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INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF SOUTH SHORE MENTAL HEALTH, INC. JULY 1, 2000 THROUGH MARCH 31, 2003

OFFICIAL AUDIT REPORT

AUGUST 10, 2004

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South Shore Mental Health Inc. (SSMH), was organized in Massachusetts in 1926 as a child guidance center serving Quincy and a few neighboring towns. In 1979, SSMH was incorporated under the provisions of M.G.L. Chapter 180 as a not-for-profit community mental health center. Currently, SSMH operates as a comprehensive community-based behavioral health care provider offering a wide range of services to individuals suffering from mental illness and mental retardation, as well as other developmental behavioral disabilities, to individuals of all ages throughout Southeastern Massachusetts and Cape Cod.

The scope of our audit was to examine various administrative and operational activities of SSMH during the period July 1, 2000 to March 31, 2003. Our audit, 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 SSMH had implemented effective management controls and (2) to assess SSMH's business practices and its compliance with applicable laws, rules, and regulations and the various fiscal and programmatic requirements of its state contracts.

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INTRODUCTION

Background

South Shore Mental Health (SSMH), was founded in 1926 as a child guidance center serving Quincy and several neighboring communities. In 1979, SSMH became incorporated as a private not-for-profit organization under the provisions of M.G.L. Chapter 180 as a community mental health center. Since its inception, SSMH has grown by adding a variety of services. For example, in the 1980's, SSMH developed a private-practice model known as Bayview Associates in Quincy (later expanded to Plymouth), to address the need for outpatient counseling in the private marketplace. Bayview Associates is a program within SSMH's operations that the agency uses to market its services to the private sector. Bayview provides services such as employee assistance, health and wellness, management consultation and training to consumers in non state-funded programs. Currently, SSMH operates as a comprehensive community-based behavioral health care provider and offers a wide range of services to individuals suffering from mental illness and mental retardation, as well as other developmental behavioral disabilities, to individuals of all ages throughout Southeastern Massachusetts and Cape Cod. SSMH's corporate headquarters are located in Quincy, with additional satellite administrative office locations in Plymouth, Hyannis and Brewster.

During the period of our audit, SSMH received funding from the following sources:

July 1, 2000 through June 30, 2003

Revenue Source	2003	2002	2001
Department of Mental Retardation (DMR)	$11,953,410	$10,487,840	$10,028,525
Department of Mental Health (DMH)	6,955,683	6,378,246	5,943,816
Department of Public Health (DPH)	957,270	1,020,938	1,018,938
Department of Social Services (DSS)	148,010	173,128	181,903
Mass Commission for the Blind (MCB)	159,703	159,698	157,555
Mass Rehabilitation Commission (MRC)	55,868	182,953	55,874
Gifts & Contributions	69,866	23,845	25,864
Gov. In-Kind	221,721	212,577	151,723
Private-In-Kind	0	0	85,000
Mass State Agency-Non POS	147,893	78,748	75,225

Revenue Source	2003	2002	2001
Direct Federal Grants/Contracts	47,517	33,701	18,077
Medicaid Direct Payments	2,822,234	2,882,514	2,570,912
Medicaid Subcontract	3,954,996	3,324,894	2,997,154
Medicare	802,462	663,237	517,091
Client Resources	1,097,183	986,417	964,295
Mass Publicly Sponsored Client Offsets	3,879,568	3,381,856	757,161
Private Client Fees (excluding 3rd party)	725,208	577,868	497,625
Private Client 3rd Party/other offsets	263,174	180,124	1,899,509
Other Revenue	51,554	97,807	(2,371)
Released Net Assets	82,593	14,727	28,978
	$34,395,913	$30,861,118	$27,972,854

*Information extracted from SSMH's Uniform Financial Statements and Independent Auditor's Reports (UFR)

Audit Scope, Objectives, and Methodology

The scope of our audit was to examine various administrative and operational activities of SSMH during the period July 1, 2000 to March 31, 2003.

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 such audit procedures and tests as considered necessary to meet these standards.

Our audit procedures consisted of the following:

1. A determination of whether SSMH had implemented effective management controls, including:

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

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

In order to achieve our objectives, we reviewed work papers prepared by SSMH's independent certified public accountant then assessed the management controls established and implemented by SSMH 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 SSMH's accounting system. We used this assessment in planning and performing our audit tests. We then held discussions with SSMH's senior management and reviewed organization charts and internal policies and procedures, as well as all applicable laws, rules, and regulations. We examined financial statements, budgets, payroll records, personnel files, time sheets, 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. Finally, we reviewed various travel expense documentation that was provided to us by management.

