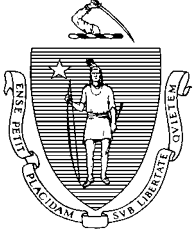

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INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF HUMAN SERVICE OPTIONS, INC. JULY 1, 2001 THROUGH MARCH 31, 2004

OFFICIAL AUDIT REPORT

OCTOBER 12, 2005

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION 1

Human Service Options, Inc. (HSO) was organized in Massachusetts on November 7, 1984 under the provisions of Chapter 156B of the Massachusetts General Laws as a for-profit organization. HSO was formed to engage in, conduct, operate, and carry on the business of providing rehabilitative, educational, and vocational services to handicapped persons, and to provide residential services to said persons. On May 21, 2001, HSO-NHI Associates (HSO-NHI), which was organized as a Massachusetts Business Trust on May 14, 2001, purchased HSO from the estate of HSO's former Executive Director. HSO currently operates as a wholly owned subsidiary of HSO-NHI. Currently, HSO provides residential and other services, including room and board, support, counseling, behavioral support, training in daily living and social skills, supervision and behavioral management, and recreational activities to approximately 95 developmentally disabled and emotionally disturbed individuals in the greater metropolitan Boston area.

The scope of our audit was to examine various administrative and operational activities of HSO during the period July 1, 2001 to March 31, 2004. Our audit, which was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States, had the following objectives: (1) to determine whether HSO had implemented effective internal controls; (2) to assess HSO's business practices and its compliance with applicable laws, rules, regulations and the various fiscal and programmatic requirements of its state contracts; and (3) to assess the status of the issues identifed during our prior audit of HSO.

We found that, during our audit period, HSO charged a total of $43,053 in nonreimbursable expenses against its state contracts, retained unallowable profits totaling $13,786, retained $11,070 in undistributed salary reserve funds, had inadequate documentation to substantiate the allocation of $388,365 in payroll expenses for selected employees, and needed to strengthen administrative and internal controls over certain agency operations.

AUDIT RESULTS 4

1. PRIOR AUDIT RESULTS RESOLVED 4

Our prior audit of HSO identified two issues dealing with HSO's receipt of approximately $1.3 million in unbudgeted profits and its expenditure of more than $500,000 in non-program-related items. On September 17, 1999, an Audit Resolution Agreement between HSO and the Department of Mental Retardation (DMR), its principal state-purchasing agency, was executed to formally resolve the issues identified in our report. Through this agreement, both parties acknowledged that during the period covered by our prior audit, the state did not have any standards governing the retention of surplus revenue by for-profit corporations such as HSO which deliver human and social services. Consequently, the parties agreed that in order to resolve the issues raised in our prior report, HSO would provide DMR with five annual payments of $11,489.20, for a total of $57,446, commencing in fiscal year 2000. Our follow-up review indicated that HSO made all five agreed-upon installment payments to DMR.

2. EXCESSIVE PROFITS TOTALING $13,786 CHARGED TO A STATE CONTRACT 4

According to state regulations, for-profit contracted service providers such as HSO are required to negotiate the amount of commercial fees or profits they can make on their state contracts. However, we found that during fiscal year 2002, HSO retained profits of $13,786 in excess of the commercial fee it negotiated with DMR for the contract that funded its residential program in Newton. As a result, HSO owes $13,786 to the Commonwealth.

3. HSO RETAINED $11,070 OF UNDISTRIBUTED FISCAL YEAR 2002 SALARY RESERVE FUNDS 6

We found that, contrary to the terms and conditions of its state contract, during fiscal year 2002 HSO did not distribute to eligible staff members (i.e., personnel earning less than $20,000 in annual compensation) $11,070 of funds it received under the salary reserve contract it had with the Commonwealth. Rather, HSO retained this undistributed balance of $11,070 and used it to fund other agency expenses. As a result, HSO owes $11,070 to the Commonwealth.

4. HSO DOUBLE-BILLED THE STATE $11,342 FOR STAFF TRAINING DURING FISCAL YEAR 2002 9

During fiscal year 2002, HSO double-billed the Commonwealth $11,342 for medication administration training/certification expenses. Consequently, HSO owes $11,342 to the Commonwealth.

5. EXPENSES INCURRED BY HSO'S PARENT COMPANY AND A RELATED-PARTY TOTALING $18,153 WERE INAPPROPRIATELY CHARGED TO HSO'S STATE-FUNDED CONTRACTS 10

We found that during our audit period, HSO charged certain expenses totaling $18,153 incurred by its parent company, HSO-NHI, and a related-party organization, Simple LLC, against its state contracts. These expenses included $1,905 in corporate taxes and fees, $13,098 in legal fees, $1,150 in accounting services, and $2,000 in leasehold improvements. According to state regulations, expenses such as these that are not related to the social service program purposes of HSO are nonreimbursable expenses under state contracts.

6. UNALLOWABLE ADMINISTRATIVE EXPENSES TOTALING $9,890 CHARGED TO STATE CONTRACTS 12

We found that during fiscal years 2002 and 2003, HSO charged various nonreimbursable administrative expenses totaling $9,890 against its state contracts. These expenses were for such items as $3,455 for corporate income taxes and related legal and accounting fees, $186 in penalties and late charges, $1,953 for floral arrangements, $515 in expenses related to an employee's retirement, and a $500 donation. As a result, HSO owes $9,890 to the Commonwealth.

7. INADEQUATELY DOCUMENTED ADMINISTRATIVE PAYROLL EXPENSES TOTALING $388,365 CHARGED TO STATE-FUNDED CONTRACTS 16

We found that HSO had not established adequate controls over the allocation of payroll expenses for all of its employees, as required by state regulations and the terms and conditions of its state-funded contracts. Specifically, although HSO has policies and procedures relative to the preparation and maintenance of payroll records, three employees were not required to prepare time records documenting hours worked and the function benefited. As a result, there is inadequate assurance that all of the $388,365 in salaries and related payroll costs that HSO allocated against its state funded contracts for the Executive Director, Treasurer, and Chief Financial Officer during fiscal years 2002 and 2003 was accurate.

8. NONREIMBURSABLE EMPLOYEE BONUSES AND FRINGE BENEFITS TOTALING $3,668 18

During our audit period, HSO provided $3,500 in bonuses to two employees and $168 in dental benefits for one employee. However, HSO's policies and procedures did not provide for the provision of these fringe benefits. According to state regulations, fringe benefits such as these that are not available to all employees under an established policy of the agency are nonreimbursable under state-funded contracts.

