



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

Official Audit Report – July 25, 2013

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## Community Systems, 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 period<sup>1</sup> 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 Community Systems, Inc. (CSI), for on-site testing. CSI received approximately \$674,357 of the above-stated \$62.2 million in total DDS LUSA payments. Approximately \$578,508 (85.8%) of the payments to CSI 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 CSI'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

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<sup>1</sup> 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 CSI.

***Highlight of Testing Results Specific to Community Systems, Inc.***

We found problems with all \$578,509 of CSI'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 \$467,467 in payments to CSI of \$547,185 subject to DDS service authorization requirements, DDS and CSI retroactively processed the authorization, in violation of DDS requirements.
- We found additional documentation problems for all of the above \$547,185 in LUSA payments to CSI, including \$43,256 in payments for which required service authorization documentation was absent. These problems included service 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.
- DDS improperly made additional LUSA payments totaling \$31,324 to CSI as a matter of administrative convenience for year-end reconciliation payments involving Personal Support Services (PSS) provided through regular contract programs. DDS should instead have made those payments through amendments to regular program contracts or through alternative, non-LUSA, mechanisms. For the entire amount of those PSS payments, service delivery documentation by CSI was also missing or inadequate.

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

Community Systems, Inc. (CSI), whose Massachusetts administrative offices are located at 280 Route 130, Forestdale, Massachusetts, was incorporated on April 25, 1988 as a private, nonprofit human-services organization providing services to those with mental illness, developmental disabilities, and behavioral health disabilities. CSI is a four-state family of private, nonprofit human-service organizations operating in Massachusetts, Connecticut, Delaware, and Virginia.

According to its Web site, CSI's mission is "helping persons with disabilities to find happiness in their own homes, in their personal relationships, and as contributing members of their community." To achieve this, CSI delivers an array of services to people with mental illness, developmental disabilities, and behavioral health disabilities. Its program services span a wide spectrum of service types, including a variety of residential and other support services provided to Department of Developmental Services (DDS) clients.

CSI is one of DDS's nonprofit contractors primarily serving southeastern Massachusetts. CSI annually receives over \$11.6 million in contract payments from DDS. Revenues and support from other state agencies and public and private sources raise total revenues for CSI and its affiliated entities to approximately \$14.5 million per year. DDS's Limited Unit Rate Service Agreement (LUSA) contract payments to CSI, 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	\$ 387,590	\$354,775	91.5%
2010	235,471	172,437	73.2%
2011	<u>51,296</u>	<u>51,296</u>	100.0%
	<u>\$ 674,357</u>	<u>\$578,508<sup>2</sup></u>	85.8%

<sup>2</sup> The single-dollar variance between the consolidated LUSA funding total appearing here and the sum of amounts specific to audit finding categories appearing in the report is attributable to category rounding adjustments.

## 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. Community Systems, Inc. (CSI) was one of the 15 contractors selected for on-site testing as part of the overall DDS audit. CSI accounted for approximately \$674,357 in LUSA payments for the three-fiscal-year period. Approximately \$578,508 of CSI's LUSA payments was processed during the Commonwealth's accounts-payable periods.

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



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## TESTING RESULTS

### 1. IMPROPER ADMINISTRATION OF \$578,509 OF 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 Community Systems, Inc. (CSI). These included DDS and CSI retroactively processing service authorization approval for \$467,467 in LUSA transactions, contrary to DDS requirements; CSI maintaining insufficient authorization, invoicing, and service delivery documentation for \$547,185 in transactions; and DDS improperly using \$31,324 of LUSA funding to pay CSI 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 \$578,509.

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 CSI 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.<sup>3</sup>

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<sup>3</sup> 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 c. 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:<sup>4</sup>

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

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<sup>4</sup> 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 \$467,467**

Despite the above-described ASF processing requirement established by DDS, of \$547,185 in accounts-payable-period LUSA payments to CSI that were subject to service authorization requirements, \$467,467 had been paid for services that DDS and CSI 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	\$306,212	\$133,715	\$27,540	\$467,467

As described in the next section, these amounts exclude payments totaling \$43,256 for which documentation available at CSI was not sufficient to determine whether authorization had been properly processed in a timely manner.

**b. Inadequate Documentation Related to \$547,185 in LUSA Service Authorizations and Payments**

We found additional documentation problems for all of the above \$547,185 in accounts-payable-period LUSA payments to CSI. 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	\$328,230	\$167,659	\$51,296	\$547,185

ASF documentation was missing for \$43,256 in payments, so that it was not always possible to determine when, or even whether, the service authorization process had been completed for individual clients.

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. However, CSI 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 CSI's invoices and service delivery reports was not made available for testing. CSI's documentation in support of its billing documents was characterized by missing daily program attendance sheets and missing employee- and client-specific documentation of billings for one-on-one supplemental staffing service time and activity. Documentation both in CSI's year-end financial report filings with OSD<sup>5</sup> and in CSI's records was 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 CSI was excessive.

**c. Inappropriate Use of \$31,324 in LUSA Funding to Pay for Personal Support Service Transactions and Inadequate Documentation of These Services**

During our testing period, DDS used LUSA funding to pay CSI \$31,324 for transactions that should have been processed through non-LUSA contracts; this resulted in a variety of procurement, service utilization, and accounting problems. Specifically, we found that DDS used \$31,324 in LUSA funding to make year-end reconciliation payments to CSI for Personal Support

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<sup>5</sup> Uniform Financial Statements and Independent Auditor's Report, also known as UFRs.

Services (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 reconciliation process is not provided for by either the terms of LUSA agreements or DDS policies governing the use of LUSAs. 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 CSI through other, non-LUSA, means such as year-end amendments to CSI's regular non-LUSA contracts. The table below breaks out these transactions with CSI by fiscal year.

#### **Inappropriate LUSA Personal Support Service Transactions**

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Total
Personal Support Services	\$26,545	\$4,779	\$0	\$31,324

In addition to the inappropriate DDS use of LUSA payment mechanisms, other issues, which were the responsibility of CSI, existed for all of these transactions, including major service delivery documentation deficiencies in violation of the previously quoted contracting terms and conditions. Specifically, service-specific detailed timesheets are needed to document that PSS provided on a supplemental one-on-one employee-to-client basis have actually been delivered. However, the required documentation was absent for these transactions.

#### ***Recommendations***

OSA's overall audit report on DDS's administration of LUSA contracts recommended that responsible oversight agencies, including OSD 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 CSI are covered by that recommendation. In accordance with the recommendations of the overall report and the testing results specific to CSI, CSI should implement appropriate control measures to ensure that all LUSA services are performed, documented, billed, and accounted for in compliance with applicable requirements.