Our audit was limited to a review of the state funded contracts and certain activities of SSMH. Our audit was not conducted for the purposes of forming an opinion on SSMH's financial statements. We also did not assess the quality and appropriateness of program services provided by SSMH under its state-funded contracts. Rather, our report was intended to report findings and conclusions on the extent of SSMH'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.

AUDIT RESULTS

1. UNDOCUMENTED AND HIGHLY QUESTIONABLE CONTRACT BILLINGS TOTALING $135,010

During fiscal years 2001 and 2002, SSMH billed the state's Department of Mental Retardation (DMR), $445,096 for client support services SSMH purportedly provided under its Limited Unit Rate Service Agreement with the department. However, SSMH did not maintain adequate supporting documentation to substantiate that $135,010 of these services were actually provided as billed. According to state regulations, expenses such as these that are undocumented are unallowable and non-reimbursable under state contracts.

During fiscal year 2000, DMR entered into a four year Limited Unit Rate Service Agreement (LUSA) with SSMH. According to DMR officials, LUSA funding is made available to its contracted service providers for the purposes of having funds available to compensate providers for additional services that clients need due to unexpected circumstances that are not included in existing program contracts. Specifically, SSMH's LUSA contracts state, in part; "These agreements will allow the DMR to call upon an agency when DMR has a need for services to be delivered on an intermittent, as-needed, limited time basis." According to DMR officials, these services would typically include clinical team evaluations, specialized services (e.g., occupational therapy, speech therapy, physical therapy) assistance to the blind or hard of hearing, and other one to one special care. In return for providing these services, SSMH's LUSA contract allows the agency to bill DMR a range of rates between $11.73 and $17.60 per unit of service depending on the type of service provided. The tables below summarize the amounts billed by SSMH for LUSA services for clients in its residential programs during fiscal years 2001 and 2002.

Taunton/Attleboro Residences

Fiscal Year	Number of Clients	Contract Maximum Obligation	Additional LUSA Costs
2001	38	$2,323,310	$79,442
2002	33	$2,405,318	$71,489

Plymouth Residential Network

Fiscal Year	Number of Clients	Contract Maximum Obligation	Additional LUSA Costs
2001	61	$2,250,668	$187,555
2002	45	$2,334,605	$47,324

Fall River Residential Network

Fiscal Year	Number of Clients	Contract Maximum Obligation	Additional LUSA Costs
2001	17	$1,071,810	$23,684
2002	15	$1,279,921	$35,602

The state's Operational Services Division (OSD), the state agency responsible for regulating and overseeing contracted human service providers such as SSMH who do business with the state, has promulgated regulations, 808 Code of Massachusetts Regulations (CMR) 1.00, that define costs that are unallowable and non-reimbursable under state contracts. In this regard, these regulations identify the following as being non-reimbursable under state contracts.

> *Non-Program Expenses. Expenses of the Contractor which are not directly related to the social service Program purposes of the Contractor.*
>
> *Undocumented Costs. Costs which are not adequately documented in the light of the American Institute of Certified Public Accountants statements on auditing standards for evidential matters.*

In order to receive reimbursements for expenses under its LUSA contract, SSMH is required to submit payment vouchers (PV) and Service Delivery Reports (SDR) to DMR that indicate the date and type of service provided and the costs of the services being billed. During our audit, we reviewed the PVs submitted by SSMH to DMR for LUSA services during fiscal years 2001 and 2002. Based on our review, we identified some questionable billing activities. Specifically, we found that SSMH would routinely submit two PVs to DMR dated June of each fiscal year. One of the PVs represented the standard monthly billing for LUSA services provided during June, while the second PV was for services purportedly provided during the prior 11 months of the fiscal year that had not already been billed by the agency. A summary of the retroactively billed PVs on which SSMH charged two separate rates, appears below:

PV Date	Reference Number	Total Units	Unit rate	Amount	Program Number
June 30, 2001	SCDMR25401540399	4406	$11.35	$50,008	35
June 30, 2001	SCDMR25802580399	1000	$15.00	$15,000	17
June 30, 2002	SCDMR25502550399	1460	$13.70	$20,002	36
June 30, 2002	SCDMR25402540399	4000	$12.50	$50,000	35
				$135,010	

We asked SSMH officials to provide us with documentation to substantiate the services being billed under their retroactive June billings. However, SSMH officials could not provide us with the documentation we requested. Rather, SSMH officials referred to these June PVs as "back billings" and stated that at the end of each fiscal year they would typically be contacted by DMR officials who would inform them that a specific amount of LUSA funds was available for SSMH to bill. According to SSMH officials, DMR officials would tell them that the department was making these LUSA funds available to compensate SSMH for losses it had incurred in its DMR funded programs. SSMH officials told us that once they were contacted by DMR, they would then prepare a PV and the accompanying SDR in an amount equal to what DMR told them was available and submit them to DMR for reimbursement. However, it should be noted that SSMH could not provide us with any documentation to substantiate that DMR authorized them to submit LUSA billings in this manner.