9. ADMINISTRATIVE AND INTERNAL CONTROLS OVER CERTAIN AGENCY OPERATIONS NEED TO BE STRENGTHENED 21

We found that HSO had not developed and implemented an adequate system of internal controls over various aspects of its operations. For example, HSO had no written accounting policies and procedures or an accounting manual to ensure the accuracy of its financial transactions; did not have adequate controls over the reporting of information, which resulted in HSO's misreporting certain information in the financial reports submitted to OSD during fiscal years 2002 and 2003; and did not take measures to ensure that it fully complied with the terms and conditions of the leases for its residential program properties. As a result, HSO and the Commonwealth cannot be assured that HSO's financial assets and Commonwealth funds were being properly safeguarded or that transactions relative to these accounts were properly authorized, recorded, and reported.

APPENDIX 26

Human Service Options Program Descriptions 26

INTRODUCTION

Background

Human Service Options, Inc., (HSO) was organized in Massachusetts on November 7, 1984 under the provisions of Chapter 156B of the Massachusetts General Laws as a for-profit organization. HSO was formed to engage in, conduct, operate, and carry on the business of providing rehabilitative, educational, and vocational services to handicapped persons, and to provide residential services to said persons. On May 21, 2001, HSO was purchased by HSO-NHI Associates (HSO-NHI) from the estate of HSO's former Executive Director (Estate) and currently exists as a wholly owned subsidiary of HSO-NHI. HSO-NHI was organized on May 14, 2001 as a Massachusetts Business Trust, as defined in Massachusetts General Laws Chapter 182, Section 1. The beneficiaries to the Trust are HSO's current Executive Director and Harbor Family Trust, a Massachusetts Realty Trust, to which the primary beneficiary serves as Treasurer to HSO's Board of Directors.

During the purchase of HSO, the Estate relinquished control of HSO's Educational and Training Services (HSO-ETS) to HSO's current Executive Director and Treasurer, who served as officers on HSO-ETS' Board of Directors. HSO-ETS was organized on May 7, 1987 as a non-profit corporation to provide residential housing and services to disabled adults, similar to HSO. On September 17, 2004, the Commonwealth of Massachusetts was petitioned by HSO-ETS, pursuant to Massachusetts General Laws, Chapter 180, Section 11, to dissolve operations and distribute all of its remaining property and assets to HSO, and to use the remaining balance of funds to provide like services to individuals.

Currently, HSO provides residential and other services, including room and board, support, counseling, behavioral support, training in daily living and social skills, supervision and behavioral management, as well as recreational activities, to approximately 95 developmentally disabled and emotionally disturbed individuals in the greater metropolitan Boston area.

During the audit period, HSO received funding primarily from the state's Department of Mental Retardation (DMR), as indicated in the following table:

Human Service Options, Inc.

Summary of Revenue

July 1, 2001 through June 30, 2003

Revenue Source	Fiscal Year 2003	Fiscal Year 2002
Department of Mental Retardation (DMR)	$4,747,080	$4,703,884
Direct Federal Grants/Contracts	0	22,282
Client Resources	478,601	472,656
Private Client Fees	0	116,501
Non-Charitable Revenue	0	43,009
Investment Revenue	2,882	0
Other Revenue	7,179	0
	$5,235,742	$5,358,332

Audit Scope, Objectives, and Methodology

The scope of our audit was to examine various administrative and operational activities of HSO during the period July 1, 2001 to March 31, 2004. However, in some instances it was necessary for us to extend the period covered by our audit in order to adequately examine certain transactions that were selected for testing during our review.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States and included audit procedures and tests considered necessary to meet those standards.

Our audit objectives were to:

1. Determine whether HSO had implemented effective internal controls, including the following:

    - Processes for planning, organizing, directing, and controlling program operations
    - Policies and procedures to ensure that resource use is consistent with laws and regulations
    - Policies and procedures to ensure that resources are safeguarded and efficiently used

2. Assess HSO's business practices, its compliance with applicable laws, rules, and regulations, as well as the various fiscal and programmatic requirements of its state contracts

To achieve our objectives, we first reviewed the internal controls established and implemented by HSO over its operations. The purpose of this assessment was to obtain an understanding of management's attitude, the control environment, and the flow of transactions through HSO's accounting system. We used this assessment in planning and performing our audit tests. We then held discussions with HSO officials and reviewed organizational charts, internal policies and procedures, and all applicable laws, rules, and regulations. We also examined HSO's financial statements, budgets, cost reports, invoices, and other pertinent financial records to determine whether expenses incurred under its state contracts were reasonable, allowable, allocable, properly authorized and recorded, and in compliance with applicable laws, rules, and regulations.

Our audit was not conducted for the purposes of forming an opinion on HSO's financial statements. We also did not assess the quality and appropriateness of all program services provided by HSO under its state-funded contracts. Rather, our report was intended to report findings and conclusions on the extent of HSO's compliance with applicable laws, regulations, and contractual agreements and to identify services, processes, methods, and internal controls that could be made more efficient and effective.

Subsequent to our audit, Human Service Options, Inc., submitted the following general comments regarding our audit report:

> *The statement that HSO had charged ... non-reimbursable expenses against its state contracts connotes that this money is available for reimbursement to the Commonwealth. HSO has operated on thin margins and these amounts are well below the 5% available retention by the company and under no circumstances available for return to the Commonwealth. Should the direct expense be disallowed, the result would be the increase in profitability. Since profit was either negligible or within the 5% retention, no effect to the Commonwealth would occur. The amount is incorrect on its face and shall be addressed in the response.*

AUDIT RESULTS

1. PRIOR AUDIT RESULTS RESOLVED

During our prior audit of Human Service Options, Inc., (HSO), we identified two issues dealing with HSO's receipt of approximately $1.3 million in unbudgeted profits and its expense of more than $500,000 for non-program-related items. On September 17, 1999, based on the results of our audit, an Audit Resolution Agreement between HSO and its principal state-purchasing agency, the Department of Mental Retardation (DMR), was executed to formally resolve the issues identified in our report. Through this agreement, the parties agreed that the state did not have any standards governing the retention of surplus revenue by for-profit corporations such as HSO which deliver human and social services. Consequently, the parties agreed that in order to resolve the issues raised in our prior report, HSO would provide DMR with five annual payments of $11,489.20, for a total of $57,446, commencing in fiscal year 2000. During our follow-up review, we found that HSO had made all five installment payments to DMR.

2. EXCESSIVE PROFITS TOTALING $13,786 CHARGED TO A STATE CONTRACT

According to state regulations, for-profit contracted service providers such as HSO are required to negotiate the amount of commercial fees or profits they can make on their state contracts. We found, however, that during fiscal year 2002, HSO retained $13,786 in profits in excess of the commercial fee it negotiated with DMR for the contract that funded its residential program in Newton. As a result, HSO owes $13,786 to the Commonwealth.

