABLE OF CONTENTS

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 period[1] 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 Seven Hills Family Services, Inc. (SHFS), for on-site testing. SHFS received approximately $3,050,395 of the above-stated $62.2 million in total DDS LUSA payments. Approximately $1,752,292 (57.4%) of the payments to SHFS 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 SHFS'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 SHFS.

Highlight of Testing Results Specific to Seven Hills Family Services, Inc.

We found problems with all $1,752,292 of SHFS'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 $460,949 in payments to SHFS of $1,290,337 subject to DDS service authorization requirements, DDS and SHFS retroactively processed the authorization, in violation of DDS requirements.

- We found additional documentation problems for all of the above $1,290,337 in LUSA payments to SHFS, including $775,484 in payments for which required service authorization documentation was absent and $12,052 in payments for which service authorization documentation was undated. The problems also included other service authorization documentation deficiencies and missing or 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.

- Contrary to DDS contract requirements, DDS and SHFS improperly used $819 in LUSA funding during our audit period to purchase non-service items such as clothing, gift cards, furniture, and bathroom fixtures rather than LUSA-related services.

- DDS used additional LUSA funding to pay SHFS $461,136 for transactions that should have been processed through non-LUSA contracts; this resulted in a variety of procurement, service utilization, and accounting problems. These transactions included $200,826 identified as Personal Support Services (PSS) paid as a matter of administrative convenience for year-end reconciliation payments involving PSS provided through regular contract programs; $258,010 identified, possibly inaccurately in part, as Transitional Services that should have been competitively procured but were not; and $2,300 for reimbursement of costs related to an ice storm, for which LUSA funding should not have been used and for which cost documentation was inadequate. As a result of documentation deficiencies and ambiguities for these payments, there was no assurance that the transactions involved were for appropriate LUSA purposes or that the nature of the payments had been accurately reported in DDS accounting records.

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 SHFS are covered by that recommendation. In accordance with the recommendations of the overall report and the testing results specific to SHFS, SHFS 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

Seven Hills Family Services, Inc. (SHFS), whose administrative offices are located in Worcester, Massachusetts, was incorporated on November 24, 1995 as a nonprofit corporation specializing in assistance to families of those with disabilities. SHFS is an affiliate of Seven Hills Foundation, Inc. According to its publications, Seven Hills Foundation serves 180 locations in Massachusetts and Rhode Island through its 11 affiliates, whose approximately 3,500 employees work with 30,000 individuals with disabilities.

Seven Hills Foundation's Web site describes its mission as "to promote and encourage the empowerment of people with significant challenges so that each may pursue their highest possible degree of personal well-being and independence." SHFS's programs span a wide spectrum of service types, including a variety of residential, day, and other support services provided to Department of Developmental Services (DDS) clients. SHFS annually receives over $48.1 million in contract payments from DDS. Revenues and support from other state agencies and public and private sources raise total revenues for SHFS and its affiliated entities to approximately $146.8 million per year. DDS's Limited Unit Rate Service Agreement (LUSA) contract payments to SHFS, 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	$ 641,637	$ 451,267	70.3%
2010	1,431,631	831,999	58.1%
2011	977,127	469,026	48.0%
	$ 3,050,395	$ 1,752,292	57.4%

* SHFS is a sub-entity of Seven Hills Foundation, Inc. A second sub-entity, Seven Hills Community Services, Inc., also received LUSA payments during the audit scope period. However, this audit only covered the transactions with SHFS.

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. Seven Hills Family Services, Inc. (SHFS) was one of the 15 contractors selected for on-site testing as part of the overall DDS audit. SHFS accounted for approximately $3,050,395 in LUSA payments for the three-fiscal-year period. Approximately $1,752,292 of SHFS's LUSA payments was processed during the Commonwealth's accounts-payable periods.

The procedures completed at SHFS 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 SHFS, 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 SHFS 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 SHFS managers to discuss testing results pertaining to SHFS. We also solicited SHFS information and input regarding DDS system-wide LUSA issues for use in the overall LUSA audit project.