During our audit, we spoke with DMR officials regarding this matter. These officials acknowledged that they allowed SSMH to bill retroactively for services because these funds did not become available to DMR until the end of the fiscal year. DMR officials explained that providers such as SSMH constantly approach DMR about losses in their "chronically level-funded contracts" and when fiscal year-end funds become available, DMR allows providers to submit LUSA contract billings to provide additional funding to these providers to compensate them for their losses.

Recommendation

In order to address our concerns relative to this matter, we recommend that DMR recover from SSMH the $135,010 in undocumented expenses it billed against its LUSA contracts during fiscal years 2001 and 2002. In the future, SSMH and DMR should take measures to ensure that LUSA contract funding is only used for its intended purposes for services actually provided.

Auditee's Response

In response to this issue, SSMH officials provided the following comments:

> *South Shore Mental Health, Inc. (SSMH) respectfully disagrees with the stated basis of this finding and with the associated recommendation.*
>
> *The billings in question were submitted to the Department of Mental Retardation (DMR) as the result of review, by SSMH and DMR, of services provided by SSMH to DMR consumers. These services were deemed necessary and appropriate and involved levels of care beyond that defined and supported by other, existing service contracts. Billing was submitted via standard purchase voucher using an approved rate defined by existent Limited Use Service Agreement (LUSA). The use of the LUSA as the underlying contractual agreement was at the direction of DMR.*
>
> *The finding asserts that no documentation was available to substantiate delivery of services and related costs. We strongly disagree with this position.*
>
> *The services provided and billed were a combination of additional direct care staffing hours and other types of individual support, in all cases defined by consumer need. In support of billing for these services, expenses were appropriately and fully documented within SSMH's payroll or accounts payable systems. These systems were fully available to and reviewed by the State audit team throughout the audit process. No findings relative to accuracy, system design, control or related concerns were reported by the audit team in these functional areas. We are confident our systems meet all applicable AICPA standards.*
>
> *Beyond the matter of documentation, SSMH maintains the services provided were legitimate, appropriate, driven by consumer need and known to the Department. Incremental staffing needs were driven by the need for additional supports within the service setting. Non-payroll costs were similarly defined by individual consumer need. Examples of incremental services provided include one-to-one staff support and enhanced overall staffing within the home due to clinical, behavioral, medical and/or other consumer needs. Other services and costs related to transportation, physical plant accommodations or other consumer defined requirements.*
>
> *Based upon our reading of this finding and previous conversation with the State audit team, it appears the use of the LUSA as the contract basis is the core issue. As stated above, the use of the LUSA was based upon instructions provided by DMR. SSMH utilized this contract form and associated billing in good faith based upon instructions received from DMR.*
>
> *As noted in the audit report; "[DMR] officials acknowledged that they allowed SSMH to bill retroactively for services because these funds did not become available to DMR until the end of the fiscal year. DMR officials explained that providers such as SSMH constantly approach DMR about losses in their 'chronically level funded contracts' and when fiscal year-end funds become available, DMR allows providers to submit LUSA contract billings to provide additional funding to these providers to compensate them for their losses."*
>
> *Clearly, the use of LUSA contracts in the manner in question is a common practice utilized by DMR as a means to provide necessary funding to providers in meeting individual consumer needs.*

Further, it should be noted, even with the additional funding provided via the LUSA billings, SSMH reported a net loss on operations in caring for the individuals who received the services in question.

Finally, it must be noted that while the finding states that: "...SSMH could not provide us with any documentation to substantiate that DMR authorized them to submit LUSA billings in this manner", the next paragraph of the audit report states that "...[DMR] officials acknowledged that they allowed SSMH to bill retroactively ...". There is no question regarding authorization from the Department to submit the questioned billing. We would not have done so and the submitted payment vouchers would not have been accepted without prior authorization.

Therefore, we strongly disagree with the recommendation that DMR recoup the funding provided to support the services in question. Not only were the services recognized by DMR as being necessary and appropriate, but the use of the LUSA to address funding needs at year end was standard Departmental practice and at its direction. It is unfair and unreasonable to impose penalties on providers such as SSMH when we, in good faith, followed specific instructions from DMR.

Auditor's Reply

Contrary to what SSMH states in its response, the client services in question were not adequately documented. As stated in our report, during the audit, we asked SSMH officials to provide us with documentation to substantiate the services being billed under their retroactive June billings. However, SSMH officials could not provide us with the documentation we requested. Rather, SSMH officials referred to these June PVs as "back billings" and stated that at the end of each fiscal year they would typically be contacted by DMR officials who would inform them that a specific amount of LUSA funds was available for SSMH to bill.