The state's Operational Services Division (OSD), the state agency responsible for regulating and overseeing the activities of contracted human service providers such as HSO, has promulgated regulations relative to the amount of profit for-profit organizations such as HSO can earn under state contracts. In this regard, 808 Code of Massachusetts Regulations (CMR) 1.03 (6), promulgated by OSD, states, in part:

> *Commercial Fee: Departments are permitted to prospectively negotiate for-profit earnings allowance for the purpose of furnishing a Commercial Fee to for-profit Contractors, which is in excess of the contract reimbursable operating costs for the services being procured….*

Additionally, OSD's Procurement Policies and Procedures Handbook establishes policies for limiting the amount of profit human services providers such as HSO can earn from state contracts, by stating:

> *For-Profit Earnings/Commercial Fee: For-profit contractors who provide human and social services to the Commonwealth may earn a commercial fee on their contracts. However, this fee must be negotiated and agreed upon by the department and the contractor before contract execution, even if it is anticipated to be zero.*

During our review of the state contracts between HSO and DMR for fiscal years 2002 and 2003, we identified that each contract allowed HSO to retain up to a 5% commercial fee. However, our review of HSO's financial records indicated that during fiscal year 2002, HSO realized a profit or commercial fee of $13,786 in excess of the 5% commercial fee negotiated in the contract that funded its residential program in Newton. Consequently, HSO owes $13,786 to the Commonwealth.

Regarding this matter, HSO's Executive Director stated that during fiscal year 2003, this residential program was combined with another HSO program, and that this problem will therefore not recur.

Recommendation

HSO's principal state purchasing agency, DMR, should recover from HSO the $13,786 in unallowable profits that HSO realized in its Newton residential program during fiscal year 2002. In the future, HSO should take measures to ensure that it does not retain any profits in its state-funded programs in excess of those allowed by its state contracts.

Auditee's Response

In response to this audit result, HSO provided the following comments:

> *The $13,786 retained by the company for contract profit is a misunderstanding due to HSO's opinion that all contract revenue collectively was subject to a 5% retention and not for an individual contract . . .*
>
> *HSO agrees to the return of these funds and states that the profit was noted in the UFR report and that report indicates cumulative retention of income under the contracts. During fiscal 2002 HSO broke even financially. Nevertheless, the funds shall be returned.*

Auditor's Reply

Based on its response, HSO is going to implement our recommendation by remitting the $13,786 in unallowable profits to the Commonwealth. We believe this measure is responsive and appropriate. Also, we again recommend that in the future, HSO should take measures to ensure that it does not retain any profits in its state-funded programs in excess of those allowed by its state contracts.

3. HSO RETAINED $11,070 OF UNDISTRIBUTED FISCAL YEAR 2002 SALARY RESERVE FUNDS

We found that, contrary to the terms and conditions of its state contract, during fiscal year 2002 HSO did not distribute to eligible staff members (i.e., personnel earning less than $20,000 in annual compensation) $11,070 of funds it received under the salary reserve contract it had with the Commonwealth. Rather, HSO retained this undistributed balance of $11,070 and used it to fund other agency expenses. As a result, HSO owes $11,070 to the Commonwealth.

Since 1984, the state Legislature has funded various initiatives, commonly referred to as salary reserve funding, to address the issue of relatively low wages being paid to direct-care staff by human services providers contracting with state agencies. Salary reserve funding is provided to contracted human services providers under individual salary reserve contracts that providers enter into with their state purchasing agencies. An employee of a provider is eligible to receive salary reserve funding if they meet the following criteria:

- Earn less than the statutory amount per year, which is calculated on base pay (without overtime). Part-time employees who earn the statutory per hour rate are also eligible. The statutory rate and amount change each year.
- Work in human and social services contracted within the Executive Office of Health and Human Services (EOHHS) or the Executive Office of Elder Affairs (EOEA).

Under salary reserve contracts, each service provider is also permitted to use up to 15% of their allocation to cover the employer portion of payroll and fringe benefit obligations directly associated with the increase in salaries paid to eligible employees.

Once OSD establishes the allocation of salary reserve funds, each provider enters into a separate salary reserve contract with its state purchasing agency. These salary reserve contracts contain standard conditions, as follows:

- All funds received through the agreement will be used only for salary increases and the employer portion of payroll and fringe benefit obligations directly associated with the salary increase for eligible personnel.
- Reserve funds that would otherwise go unspent because of staff turnover or re-deployment may be used at the contractor's discretion for eligible employees.
- Salary increases are retroactive to July 1, where appropriate.
- If the contractor's allocation includes funds for a subcontractor's eligible personnel, the contractor is required to disburse those funds and enter into a written agreement consistent with, and subject to, the same terms as this agreement with its subcontractor. The contractor is responsible for assuring its subcontractor's compliance with the terms of the agreement.

According to the terms and conditions of these contracts, providers are required to maintain adequate documentation relative to their administration of salary reserve funds. Specifically, these contracts state, in part:

> *The contractor must maintain detailed data to support the salary survey submission or review and documentation describing how the funds were actually distributed for all fiscal year salary reserve agreements.*
>
> *Should the contractor fail to comply with any of the terms of this agreement the funds are subject to immediate recoupment, through repayment by the contractor, intercept through the Office of the State Comptroller, or such other actions as may be necessary to recover such funds, costs or damages for breach of this agreement.*

During our audit, we first assessed the controls HSO had established relative to its administration of salary reserve funds. Based on our review, HSO had not established any policies or procedures to administer the receipt, payment, or maintenance of records for salary reserve funds. Consequently, during our audit we assessed the use of salary reserve funds by HSO to determine its compliance with the terms and conditions of the salary reserve contract.

During fiscal year 2002, HSO entered into a salary reserve contract with DMR in the amount of $33,352. Based on our review of the documentation HSO was maintaining relative to this contract, we found that during this fiscal year, HSO distributed $19,376 of these funds to eligible employees, and appropriately retained a 15% administrative fee of $2,906, leaving a balance of

$11,070. However, this balance was never disbursed to eligible employees, nor was it returned to the Commonwealth as required by HSO's contract with DMR.

HSO's Executive Director did not comment on why these funds were not distributed in accordance with the requirements of HSO's salary reserve contract. However, the Executive Director acknowledged that this $11,070 in funding should be returned to the Commonwealth, and that HSO was waiting for notification from the state to return these funds.

Recommendation

In order to resolve this issue, DMR should recover from HSO the $11,070 in undistributed salary reserve funds that it inappropriately retained. In the future, HSO should implement controls to ensure that all funding that it receives under salary reserve contracts with the Commonwealth is used in the manner prescribed by the contracts and that any residual revenues are returned to the Commonwealth.