TESTING RESULTS

1. QUESTIONABLE USE OF $1,752,292 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 Seven Hills Family Services, Inc. (SHFS). These included DDS and SHFS retroactively processing service authorization approval for $460,949 in LUSA transactions, contrary to DDS requirements; SHFS maintaining insufficient authorization, invoicing, and service delivery documentation for $1,290,337 in transactions; DDS improperly using $819 of LUSA funding to pay SHFS for non-service items; and DDS improperly using $461,136 of LUSA funding to pay SHFS for transactions that should instead have been processed through other payment mechanisms. In many instances, the same transaction was associated with multiple problems. The unduplicated amount of questioned funding is $1,752,292.

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 SHFS 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]

[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 as described in Section d. of this finding. DDS has not uniformly required use of ASFs for those transactions.

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:

> *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 SHFS-related issues identified as part of testing procedures performed.

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

a. Retroactive Authorization of LUSA Services Totaling $460,949

Despite the above-described ASF processing requirement established by DDS, of $1,290,337 in accounts-payable-period LUSA payments to SHFS that were subject to service authorization requirements, $460,949 had been paid for services that DDS and SHFS had retroactively 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	$115,959	$246,417	$98,573	$460,949

As described in the next section, these amounts exclude payments totaling $787,536 for which documentation available at SHFS was not sufficient to determine whether authorization had been properly processed in a timely manner.

b. Inadequate Documentation Related to $1,290,337 in LUSA Service Authorizations and Payments

We found additional documentation problems for all of the above $1,290,337 in accounts-payable-period LUSA payments to SHFS. These problems included ASF documentation deficiencies and missing or inadequate documentation of client service delivery. The lack of adequate documentation violated the previously quoted 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.

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	$240,491	$653,379	$396,467	$1,290,337

ASF documentation was missing for $775,484 and undated for $12,052 in payments. Even when ASF documentation was present, it was not always possible to determine when, or even whether, the service authorization process had been completed for individual clients and the agreed-upon terms of service. For example, an ASF might be present but not dated, or documentation might not identify individual clients to be served, the type of service to be provided, or the timeframe authorized for service delivery.

Required documentation of actual service delivery was also absent or so ambiguous as to be questionable. Examples of the type of documentation that should be maintained include contemporaneously prepared daily program attendance sheets signed by employees present at the program site and time/service documentation records for one-on-one services to individual clients, which correlate to invoice submissions. SHFS 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. In the case of one-on-one LUSA service billings, the documentation also identified the employee providing the service; however, 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 employee time documentation required to substantiate those administratively prepared reports was not maintained in a manner that would make it possible to correlate information on those documents to administratively prepared LUSA invoices and service delivery reports. Documentation both in SHFS's year-end financial report filings with OSD[4] and in SHFS'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 SHFS was excessive.

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

c. Non-Service-Item Reimbursements Totaling $819

LUSA agreements are supposed to be used to provide direct services to clients, rather than to directly reimburse contractors for non-service items such as capitalized expenditures, furniture, equipment, or 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 are, with limited exceptions, reimbursed only for providing units of services such as a day of residential service programing to a client. In accordance with the OSD and OSC requirements, DDS LUSA contracting policies specify that LUSA funds are to be used to pay contractors for delivered units of service. Non-service items may not 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 SHFS improperly used $819 in LUSA funding during fiscal year 2010 to purchase non-service items such as non-capitalized furniture and appliances. These purchases involved payments that SHFS made to families and group homes caring for SHFS clients: reimbursements for items such as clothing, gift cards, miscellaneous furniture, and bathroom fixtures that were needed in order to care for the clients at home rather than in a contractor-operated residential program or a state facility. Since the use of LUSA funding is limited to payment for services, rather than goods or other non-service items, these items should instead have been reimbursed through regular DDS non-LUSA individual or family support contracts containing appropriate provisions for such reimbursements.

d. Inappropriate Use of LUSA Funds Totaling $461,136 to Pay for Personal Support and Other Service Transactions and Inadequate Service Delivery Documentation for These Transactions

During our testing period, DDS used LUSA funding to pay SHFS $461,136 for transactions that should have been processed through non-LUSA contracts; this resulted in a variety of procurement, service utilization, and accounting problems. These transactions included $200,826 identified as Personal Support Services (PSS), $258,010 as Transitional Services, and $2,300 as reimbursement of costs related to an ice storm.