In its response, SSMH contends that the billings in question were submitted as a result of a review done by SSMH and DMR on services provided by SSMH for DMR consumers. However, this fact was not mentioned to us by either SSMH or DMR officials during our audit, nor were we provided with any documentation to substantiate the results of such a review. SSMH is correct in stating that we did not identify significant internal control deficiencies in its payroll or accounts payable system. However, this agency was not able to demonstrate how the information in these systems adequately substantiated the LUSA contract billings in question. The fact that a staff person may have worked additional direct care staffing hours is not adequate documentation to substantiate these billings, since this type of record does not document the type of services provided or the clients served. If these questionable services were in fact legitimate and appropriate, the agency should have taken measures to adequately document this fact. Because it didn't, these undocumented billings are unallowable and non-reimbursable in accordance with OSD regulations.

Contrary to what SSMH states in its response, the use of the LUSA contracts to submit these undocumented expenses is not the core issue of this audit result. Rather, our primary concern, as detailed in our report, is that there was inadequate documentation to substantiate that the services in question that were billed for by SSMH were actually provided.

In our response, we acknowledge the fact that DMR allowed SSMH to bill retroactively for services when additional funding became available. However, this does not mitigate SSMH's contractual responsibilities to comply with OSD regulations and make sure all expenditures billed against state contracts are adequately documented.

2. UNALLOWABLE EXPENSES TOTALING $116,572 USED TO FUND SSMH'S CHIEF EXECUTIVE OFFICER'S PENSION PLAN

During fiscal years 2001 and 2002, SSMH charged $116,572 in salary expenses to its state programs in order to fund a Deferred Compensation Liability Account for its Chief Executive Officer(CEO). This additional compensation increased the CEO's total compensation to a level that exceeded the maximum allowed by state regulations. Also, because this fringe benefit is not available to other employees of SSMH under an established policy of the agency, according to state regulations, it is a non-reimbursable expense under SSMH's state contracts.

808 CMR 1.05 promulgated by OSD, identifies the following compensation as being non-reimbursable, under state contracts, as follows:

> *808 CMR 1.05 (24) Salaries of Officers and Managers. Salaries of officers and managers to the extent that they exceed the rate paid to state managers in job group M-XII, step seven.*

During fiscal years 2001 through 2003, SSMH allocated compensation expenses to its state funded programs in order to fund its CEO's Deferred Compensation Liability Account. However, these allocations had the effect of increasing the CEO's compensation to the extent that it exceeded the amounts allowed by state regulations by $116,572 as indicated in the table below:

Fiscal Year	CE0 Compensation**	Maximum Allowable*	Excessive Amount	Allocated to State Contracts	Amount non-reimbursable
2001	$205,204	$119,149	$86,055	74%	$63,681
2002	$193,643	$119,149	$74,494	71%	$52,891
2003	$122,366	$122,366	0	N/A	0
Total					$116,572

* Per step seven of job group M-XII.

** These compensation amounts are not the total compensation provided to the CEO but are net of what were identified by SSMH as being other non-reimbursable compensation costs in the Uniform Financial Statements and Independent Auditor's Report (UFR) that SSMH filed with the Commonwealth.

Additionally, 808 CMR 1.05(9) promulgated by OSD identifies the following as being unallowable costs relative to unallowable fringe benefits:

> *Certain Fringe Benefits. 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. . . .*

SSMH does have a Tax Sheltered Annuity Plan that it offers to all of its employees as a fringe benefit. In this plan, in which the CEO also participates, SSMH provides matching contributions on a sliding scale from 1.4% to 2.5% based upon the number of hours per week the employee is scheduled to work. However, the Deferred Compensation Liability Account is not identified in SSMH's personnel policies and procedures as being available to any staff member, and therefore the costs associated with this plan are non-reimbursable costs against SSMH's state contracts in accordance with OSD regulations.

Regarding this matter, SSMH officials contend that the Deferred Compensation Liability Account is a deferred liability account and as such, state contracts were not actually charged for expenses associated with accruals made to this account. However, we identified that during these two fiscal years, SSMH charged the expenses associated with this plan to its Administrative Salary expenses and allocated a portion of these expenses, as indicated in the previous table, to its state contracts in the Uniform Financial Statements and Independent Auditor's Report (UFR) that it filed with Commonwealth.

Recommendation

We recommend that DMR recover from SSMH the $116,572 in non-reimbursable Deferred Compensation expenses it charged against its state contracts during fiscal years 2001 and 2002. In the future, SSMH should not use state funds to fund this fringe benefit for its CEO.