Auditee's Response

In response to this audit result, HSO provided the following comments:

> *HSO agrees to return the $11,070 in Cola reserve funds to the state, but takes exception to the language that the company failed to distribute the funds to eligible employees. The facts are the company had no further employees eligible for distribution.*

Auditor's Reply

In its response, HSO contends that it did not distribute the salary reserve monies in question because there were no more employees that were eligible to receive this funding. However, the agency did not provide us with information to substantiate this assertion. Based on its response, HSO is going to remit the $11,070 in salary reserve funding to the Commonwealth. We believe that this measure is appropriate and responsive to our recommendation. However, we again recommend that HSO implement controls to ensure that all funding that it receives under salary reserve contracts with the Commonwealth are used in the manner prescribed by the contracts, and that any residual revenues are returned to the Commonwealth.

4. HSO DOUBLE-BILLED THE STATE $11,342 FOR STAFF TRAINING DURING FISCAL YEAR 2002

During fiscal year 2002, HSO double-billed the Commonwealth $11,342 for medication administration training/certification expenses. Consequently, HSO owes $11,342 to the Commonwealth.

According to 808 CMR 1.05, promulgated by OSD:

> *Funds received from Departments may only be used for Reimbursable Operating Costs as defined in 808 CMR 1.02. In addition, funds may not be used for costs specifically identified in 808 CMR 1.05 as non-reimbursable. Expenditures not in accordance with 808 CMR 1.05 are subject to recoupment, intercept, offset...*

During fiscal year 2002, DMR provided funding in its residential program contracts to HSO for medication administration training/certification. According to the agreement, these funds were to be used to provide temporary staff filling in for the direct care staff attending medication administration training/certification. HSO agreed to submit to DMR on a monthly basis a list of the names and dates of attendance of the employees who attended medication administration training/certification for which relief staff was used. During this fiscal year, HSO allocated $11,342 of staff medication administration training expenses for temporary staffing to HSO's administrative cost pool and additionally billed these expenses as direct costs against its state contracts. Consequently, this represented a double billing of $11,342 against HSO's state-funded contracts.

Recommendation

DMR should recover from HSO the $11,342 in duplicate payments it made to HSO for medication administration training/certification expenses. In the future, HSO should take measures to ensure that it does not submit duplicate billings to the Commonwealth.

Auditee's Response

In response to this audit result, HSO provided the following comments:

> *In fiscal year 2002, HSO did not double bill the Commonwealth $11,342 for medication training and certification. The funds were forwarded to the company to offset labor expended for medication certification. The revenue was added to the contract and the department did not require the tracking by hour or person, but merely the requirement of submission of a participant list. The term double-billed is erroneous and no funds are* ***[sic]*** *should be returned.*

Auditor's Reply

In its response, HSO asserts that it did not double bill the Commonwealth for these medication administration training/certification expenses. However, as noted in our report, our audit testing clearly identified the fact that HSO billed these expenses, which were for temporary staffing while employees were participating in this training, directly to state contracts during fiscal year 2002 and, at fiscal year end, included these same expenses in its administrative cost allocation to state-funded contracts. Consequently, we again recommend that DMR recover from HSO the $11,342 in duplicate payments made to HSO for medication administration training/certification expenses. In the future, HSO should take measures to ensure that it does not submit duplicate billings to the Commonwealth.

5. EXPENSES INCURRED BY HSO'S PARENT COMPANY AND A RELATED-PARTY TOTALING $18,153 WERE INAPPROPRIATELY CHARGED TO HSO'S STATE-FUNDED CONTRACTS

We found that during our audit period, HSO charged certain expenses totaling $18,153 incurred by its parent company, HSO-NHI, and a related-party organization, Simple LLC, against its state contracts. These expenses included $1,905 in corporate taxes and fees, $13,098 in legal fees, $1,150 in accounting services, and $2,000 in leasehold improvements. According to state regulations, expenses such as these that are not related to the social service program purposes of HSO are nonreimbursable expenses under state contracts.

808 CMR 1.05, Section 12, promulgated by OSD, identifies the following costs as nonreimbursable under state-funded contracts:

> *Non-Program Expenses. Expenses of the Contractor which are not directly related to the social service program purposes of the Contractor.*

During our review of HSO's financial records, we noted that HSO allocated expenses totaling $18,153 incurred by its parent company, HSO-NHI, and related-party organization Simple LLC[1] to its state contracts, as indicated in the table below:

[1] Simple LLC leases commercial space in Weymouth, Massachusetts, where HSO's administrative offices are located, to HSO. The principals of Simple LLC are HSO's Executive Director and Harbor Family Trust, whose primary beneficiary serves as Treasurer to HSO's Board of Directors.

Summary of Related Party Unallowable Expenditures:

Fiscal Years 2002 and 2003

Related Party	Description of Expense	2002	2003	Total
HSO-NHI	Annual Report Filing Fee	$ 75	$ 0	$ 75
	Corporate Taxes	1,830	0	1,830
	Legal Fees	3,438	7,800	11,238
	Accounting Services	1,150	0	1,150
Subtotal		$6,493	$7,800	$14,293
Simple LLC	Leasehold Improvement	$ 0	$2,000	$ 2,000
	Legal Fees	0	1,860	1,860
Subtotal		$ 0	$3,860	$ 3,860
Total		$6,493	$11,660	$18,153

Regarding this matter, HSO acknowledged that the related parties apparently incurred these expenses and that it would review them and make appropriate adjustments.

Recommendation

In order to resolve this issue, DMR should recover from HSO the $18,153 in non-program-related expenses it charged against its state-funded contracts during the period covered by our audit. Additionally, HSO should take measures to ensure that in the future, it only charges allowable program-related expenses against its state-funded contracts.

Auditee's Response

In response to this audit result, HSO provided the following comments:

> *HSO agrees, with the exception of the $2,000 in leasehold improvements for water heater replacement, that these items are [nonreimbursable] expenses. HSO also states that the remaining funds are not available for reimbursement to the Commonwealth due to the fact the company was operating under the 5% threshold.*

Auditor's Reply

Contrary to HSO's response, expenses related to leasehold improvements incurred by the related party from which HSO rents its administrative offices are non-program related and non-reimbursable under state funded contracts. HSO's contention that funds are not available for reimbursement to the Commonwealth due to the fact that HSO was operating under its 5% commercial fee (profit) threshold is irrelevant. HSO's profit level does not mitigate the fact the related party expenses, such as the corporate income taxes, legal fees, and accounting expenses detailed in our report, are non-reimbursable expenses and subject to recovery by the Commonwealth.

6. UNALLOWABLE ADMINISTRATIVE EXPENSES TOTALING $9,890 CHARGED TO STATE CONTRACTS

We found that during fiscal years 2002 and 2003, HSO charged various non-reimbursable administrative expenses totaling $9,890 against its state contracts. These expenses were for such items as $3,455 for corporate income taxes and related legal and accounting fees, $186 in penalties and late charges, $1,953 for floral arrangements, $515 in expenses related to an employee's retirement, and a $500 donation. As a result, HSO owes $9,890 to the Commonwealth.