Specifically, we found that DDS reported using $200,826 in LUSA funding to make year-end reconciliation payments to SHFS for PSS provided through regular residential contract programs. PSS cover preauthorized staffing hours needed to provide MassHealth- (Medicaid-) eligible DDS clients with instrumental activities of daily living (IADL) assistance that has been contracted for through regular DDS human-service-program contracts. Because authorized service levels are routinely underutilized, only approximately 88% of the authorized PSS reimbursement is incorporated into each contractor's regular program contract. As a matter of administrative processing convenience, DDS has used LUSA payments for the purpose of making supplemental year-end reconciliation payments to contractors for any amounts determined to be owed where actual utilization is claimed to exceed 88%. Those payments were made through LUSAs even though the terms of LUSA agreements do not provide for the reconciliation process. DDS policies governing the use of LUSAs and DDS policy and contract language instead provide for the use of amendments to regular DDS contracts to address such situations. DDS should have processed the payments to SHFS through other, non-LUSA, means such as year-end amendments to SHFS's regular non-LUSA contracts. In addition, for $2,962 of the transactions identified by DDS as PSS, SHFS had not identified the transactions as being PSS and had invoiced them at a rate other than that established by DDS for PSS. It appeared that the services actually involved non-PSS support services for which no ASF documentation was available and that DDS had misidentified the transactions in accounting system records.

LUSA payments totaling $258,010 were identified by either DDS or SHFS records as being for institutional-to-community-living Transitional Services, part of a special DDS initiative that was mandated by a legal settlement agreement resulting from a federal lawsuit. As detailed in our full report on DDS's administration of LUSA agreements, the Transitional Service transactions with SHFS were part of a larger set of transactions that apparently should have been competitively procured and reimbursed through regular contracts rather than through LUSAs. However, the characterization of some of these transactions as Transitional Services was questionable. $249,006 of the transactions had been classified by DDS as Transitional Services, while an additional $9,004 had been so classified by SHFS but not by DDS. In addition, $188,397 of the $249,006 classified as Transitional Services by DDS had not been so classified by SHFS. Instead, SHFS documentation characterized the transactions as a variety of support services, often invoiced at rates other than the DDS-established rate for Transitional Services. Thus, it appears that DDS may have misidentified these transactions in the state accounting system.

SHFS also received $2,300 in LUSA payments during the fiscal year 2009 accounts-payable period as reimbursement for unplanned staffing and program relocation costs, which it incurred while maintaining client services during a regional ice storm in December 2008. LUSAs are not permitted to be used for such costs. Further, the contractor did not maintain adequate documentation to support some of the reimbursed costs, and DDS managers approved the payments without first obtaining verification of the claimed costs or verification of the absence of insurance coverage or other available funding.

The table below breaks out these transactions with SHFS by category and fiscal year.

Inappropriate LUSA PSS, Transitional Service, and Ice Storm Transactions

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Total
Personal Support Services	$ 101,487	$ 51,823	$47,516	$ 200,826
Transitional Services	106,989	125,978	25,043	258,010
Ice Storm	2,300	0	0	2,300
Total	$ 210,776	$ 177,801	$72,559	$ 461,136

In addition to the inappropriate DDS use of LUSA payment mechanisms, other issues existed for these transactions. Despite the above-quoted contracting terms and conditions, SHFS did not maintain adequate documentation (e.g., service-specific detailed timesheets) that correlated to invoiced LUSA PSS amounts. Similar service delivery documentation deficiencies existed for all Transitional Service LUSA payments. As a result of these documentation deficiencies and ambiguities, there was no assurance that the transactions were for appropriate LUSA purposes or that the nature of the payments had been accurately reported in DDS accounting records.

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

SHFS's Response

In response to the issues presented in this report, SHFS provided the following comments:

> *[After your audit], we implemented new guidelines and internal authorization procedures when invoicing LUSA contracts. Having said this, it is our opinion we did provide proper and completely thorough documentation for all of our LUSA billing in compliance with the Department's requirements or we would never have been reimbursed. We acted fully and transparently with the Commonwealth's DDS office requirements and were in constant and open communication with them over the course of the months noted in your report. If any accounting shortcomings occurred, such as those noted in your report, they were a function of our reliance upon state government directions.*
>
> *I know DDS has changed all of its internal LUSA procedures and we have complied with all those regulations in fiscal year 2013. I would also like to mention Seven Hills has completed New Residential LUSA Amendment Forms for fiscal year 2014.*