Auditee's Response

In its response to this audit result, SSMH officials provided the following comments, which are excerpted below:

> *South Shore Mental Health, Inc. respectfully disagrees with the stated basis of this finding and with the associated recommendation.*
>
> *As a statement of fact, no funds provided by the Commonwealth have been used to fund the transactions identified in this finding. The transactions in question were accounting entries to record estimated future liabilities based on assumptions regarding future interest rates and other pertinent factors. These estimated amounts have not been part of any cost basis or rate (negotiated or non-negotiated) established between SSMH and the Commonwealth nor have they been part of any subsequent billing to or payment from the Commonwealth. They were, however, necessary accounting entries to assure the fair representation of SSMH's financial condition at each fiscal year end.*
>
> *This finding refers to two accounting entries (one at year end fiscal year 2001, the other year end fiscal year 2002) wherein the organization accrued an estimated liability pertaining to a potential future obligation to its current chief executive officer. The actual value of this obligation could not be determined at the time the estimates were recorded and cannot be determined at this time, thus the use of estimates. Uncertainty relative to future interest rates, date of retirement by the executive and fulfillment of certain contractual obligations by the executive, do not allow the calculation of the actual liability.*
>
> *These estimates and subsequent accruals were not part of the negotiated cost basis in any of the contracts between the Commonwealth and SSMH. As such, they were not part of any agreed upon rate of reimbursement between SSMH and the Commonwealth. Guidance provided by the Uniform Financial Report (UFR) users manual suggests expenses that would otherwise be deemed non-reimbursable, if not included in the cost basis of service contracts and associated billing rates are, nonetheless, not recoupable.*
>
> *Again, in no instance were these accounting estimates included in the budget or cost basis of any rate (either negotiated or non-negotiated) of any contract between SSMH and the Commonwealth. They could not have been for the simple reason the estimates were not calculated until after fiscal year end as part of the subsequent independent audit and fiscal year close out activities. These entries were not included in any contract budgets/rates and were not included in any related billing activity. No funds provided by the Commonwealth have been billed or paid for these estimates.*
>
> *Beyond the matter of rate calculation or billing, the entries in question were booked as part of SSMH's administrative support account at year-end and reported, accordingly, in*

our annual UFR submissions. It is important to note, our actual administrative support costs for each subject year greatly exceeded the budgeted and billed rates as included in purchase vouchers and related contract budgets. This is verified simply by comparing the amounts reported in each respective UFR with the amounts included in associated service contracts. Simply, these entries were not in any way "funded" by the Commonwealth.

It must also be noted that SSMH specifically identified these entries in its UFR submissions for the subject years. An extensive explanatory footnote addressing the nature of the estimates and the uncertainty relative to the future actual obligation was provided. We provided this explanation despite the fact that they were not included in cost basis or rate calculations associated with Commonwealth funded service contracts. Nonetheless, they were identified for the purposes of full disclosure. . . .

Auditor's Reply

Contrary to what SSMH states in its response, state funds have in fact been used to pay for this fringe benefit provided to this agency's Chief Executive Officer. During our audit, we identified that the $116,572 in question was in fact charged by SSMH against its state contracts as salary and wage expenses. In fact, in an explanatory note in the UFRs, the agency specifically identifies these expenses as being for SSMH's Chief Executive Officer's Deferred Compensation Plan and that these expenses were allocated to state funded POS programs via the overhead cost allocation. Once this allocation is made and the cost is recognized, as mentioned in our report, this expense becomes an unallowable fringe benefit charged against SSMH's state contracts.

3. INADEQUATE INVENTORY CONTROLS OVER $3,711,045 OF FIXED ASSETS, INCLUDING LAND, BUILDING, EQUIPMENT AND FURNISHINGS

We found that SSMH has not established an effective inventory system for its fixed assets, as required by state regulations. As a result, the Commonwealth cannot be assured that SSMH's inventory of fixed assets, which as of June 30, 2003 totaled $3,711,045, was being adequately safeguarded against abuse and misuse.

808 CMR 1.04 promulgated by OSD regarding the inventorying of fixed assets, states the following:

(5) Inventory of Equipment and Furnishings and Other Goods. Any contractor in possession of Capital Items, as defined in 808 CMR 1.02 shall label, maintain and keep on file a written inventory of the property in accordance with generally accepted accounting principles . . .

Also, SSMH's total federal funding for fiscal years 2001, 2002 and 2003 were $950,519, $1,162,019, and $1,049,822 respectively. Since SSMH receives annual federal funds in excess of $300,000, during these fiscal years, it must comply with the Office of Management and Budget requirements. OMB Circular A-133 Compliance Supplement, Section F, Equipment and Real Property Management states, in part:

> *. . . Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. . . .*

As of June 30, 2003 SSMH's fixed asset balances were as follows:

Total cost	$7,177,431
Accumulated depreciation	3,466,386
Net fixed assets	$3,711,045

During our audit we found the following deficiencies relative to SSMH's inventory system.