During our audit, we judgmentally reviewed the supporting documentation HSO was maintaining relative to 88 administrative expenses totaling $97,364 that HSO charged against its state contracts during our audit period. Our review of the supporting documentation maintained by HSO relative to these expenses identified 46 non-program-related expenses totaling $9,890 that HSO billed against its state-funded contracts during this period, as indicated in the table below:

Summary of Non-Program Expenditures

Fiscal Years 2002 and 2003

Description of Expense	Fiscal Year 2002	Fiscal Year 2003	Total
Life Insurance Premiums	$ 0	$2,850	$2,850
Corporate Income Taxes	2,079	1,376	3,455
Legal & Accounting Fees	431	0	431
Penalties and Late Charges	74	112	186
Floral Arrangements	841	1,112	1,953
Employee Retirement Party	0	515	515
Donation	0	500	500
Total	$3,425	$6,465	$9,890

According to OSD regulations, the $9,890 in non-program-related expenses is nonreimbursable under state contracts, as described below:

- According to 808 CMR 1.05, promulgated by OSD; "Fringe benefits determined to be excessive in light of salary levels and benefits of other comparable Contractors and fringe benefits to the extent that they are not available to all employees under an established policy of the Contractor" are nonreimbursable under state contracts. As noted in the table above, during fiscal year 2003, HSO used $2,850 in state funds to purchase life insurance policies on behalf of its Executive Director and Treasurer of HSO's Board of Directors. However, HSO did not have an established policy that provided for these individuals to receive this benefit. As a result, the $2,850 in state funds that HSO used to provide this benefit to these individuals represents nonreimbursable costs under HSO's state contracts.

- According to 808 CMR 1.05, promulgated by OSD, "Federal corporate income taxes and the income related portion of the Massachusetts corporate excise tax," as well as non-program-related expenses, are nonreimbursable costs under state contracts. However, as noted in the table above, during fiscal years 2002 and 2003, HSO used $3,886 in state funds to pay for corporate income taxes and other non-program-related expenses such as associated legal and accounting fees.

- According to 808 CMR 1.05, promulgated by OSD, "Any interest or penalties incurred because of late payment of loans or other indebtedness, late filing or payment of federal and state tax returns, municipal taxes, unemployment taxes, social security" are nonreimbursable costs under state contracts. However, as noted in the table above, during fiscal years 2002 and 2003 HSO charged $186 in penalties and late charges against its state contracts.

- According to 808 CMR 1.05, promulgated by OSD, "Expenses of the Contractor, which are not directly related to the social service program purposes of the Contractor" are nonreimbursable costs under state contracts. However, as noted in the table above, during fiscal years 2002 and 2003, HSO charged various non-program-related expenses, including $1,953 in floral arrangements, $515 for an employee retirement party, and a $500 donation to the family of a deceased employee of DMR, against its state-funded contracts.

These unallowable expenses were allocated to HSO's state-funded contracts because HSO had not established adequate internal controls or policies and procedures to ensure that all expenses incurred were reasonable, allowable, and properly allocated to state-funded contracts.

Additionally, during our review of HSO's administrative expenses during the period July 1, 2003 through March 31, 2004, we identified seven additional expenses totaling $2,700 that were unallowable and nonreimbursable charges to state funded contracts, as follows:

- $2,546 for life insurance premium costs for HSO's Executive Director and Treasurer of the Board of Directors that, as detailed above, represent unallowable fringe benefits to these individuals.

- $99 for floral arrangements that, as detailed above, represent unallowable non-program-related expenses.

- $55 in penalties and late charges that, as noted above, are nonreimbursable expenses in accordance with OSD regulations.

Regarding these expenses, HSO officials stated that they would take measures, including making accounting adjustments, to resolve this matter.

Recommendation

HSO should remit to DMR the $9,890 in expenses that were improperly allocated to state-funded contracts through administrative expenses during fiscal years 2002 and 2003. Additionally, HSO should identify and report the $2,700 fiscal year 2004 nonreimbursable administrative expenses as nonreimbursable expenses in its fiscal year 2004 Uniform Financial Statements and Independent Auditor's Report (UFR) that it files with OSD. HSO should also develop and implement adequate policies and procedures to ensure that, in the future, all expenses charged and allocated to state-funded contracts are reasonable, allowable, and allocable to these contracts.

Auditee's Response

In response to this audit result, HSO provided the following comments:

> *Management wishes to comment that the $9,890 Charged to State Contracts is not reimbursable to the state, as the expenses are within the 5% income retention of the company. The expenses included $515 for an employee retirement party for an individual with almost 20 years of service, and floral arrangements to either honor the death of a consumer or caregiver. The $500 donation was in the name of a service coordinator. Upon the suggestion of the auditors, the company now has a written policy for such actions and these charges would be allowable.*
>
> *The company was not lacking in internal controls with regard to these payments, but became informed by the auditors to additional non-chargeable expenses not discovered during the materiality of its independent accounting firm. Corrective action has been taken.*

Auditor's Reply

In its response, HSO contends that the $9,890 in expenses it charged to state contracts is not reimbursable to the state because during the period of time when these expenses were incurred, HSO's profit was under the 5% negotiated commercial fee (profit) the company is allowed to earn. However, HSO's level of profit is irrelevant to this issue. The amount of profit HSO earns during any fiscal year does not mitigate its responsibility to ensure that only allowable and reimbursable expenses are charged against its state contracts. In its response, HSO describes two of the expenses we identified as non-reimbursable, as being for staff and/or consumers. However, the agency did not have adequate documentation to substantiate this assertion.

In its response, HSO's states that "*upon the suggestion of the auditors the company now has a written policy for such actions and these charges would be allowable.*" However, this assertion is untrue. The fact that an agency may have a policy regarding certain expenditures does not necessarily make them allowable. During our audit, we suggested to HSO officials that the agency might want to consider developing and submitting for approval to their principal state purchasing agency (DMR), an employee morale, health and welfare policy. If DMR accepted this policy, certain expenses relative to the improvement of the health, welfare and general morale of the staff, such as staff bonuses, could be deemed allowable. However, even if approved, this policy would not cover many of the expenses we question, such as penalties, late charges and taxes. Finally, we do not agree with HSO's assertion that the company was not lacking internal controls over these expenses. In its response, the agency acknowledges that there were no formal written policies

and procedures relative to these expenditures, clearly indicating a lack of adequate controls in this area.

