Commonwealth of Massachusetts
Office of the State Auditor
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Official Report Audit – July 25, 2013

MAB Community Services, 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[1] at the end of each fiscal year, which disproportionately involved over half of all LUSA funding. As part of this audit, OSA engaged each of the 15 contractors, including MAB Community Services, Inc. (MAB), for on-site testing. MAB received approximately $693,556 of the above-stated $62.2 million in total DDS LUSA payments. Approximately $645,197 (93%) of the payments to MAB 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 MAB's accounts-payable-period LUSA transactions and should be read in the context of our overall report on DDS's administration of LUSA agreements. That report presents our system-wide audit, which determined that, although LUSA funding is supposed to be used for intermittent unanticipated services to clients as needed, DDS is not properly administering these contracts. Instead DDS Regional and Area Office staff have used LUSA contracts to provide additional year-end funding to some DDS human-service contractors for various purposes, many of which are not consistent with the intended use of these funds and resulted in unnecessary and excessive compensation to contractors. That report also documents other significant administrative problems, including improper retroactive

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

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

Highlight of Testing Results Specific to MAB Community Services, Inc.

We found problems with all $645,198 of MAB's accounts-payable-period LUSA transactions, including inadequate documentation to substantiate that LUSA services were properly authorized, inadequate documentation to support LUSA billings, and LUSA contract funding not being used for its intended purposes, as follows:

- For $460,235 in payments to MAB of $632,425 subject to DDS service authorization requirements, DDS and MAB retroactively processed the authorization, in violation of DDS requirements.

- We found additional documentation problems for all of the above $632,425 in LUSA payments to MAB, including $169,006 in payments for which required service authorization documentation was absent or undated and may have been processed retroactively. 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 $12,773 to MAB as a matter of administrative convenience for year-end reconciliation payments involving Personal Support Services (PSS) provided through regular contract programs. Those payments should instead have been made through amendments to regular program contracts or through alternative, non-LUSA, mechanisms. For the entire amount of those PSS payments, service delivery documentation by MAB was also absent.

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

MAB Community Services, Inc. (MAB), whose administrative offices are located at 200 Ivy Street, Brookline, Massachusetts, was incorporated on December 24, 1903 as the Massachusetts Association for the Blind, providing services to the blind or visually impaired. Today MAB is a private, nonprofit human services organization providing services for the blind and visually impaired as well as services for brain injury and health needs of the elderly.

According to its Web site, "MAB's mission is to work with individuals with disabilities to eliminate barriers and create opportunities." MAB offers services in a range of residential and vocational settings in the Greater Boston area for adults with developmental disabilities, brain injuries, blindness, deafness, behavioral challenges, cerebral palsy, and issues related to aging. MAB's program services span a wide spectrum of service types, including a variety of day, vocational, orientation mobility, and other support services provided to Department of Developmental Services (DDS) clients.

MAB is one of DDS's nonprofit contractors primarily serving western and central Massachusetts and greater Boston. MAB annually receives over $5.6 million in contract payments from DDS. Revenues and support from other state agencies and public and private sources raise total revenues for MAB approximately $11.7 million per year. DDS's Limited Unit Rate Service Agreement (LUSA) contract payments to MAB, 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	$ 183,586	$ 169,674	92.4%
2010	331,368	296,921	89.6%
2011	178,602	178,602	100.0%
	$ 693,556	$ 645,197[2]	93.0%

[2] 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. MAB Community Services, Inc. (MAB) was one of the 15 contractors selected for on-site testing as part of the overall DDS audit. MAB accounted for approximately $693,556 in LUSA payments for the three-fiscal-year period. Approximately $645,197 of MAB's LUSA payments was processed during the Commonwealth's accounts-payable periods.