- SSMH does not conduct periodic physical inventory counts of all its fixed asset items. There was no record at SSMH of when the last physical inventory was taken. Therefore, it is not known if the fixed asset listing includes obsolete or unusable equipment and furnishings.

- SSMH does not track its fixed asset items with an identification name and number. The equipment and furnishings are not tagged and are therefore vulnerable to loss or theft.

- SSMH's inventory listing of equipment and furnishings does not sufficiently describe each item or document its actual location.

During fiscal years 2001 and 2002, SSMH's private accounting firm cited SSMH for similar deficiencies relative to fixed asset maintenance, including the need for periodic inventory counts and the non-labeling of furniture and equipment items, in its management letters. However, we found that as of the end of our audit period, SSMH had not taken measures to address these deficiencies.

Regarding this matter, SSMH officials told us that the agency is in the process of updating its inventory system and conducting physical counts of its fixed asset items. These officials added that due to staff shortages, the agency had not been able to implement an effective inventory system.

Recommendation

We recommend that SSMH immediately implement an inventory system that is consistent with both state and federal requirements. At a minimum, SSMH should establish the following control procedures over its fixed assets: (1) complete its physical inventory count (2) tag all property items with ownership and numerical identification labels, including all new acquisitions (3) update its accounting records to reflect actual fixed asset balances.

Auditee's Response

In response to this issue, SSMH officials provided the following comments:

> *This finding questions whether the $3.7 million in fixed assets that South Shore Mental Health Center, Inc. owned as of June 30, 2003 were being safeguarded against abuse and misuse since SSMH had not conducted a recent physical inventory.*
>
> *It must be noted that of the $3.7 million in fixed assets, 80% (about $3 million) represent land, buildings, building improvements, leasehold improvements, computer software and intangible assets, while only 20% (about $750,000) represent equipment, furnishings and computer hardware. Further, the net book value of the State-owned properties is 1% (about $30,000).*
>
> *It is important to implement an effective inventory tagging system to safeguard equipment, furnishings and computer hardware, however, it is impractical to tag or physically inventory land, physical plant, software and intangible assets.*
>
> *Effective mid-year, fiscal year 2003, SSMH began converting its manual inventory system to an automated one. The improved system is able to maintain sufficient information regarding each asset item, i.e. asset ID, useful description, accurate location and custodian of the asset, State asset information if applicable.*
>
> *Beginning in fiscal year 2005, SSMH will implement an efficient tagging system and label all future capital acquisitions, specify pertinent information such as ownership (SSMH's property or State property). SSMH will also adopt a physical inventory process that may be performed on a cycled basis.*

Auditors Reply

As stated in our report, during fiscal years 2001 and 2002, SSMH's own private accounting firm cited SSMH for the same deficiencies identified in our report relative to fixed asset maintenance including the need for periodic inventory counts and the non-labeling of furniture and equipment items. The fact that a significant portion of the agency's fixed assets are tied up in items other than furnishings and equipment items is for the most part irrelevant to this matter. The fact is that effective internal controls in this area need to be developed and implemented by

SSMH in order to ensure that all of its assets are properly safeguarded. SSMH in its response indicates that it is planning to take measures to implement an inventory system that is consistent with both state and federal requirements. We believe that such measures are necessary and appropriate.

4. UNALLOWABLE COMPENSATION AND FRINGE BENEFIT EXPENSES TOTALING AT LEAST $23,852 PAID TO SELECTED SSMH EMPLOYEES

We found that SSMH awarded additional compensation and other fringe benefits to selected members of its administrative staff. These included $4,017 in Long Term Disability Insurance payments to nine employees, $8,560 in bonuses to two employees, and, $11,275 in extra vacation time to five employees. Fringe benefits such as these, that are not available to all employees under an established policy of the agency, are non-reimbursable expenses under state contracts.

808 CMR 1.05(9) states the following relative to non-reimbursable fringe benefits:

> *Certain Fringe Benefits. 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. . . .*

During our audit, we reviewed the fringe benefits provided to various members of its administrative staff and found a number of instances where staff members were provided with fringe benefits that exceeded what was allowed by the policies established by the agency. First, SSMH offers Long-Term Disability Insurance (LTD) to all its employees. The plan is voluntary and requires employees, if they choose to participate, to pay the entire cost of their premiums. However, SSMH pays 100% of the LTD premiums for nine members of its senior management staff, including its Executive Vice-President/Treasurer, Medical Director, and Vice-Presidents of Human Resources, Finance and Accounting, Behavioral Services, Marketing and Community Relations, Quality Care Crisis and Rehabilitation Services and Outpatient Services. In fiscal year 2001, the total premiums paid for these nine employees totaled $5,428. Of this amount, 74%, or $4,017, represents the non-reimbursable portion of premiums allocated to SSMH's state funded programs. For fiscal year 2002, the cost of the LTD premiums paid for these nine staff members was $5,813, but these expenses were not charged to SSMH's state contracts.