7. INADEQUATELY DOCUMENTED ADMINISTRATIVE PAYROLL EXPENSES TOTALING $388,365 CHARGED TO STATE-FUNDED CONTRACTS

We found that HSO had not established adequate controls over the allocation of payroll expenses for all of its employees as required by state regulations and the terms and conditions of its state-funded contracts. Specifically, although HSO has policies and procedures relative to the preparation and maintenance of payroll records, three administrative employees were not required to complete time records indicating the hours worked or the function benefited. As a result, there is inadequate assurance that all of the $388,365 in salaries and related payroll costs that HSO allocated against its state-funded contracts during fiscal years 2002 and 2003 for these three employees was accurate.

OSD has promulgated Terms and Conditions for Human and Social Service Contracts (General Contract Conditions) with which all human service providers that contract with state agencies must comply. According to these General Contract Conditions, contracted human services providers such as HSO are required to maintain accurate and complete financial records, including payroll records, in order to receive reimbursement of these costs. Specifically, these General Contract Conditions state, in part:

> *The provider will maintain personnel records for each employee. These records shall include, but not be limited to...payroll records, and...attendance records or effort reports, documentation program and assignment and hours and days worked.*

Further, 808 CMR 1.04 (1) promulgated by OSD states:

> *The Contractor and its Subcontractors shall keep on file all data necessary to satisfy applicable reporting requirements of the Commonwealth (including DPS [now OSD], the Division of Health Care Finance and Policy and Departments), and financial books, supporting documents, statistical records, and all other records which reflect revenues associated with and costs incurred in or allocated to any Program of services rendered under the Contract. The Contractor and its Subcontractors shall maintain records of all types of expenses and income or other funds pertaining to the Program paid to the Contractor by every source, including from each Client. Books and records shall be maintained in accordance with generally accepted accounting principles as set forth by the American Institute of Certified Public Accountants (AICPA)...*

We found during our review that HSO's Executive Director, HSO's Chief Financial Officer, and the Treasurer of HSO's Board of Directors did not complete time records reflecting hours

worked or function benefited during our audit period. Rather, we determined that these individuals directed an accounting staff member to complete their weekly time records by filling in only the employee's name and the weekly total of hours worked. Contrary to HSO's policies and procedures and state regulations, the timesheets were not signed by the employee, did not reflect supervisory approval, did not indicate the day or hours worked per day, and did not reflect the function benefited. This is also contrary to HSO's personnel policies and procedures, which state the following:

> *Each staff person is required to complete one of two timesheets. Hourly, or exempt employees complete an hourly timesheet; Salaried, or nonexempt, employees, complete a salaried timesheet. Hourly employees indicate the time in and the time out for each calendar day. Salaried employees place an x for each day worked. Both indicate the use of Earned Time Off (ETO) in the appropriate column.*

During fiscal years 2002 and 2003, these three individuals received the following compensation:

Summary of Undocumented Payroll

Fiscal Years 2002 and 2003

	Fiscal year 2002		Fiscal Year 2003		
Position	Salary	Taxes	Salary	Taxes	Totals
Executive Director	$117,928	$8,255	$122,366	$8,566	$257,115
Treasurer	4,844	339	2,757	193	8,133
Chief Financial Officer	55,969	3,918	59,093	4,137	123,117
Totals	$178,741	$12,512	$184,216	$12,896	$388,365

Regarding this matter, HSO officials stated that, effective immediately, all employees would complete time records in accordance with the terms and conditions of their state-funded contracts.

Recommendation

HSO should implement internal controls and OSD-compliant policies and procedures to ensure that its payroll records are maintained in accordance with state regulations.

Auditee's Response

In response to this audit result, HSO provided the following comments:

The unsubstantiated payroll is for officers' wages and refers to time sheet submissions. All parties do not dispute that the work was done and all time sheets are submitted as a result of the audit.

Management has enacted a policy to insure the preparation of adequate timesheets for the corporate principals. Management believes it is undisputed that the principals have done the services to the organization.

Auditor's Reply

We do not argue the fact that the HSO management staff in question as well as the program staff did perform services at the agency during the period covered by our audit. However, as noted in our report, state regulations and the terms and conditions of HSO's state contracts require staff to document the time they spend on each activity. Despite this, we found that HSO's Executive Director, HSO's Chief Financial Officer, and the Treasurer of HSO's Board of Directors did not complete time records reflecting hours worked or function benefited during our audit period. Rather, we determined that these individuals directed an accounting staff member to complete weekly time records for these employees by filling in only the employee's name and the weekly total of hours worked. Contrary to HSO's policies and procedures and state regulations, the timesheets were not signed by the employee, did not reflect supervisory approval, did not indicate the day or hours worked per day, and did not reflect the function benefited. This is also contrary to HSO's personnel policies and procedures.

Based on its response, the agency is taking measures to address our concerns relative to this matter.

8. NONREIMBURSABLE EMPLOYEE BONUSES AND FRINGE BENEFITS TOTALING $3,668

During our audit period, HSO provided $3,500 in bonuses to two employees, and $168 in dental benefits for one employee. However, HSO's policies and procedures did not provide for the provision of these fringe benefits. According to state regulations, fringe benefits such as these that are not available to all employees under an established policy of the agency are nonreimbursable under state-funded contracts.

The 808 CMR 1.05(9), promulgated by OSD, identifies the following as being nonreimbursable expenses under state-funded contracts:

> *<u>Certain Fringe Benefits</u>. Fringe benefits determined to be excessive in light of salary levels and benefits of other comparable Contractors and fringe benefits to the extent that they are not available to all employees under an established policy of the Contractor....*

In August 1997, OSD provided the following additional guidance concerning staff bonuses and fringe benefits:

> *Bonuses are not considered a fringe benefit; rather, they are properly classified as a salary allowance when attributable to services rendered by an employee. Bonuses are a negotiable item, which are added to salaries in the budget and in the financial statements. The net salary amounts must not exceed what is considered reasonable compensation to be reimbursable. There are two ways to furnish bonuses to employees: one is a fixed bonus as part of an employee's salary based on terms incorporated into his or her written employment agreement, and the second is through a Contractor's written employee morale, health and welfare policy, which makes available bonuses to all employees based on exceptional employee performance. See section 162 of the Internal Revenue Code and 808 CMR 1.05(20) for further guidance.*
>
> *A Contractor's employee morale, health and welfare policy is also frequently confused with and inappropriately budgeted and/or reported as fringe benefits. Costs associated with the Contractor's employee morale, health and welfare policy are not budgeted and/or reported on the UFR separately, as fringe benefits, but rather under Administrative Support, Direct Care or Occupancy costs, as applicable. However, unlike fringe benefits, the Contractor's employee morale, health and welfare policy may exclude members of management from benefiting or participating in the employee morale, health and welfare activities of the Contractor. Bonuses that are provided to management in addition to a fixed bonus awarded pursuant to the terms of an employment agreement and not as part of a Board approved employee morale, health and welfare plan are not reimbursable. Further information concerning the reimbursement of employee morale, health and welfare activities is available in the DPS publication "Additional Questions and Answers on Audit and Preparation of the UFR for Contractors and Their Independent Auditors" issued May 1995, and in OMB Circular A-122.*