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

TESTING RESULTS

1. QUESTIONABLE USE OF $645,198 IN LUSA FUNDS

Our testing identified a number of problems with the granting, receipt, and use of Limited Unit Rate Service Agreement (LUSA) funds that the Department of Developmental Services (DDS) provided to MAB Community Services, Inc. (MAB). These included DDS and MAB retroactively processing service authorization approval for $460,235 in LUSA transactions, contrary to DDS requirements; MAB maintaining insufficient authorization, invoicing, and service delivery documentation for $632,425 in transactions; and DDS improperly using $12,773 of LUSA funding totaling $12,773 to pay MAB 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 $645,198.

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 MAB 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.[3]

[3] 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:[4]

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

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

a. Retroactive Authorization of LUSA Services Totaling $460,235

Despite the above-described ASF processing requirement established by DDS, of $632,425 in accounts-payable-period LUSA payments to MAB that were subject to service authorization requirements, $460,235 had been paid for services that DDS and MAB 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	$0	$291,315	$168,920	$460,235

As described in the next section, these totals exclude fiscal year 2009 payments totaling $169,006 for which documentation available at MAB was not sufficient to determine whether authorization had been properly processed in a timely manner.

b. Inadequate Documentation Related to $632,425 in LUSA Service Authorizations and Payments

We found additional documentation problems for all of the above $632,425 in accounts-payable-period LUSA payments to MAB. 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	$166,584	$296,921	$168,920	$632,425

ASF documentation was absent for $5,606 in payments; signed but not dated for $163,400; and sometimes deficient in other respects, so that it was not always possible to determine when, or even whether, the service authorization process had been completed for individual clients. For example, an ASF might be present but might not identify individual clients to be served, the type of service to be provided, or the timeframe authorized for service delivery. And in some instances, LUSA invoices and/or service delivery documentation established that services being billed were provided in June 2009 when the DDS ASF approval had been limited to services performed during January 2009.

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, MAB 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 MAB's invoices and service delivery reports was not made available for testing. MAB's documentation 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 MAB's year-end financial report filings with OSD[5] and in MAB'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. However, it appeared from the little information available that LUSA funds were in some instances used to supplement payment to a residential support program without expanding the program's capacity. Because the documentation deficiencies were so extensive, it was not possible to perform the analysis

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

and testing required to reasonably estimate the extent to which the compensation DDS provided to MAB was excessive.

c. Inappropriate Use of LUSA Funds Totaling $12,773 to Pay for Personal Support Services and Inadequate Documentation of These Services

During our testing period, DDS used LUSA funding to pay MAB $12,773 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 $12,773 in LUSA funding to make year-end reconciliation payments to MAB for Personal Support 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 terms of LUSA agreements do not provide for the reconciliation process. DDS policies governing the use of LUSAs and DDS policy and contract language instead provide for the use of amendments to regular DDS contracts to address such situations. DDS should have processed the payments to MAB through other, non-LUSA, means such as year-end amendments to MAB's regular non-LUSA contracts. The table below breaks out the above-named transactions with MAB by fiscal year.

Inappropriate LUSA PSS Transactions

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Total
Personal Support Services	$3,091	$0	$9,682	$12,773

In addition to the inappropriate DDS use of LUSA payment mechanisms, other issues, which were the responsibility of MAB, 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 MAB are covered by that recommendation. In accordance with the recommendations of the overall report and the testing results specific to MAB, MAB should implement appropriate control measures to ensure that all LUSA services are performed, documented, billed, and accounted for in compliance with applicable requirements.

MAB's Response

We note first no assertion that services were not delivered or any suggestion of misuse of public dollars. Second, it is interesting to note that the period of the audit coincided with the world financial collapse, something that imposed enormous difficulty upon the most vulnerable of our citizens.

The report does raise issues of method and control. To this point we note that for the past two fiscal years there has been no utilization of LUSA's by DDS with MAB, and I assume with any other provider agency. From this reality, one concludes that the controls you sought have been successfully put into place by DDS.

The underlying issue of the underfunding of a significant portion of individuals in the care of DDS and its provider network, through an old and worn rate system, is also on the verge of solution. The FY 14 Commonwealth budget, now in Conference Committee, will appropriate at least partial funding of an entirely new rate system developed by DDS that led to the General Court's passage of Chapter 257 of the Acts of 2008.