We also found that, even though SSMH does not have a formal written policy relative to the awarding of staff bonuses, it awarded bonuses to two staff members during fiscal years 2001 and

2002 as indicated in the table below, the costs of which were partially allocated to SSMH's state contracts.

	Fiscal Year 2002	State Portion	Total Unallowable
Human Resources Director	$ 7,267	0.71	$ 5,160
Maintenance Worker II	4,790	0.71	3,400
Total	$12,057		$8,560

Third, SSMH granted an extra week vacation (40 hours) to individuals outside of its Vacation and Leave Policy as outlined in its Personnel Policies and Procedures Manual. The monetary value of this fringe benefit, including payroll taxes and fringe benefits, totaled $11,275 (fiscal year 2001 $5,194; fiscal year 2002 $6,081). These vacation expenses were recorded as administrative salaries and allocated to SSMH's state funded programs as follows:

Vacation Benefit Provided to Five Employees

	Fiscal Year 2001	% State Funded	Unallowable 2001	Fiscal Year 2002	% State Funded	Unallowable 2002	Total
Executive VP/Treasurer/CFO	$2,100	0.74	$1,554	$2,415	0.71	$1,715	
HR Director	$1,712	0.74	$1,267	$1,747	0.71	$1,240	
Sr. Clinical Director	$1,288	0.74	$953	$1,693	0.71	$1,202	
Program Director	$961	0.74	$711	$980	0.71	$ 696	
Program Director	$0		0	$675	0.71	$479	
			$4,485			$5,332	$9,817
Fringe Benefit FY 2001=15.81% FY 2002=14.04%			$709			$749	$1,458
Total Unallowable Vacation and Fringe Benefits			$5,194			$6,081	$11,275

We asked SSMH's officials why certain members of its staff were awarded fringe benefits outside of agency policy and were told that they rewarded these individuals for their dedication and outstanding hard work.

Recommendation

SSMH's principal state purchasing agency DMR should recover the $23,852 in non-reimbursable fringe benefit expenses that SSMH charged against its state contracts during the period covered by our review. In the future, SSMH should take measures to ensure that it only charges allowable fringe benefit expenses against its state contracts.

Auditee's Response

In response to this issue, SSMH officials provided the following comments:

> *South Shore Mental Health, Inc. respectfully disagrees with elements of this finding and the related recommendation.*
>
> *With regard to the $4,507 in long-term disability premiums in question, these amounts were not part of the cost basis or related rate (negotiated or non-negotiated) agreement associated with any service contract funded by the Commonwealth. These costs were not part of any billing submitted to the Commonwealth as demonstrated in our UFR filings, wherein, our actual administrative support allocation charges significantly exceed those supported by service contract funding.*
>
> *Concerning the $8,500 in "bonuses" to two employees, we strongly disagree with the finding relative to compensation provided to one employee in the Maintenance Worker II category. This individual, whose job description was as supervisor of our in house maintenance crew, was also a licensed building contractor. In two specific instances he was asked to use his license to obtain building permits and subsequently to oversee the build out of space used for service delivery. In one case the project included a complete gut rehab of what became a freestanding psychotherapy clinic. In the other, the same applied to the build out of space used by various outreach teams.*
>
> *This work and the use of his license went well beyond the requirements of his job description. In agreeing to take on these projects, the employee assumed significant responsibility beyond that of the maintenance supervisor and he was paid additional compensation, accordingly.*
>
> *It should be noted, had we not approached the work in this manner and instead used outside contractors, the cost of this work would have been significantly higher than what was actually the case using in house resources. Therefore, we saved the organization and the Commonwealth (to the extent it benefited from this work) significant cost. Finally, these costs were not included in any rate calculation (negotiated or non-negotiated) or cost basis associated with Commonwealth supported service contracts.*
>
> *Concerning the "bonus" awarded to the Human Resources Director, this amount was not included in any cost basis or rate agreement (negotiated or non-negotiated) with the Commonwealth and was not included in any billing activity. Charged to our administrative support accounts, we incurred and reported administrative costs in excess of billable amounts to the Commonwealth. The UFR filings associated with each fiscal year clearly show this to be true.*
>
> *With regard to $11,275 in "extra vacation time" for five employees, it should again be noted that none of these costs were part of any cost basis or rate agreement (negotiated or non-negotiated) with the Commonwealth. Further, in the case of the EVP/Treasurer, the vacation accrual rate in question was as the result of a binding employment contract. In the case of a Program Director, prior employment service was recognized in calculating the accrual rate.*