During our audit, we reviewed the fringe benefits HSO provided to various members of its staff and found several instances in which staff members were provided with fringe benefits that either exceeded agency policies or that did not exist under agency policies, as follows:

a. Fiscal Year 2004 Bonuses

During fiscal year 2004, HSO provided its two Residential Program Directors with bonuses in the amount of $750 each that it charged directly to its state-funded contracts. HSO officials stated that these bonuses were given to these two individuals because of the extra effort they put in to cover for an employee who was out on an extended leave of absence. However, because HSO's policies and procedures do not provide for the provision of such bonuses, the $1,500 that HSO paid these two individuals represents nonreimbursable

expenses under HSO's state contracts. Consequently, this amount should be reported as such on HSO's fiscal year 2004 UFR.

b. Dental Benefit

We found that HSO's Director of Quality Assurance, who works 20 to 22 hours per week, was provided with the dental benefit offered to full-time employees. According to HSO's policies and procedures, any employee who works under 30 hours is ineligible to receive dental benefits offered by HSO. We determined that HSO allocated $168 during fiscal year 2004 on behalf of this employee for dental coverage to its administrative cost pool. Expenses such as these that are not available to all employees are nonreimburseable under state contracts and should be reported as such on HSO's fiscal year 2004 UFR.

c. Nonreimbursable Bonuses during Fiscal Year 2002 Totaling $2,000

During fiscal year 2002, HSO provided an employee $2,000 in additional compensation that it allocated to HSO's state contracts. HSO's Executive Director claimed that this expense was to help a long-time employee whose husband had died and who did not have enough money to pay funeral expenses. However, HSO was not able to provide us with documentation to substantiate this assertion. Further, HSO does not have a formal written policy that provides for this benefit, and therefore the $2,000 in expenses are unallowable in accordance with 808 CMR 1.05.

Recommendation

DMR should ensure that HSO reports the $1500 in nonreimbursable bonuses it provided to two members of its staff as nonreimbursable expenses on HSO's UFR. In the future, HSO should take measures to ensure that it does not charge any nonreimbursable expenses against its state contracts. Further, DMR should recover from HSO the $2,168 in unallowable fringe benefits it provided to members of its staff. In the future, if HSO wants to provide selective fringe benefits to its staff members, it should establish a formal written employee morale, health, and welfare policy that is consistent with OSD guidelines and approved by its Board of Directors. It should also notify its state purchasing agency and OSD in advance of such expenses. If such policies are not established, HSO should ensure that it properly discloses select fringe benefits as nonreimbursable costs in its UFRs.

Auditee's Response

In response to this audit result, HSO provided the following comments:

> *As a result of the audit a policy has been put into place. The company again has been operating within the 5% profit threshold and no funds need be returned.*

Auditor's Reply

As previously mentioned, the fact that during the period covered by our audit, HSO may have not earned the 5% commercial fee (profit) that was allowable under its state contracts is irrelevant to this issue. The fact is that the agency charged expenses against its state contracts that were unallowable and non-reimbursable in accordance with state regulations and these funds in accordance with these regulations must be remitted to the Commonwealth. Based on its response, HSO is taking some measures to address our concerns relative to these matters.

9. ADMINISTRATIVE AND INTERNAL CONTROLS OVER CERTAIN AGENCY OPERATIONS NEED TO BE STRENGTHENED

We found that HSO had not developed and implemented an adequate system of internal controls over various aspects of its operations. For example, HSO had no written accounting policies and procedures or an accounting manual to ensure the accuracy of its financial transactions; did not have adequate controls over the reporting of information, which resulted in HSO's misreporting certain information in the financial reports it submitted to OSD during fiscal years 2002 and 2003; and did not take measures to ensure that it fully complied with all the terms and conditions of the leases it had with the landlords of the properties it rented to use in its residential programs. These conditions reduce HSO's and the Commonwealth's assurance that financial assets are being properly safeguarded and that transactions relative to these accounts are properly authorized, recorded, and reported.

According to Generally Accepted Accounting Principles (GAAP), entities such as HSO should establish and implement an adequate internal control system within the organization to ensure that goals and objectives are met; resources are used in compliance with laws, regulations, and policies; assets are safeguarded against waste, loss, and misuse; and financial data are maintained, reported, and fairly disclosed in reports.

In order to comply with GAAP, HSO is required to have a documented comprehensive plan of internal controls describing its goals and the means by which these goals and objectives could be

achieved. An effective internal control system would establish clear lines of authorization and approval for its various business functions, such as purchasing, contracting, asset management, payroll, and personnel. In addition, an entity's internal control system should be backed up with a set of detailed subsidiary policies and procedures that would communicate responsibilities and expectations to subordinate staff by providing employees with direction to complete various business operations, such as accounting, billings, cash receipts, accounts payable, human resources, and payroll. HSO did have a personnel policy manual, but our audit found that these policies were not fully developed nor integrated in the operation of HSO. We found that in addition to the internal control problems discussed in Audit Results No. 2 though 8, HSO had not established adequate internal controls over several other aspects of its operations. The following is a summary of the additional internal control issues we identified during our audit.

- Lack of a Documented Accounting System: Sound business practices advocate that entities such as HSO establish a proper accounting system that is documented in formal policies and procedures and a written accounting manual, which describes the accounting system and the policies and procedures that are utilized in the agency's accounting process. Such a manual not only maintains the integrity of the accounting process and its continuity in case of staff turnover, but also establishes accountability of various operation activities. However, during our review we noted that HSO had not established formal written accounting procedures or an accounting manual. As a result, there is inadequate assurance that HSO's financial information is accurately recorded and reported. In fact, during our audit we noted the following reporting discrepancies:

  1. HSO reported its CFO as a full-time employee (1.0 FTE) on its fiscal years 2002 and 2003 UFR's. Our payroll review determined that the CFO is a part-time employee who works a 24-hour week (.6 FTE) and should have been reported as such on HSO's UFRs.

  2. HSO did not report its Limited Use Service Agreement (LUSA) contracts with the Department of Mental Retardation (DMR) or a subcontract agreement it had with The Resource Consortium in the fiscal years 2002 and 2003 UFRs it filed with OSD.

  3. HSO misreported $22,282 in Salary Reserve Contract Expenses as "Direct Federal Grants/Contracts" revenue on its fiscal year 2002 UFR. Additionally, all $22,282 was allocated to one program although employees in three different programs received these funds.

  4. Accompanying financial statements for fiscal years 2002 and 2003 indicate that all residential leases contain the language "should funding stop from Commonwealth – all leases will be terminated in 60 days." However, we found that all of these residential leases were not current. Specifically, as of

June 1, 2004, 12 of the 22 leases that HSO had with vendors to house DMR consumers had expired. Additionally, all rental agreements HSO entered into with related parties during fiscal year 2003 were undocumented in that there were no formal written leases or other written agreements.

- Adherence to Current Property Lease Requirements: Five leases that HSO had with public housing authorities required HSO to maintain, at a minimum, $500,000 in public liability insurance and $300,000 in property damage coverage while occupying these units. However, we found that HSO allowed its liability/property damage policy to lapse at the end of fiscal year 2003 and had not renewed this coverage as of the end of audit fieldwork. Although HSO management officials claimed that HSO was "self-insured," they could not provide us with any written policy or plan relative to this matter. We discussed this matter with OSD officials and were informed that agencies such as HSO that claim to be self-insured must maintain a written policy relative to their procedure and how the funding would occur if any legal issues arise. Further, a sufficient residual should be set aside and should be available to fund any adverse actions. We informed HSO of OSD's requirement, and on August 5, 2004 we were provided with a contingency plan devised by HSO's Board of Directors that details how HSO will handle and fund any damage claims.

Recommendation

HSO should immediately develop and implement a written system of internal controls over all aspects of its operations in order to ensure that maintenance of certain financial and program records are properly authorized, recorded, and reported.

Auditee's Response

In its response, HSO took exception to our assertion that the agency had not implemented adequate controls over certain aspects of its operations. Additionally, HSO provided the following comments:

Although there is no formal manual of the accounting function there existed two operational manuals for the accounting department. The office records are extremely detailed and subject to annual audit. Although not written at the time of the audit, there is clear separation of duties such as payables, check writing and authorization, etc.

Specifically HSO states the following:

A. *The CFO was paid only for a 24-hour week and the report as a full-time employee (1.0 FTE) was only an oversight.*

B. *The LUSA payments were reported in the gross revenue of the contracts and the auditors were able to verify the income. This procedure has been corrected and absolutely without impact to state finances.*

C. *No comment.*

D. *Management and the auditors have disagreed to the benefit of formal leases with the landlords…Formal leases with related parties are an action in futility, but nevertheless created. Additionally, our long-term management experience is to continue consumer operation as tenants-at-will. This allows HSO more flexibility with landlords and to terminate relationships where landlords' shirk responsibility.*

E. *As indicated HSO has provided the auditors with a contingency plan to fund damage claims.*

… All income items were verified and the CFO admits to lack of knowledge in instances to proper line item presentation on the UFR. The desire is to learn from the audit experience and to implement the suggestions of the state auditors. The audit scope for the period July 1, 2001 to March 31, 2004 encompassed almost three fiscal years exceeding $15,000,000 of expenditures. We acknowledge small errors in reporting and the charging of those certain items to wrong accounts. Internal controls deal with materiality regardless of the state's and our desire to control each item of a penny or more. No accounting system can review every transaction in a cost effective manner. Finally, errors were of compliance knowledge and not willful neglect or wrongdoing.

Auditor's Reply

In its response, HSO states that it maintained two operational manuals for its accounting department. However, these manuals were not provided to us during the conduct of our audit fieldwork nor did HSO staff ever mention to us that such manuals existed. In its response, HSO states that the misreporting of FTEs for its CEO was an oversight, and acknowledges that it did not clearly disclose its LUSA revenue in its fiscal years 2002 and 2003 UFRs. Clearly it is the responsibility of HSO to ensure that all agency transactions are properly recorded and reported.

We do not agree with HSO that "Formal leases with related parties are an action in futility, but nevertheless created." As stated in our report, we found that all of HSO's residential leases were not current. Specifically, as of June 1, 2004, 12 of the 22 leases that HSO had with vendors to house DMR consumers had expired. Additionally, all rental agreements HSO entered into with related parties during fiscal year 2003 were undocumented in that there were no formal written leases or other written agreements. While we agree that in certain situations (e.g., uncertainty of funding) a tenant-at-will rental agreement could be advantageous, in most cases it is important to have a formal written lease agreement that clearly delineates the responsibilities of both parties. Such lease agreements not only provide support for lease payments paid for with state funds, but would also serve to protect the interests of HSO against any legal actions that may be taken by the lessor relative to disputes relative to the lease. In the case of related parties, it is important to have a written lease to document the nature and extent of the related party transaction so that it

can be pre-approved by the HSO's principal state purchasing agency, as required by OSD regulations.

In its response, HSO implies that the questioned expenses we identified during our audit are not material in regards to the funding the agency received during the period covered by our audit, and also states that these problems were due to a lack of knowledge of compliance requirements and not willful neglect or wrongdoing. Our audit identified $67,909 in non-reimbursable expenses and $388,365 in inadequately documented salary expenses. Although HSO officials may not believe these amounts to be material in relation to the agency's overall funding, our responsibility is to identify and report on noncompliance with statutory and other requirements and any misuse of state funds we identify during our audit engagements. We acknowledge the fact that no accounting system is completely immune from errors, and that the cost of controls should not exceed the benefits derived from them. However, for many of the problems we identified, HSO officials stated that they were simply unaware of the requirements relative to the issue. If this is the case, there is little cost associated with HSO's management taking the time to educate themselves as to the specific statutory and other requirements that are applicable to the activities that are funded with state monies. In other instances, it was simply a matter of HSO management not developing formal written policies and procedures over certain activities. Again, HSO's management could have addressed these problems by developing such policies and procedures at a minimal cost to the agency. It is management's responsibility to be proactive and ensure that it is aware of all the regulatory and other requirements associated with state contracts, and to take the measures necessary, including implementing controls, to ensure compliance with these requirements.

APPENDIX

Human Service Options Program Descriptions

Human Service Options (HSO) provides residential services to approximately 95 developmentally disabled and emotionally disturbed consumers in the metropolitan Boston area through three programs funded by the Department of Mental Retardation (DMR).

Each program provides residential services that include room and board, support, counseling, behavioral support, training in daily living and social skills, supervision and behavioral management, and recreational activities. Due to the geographical locations of the housing provided by HSO, three different DMR regional offices service the programs provided. The types of housing administered by HSO include cooperative apartments, individual apartments, and community residences. The type of housing depends of the level of the consumer's need.

ETS Satellite

This program is serviced by DMR Metro Region VI (Charles River West). HSO provides housing and related services to consumers residing in the towns of Waltham and Randolph, Massachusetts.

Stoneham

This program is serviced by DMR Northeast Region III (Metro North). HSO provides housing and related services to consumers residing in the town of Stoneham, Massachusetts.

HSO Satellite

This program is serviced by DMR Southeast Region V (South Coastal). HSO provides housing and related services to consumers in the cities and towns of Braintree, Foxboro, Milton, Dedham, Randolph, Cohasset, Quincy and Weymouth.