Auditors Reply

We do not agree with SSMH's assertion that the $4,507 in long-term disability premiums was not part of a cost basis of their state contracts. To the contrary, state contracts provide for both expenses that are charged to programs for program services, and for administrative costs that cannot be attributed to a specific program and are therefore allocated to all programs based on an established, allowable, cost allocation formula. In this instance, these long-term disability costs were allocated to SSMH's state contracts. Since these benefits were provided only to certain employees and not under an established policy of the agency, they are unallowable and non-reimbursable in accordance with OSD regulations. These facts are also true for the $8,500 in bonuses and $11,275 in extra vacation time in question.

5. UNDOCUMENTED AND NON-REIMBURSABLE CORPORATE CREDIT CARD EXPENSES TOTALING $19,140 BILLED TO STATE CONTRACTS

We found that during our audit period, SSMH allowed certain members of its administrative staff to use corporate credit cards to pay 642 expenses totaling $282,926. We examined all of these credit card expenses and found that although SSMH had established controls over the use of these credit cards, SSMH staff did not always adhere to these controls. As a result, $19,140 of the expenditures we reviewed were undocumented. According to state regulations, expenses such as these that are undocumented are unallowable and non-reimbursable under state contracts.

808 CMR, 1.00 (12) and (26) defines the following as non-reimbursable expenses:

> *(12) Non-Program Expenses. Expenses of the Contractor which are not directly related to the social service Program purposes of the Contractor.*
>
> *(26) Undocumented Costs. Costs which are not adequately documented in the light of the American Institute of Certified Public Accountants statements on auditing standards for evidential matters.*

SSMH's maintains policies relative to the use of corporate credit cards, which state in part:

> *All credit card transactions must be signed or authorized by an approved user. Monthly statements received from financial institutions issuing the commercial credit are reviewed and reconciled by Business Office staff as part of the accounts payable process and any significant variances or other findings are brought to the attention of management for resolution. Regular sampling of original receipts against monthly invoices and other control and audit procedures as determined by the Vice-President of Finance and*

Accounting shall occur. In the case of use of a credit card by the President, specifically, approval of invoices must be provided by either the Chair of the Board of Directors or a member of the Finance Committee.

For the period July I, 2001 though March 31, 2003, SMH charged a total of 642 credit card expenses totaling $282,926 against its contracts. During our audit, we reviewed the documentation SSMH was maintaining relative to these expenses and found that although SSMH's credit card policy requires adequate supporting documentation to support the expenses submitted, agency staff do not always adhere to these procedures. In fact, we found that for the audit period, SSMH billed state contracts $19,140 in credit card expenses that were undocumented, as follows:

Fiscal Year	Total Amount of Transactions Reviewed	Total Number of Transactions Reviewed	Total Number of Undocumented Transactions	Total Amount Undocumented	% Allocated to State	Total Undocumented & Non-reimbursable Allocated to State
2001	$144,112	194	77	$13,173	.74	$ 9,748
2002	$116,801	294	56	$11,008	.71	$ 7,816
2003	$ 22,013	154	26	$ 2,220	.71	$ 1,576
Total	$282,926	642	159	$26,401		$19,140

Regarding these expenses, SSMH officials agreed that its internal controls over the use of corporate credit cards may not have always been strictly adhered to by agency staff. These officials asserted, however, that all these expenses were program related. However, since SSMH did not have documentation to substantiate the purpose of these expenses, it could not be determined that the expenditures in question were related to SSMH's state funded activities.

Recommendation

DMR should recover from SSMH the $19,140 in undocumented credit card expenses it charged against its state contracts during the period covered by our audit. In the future, SSMH should take measures to ensure that the internal controls it has established over the use of credit cards are adhered to by agency staff.

Auditee's Response

In response to this issue, SSMH officials provided the following comments:

> *SSMH continues to assert that all of the expenses incurred through the use of the two corporate credit cards were bona fide program and administrative related expenses that were properly substantiated by adequate documentation and, therefore, constitute allowable costs.*
>
> *The policies and procedures in place during the time frame of the state audit were adopted by management as approved by the Board of Directors at the recommendation of SSMH's independent audit firm. The use of corporate credit cards was strictly under the direction and control of the President/CEO and his Executive Assistant and utilized solely for administrative and program-related purposes of the agency. A monthly expense report detailing credit card purchases included the date of purchase, the merchant, the amount of the purchase, and the purpose of the charge along with supporting documentation was signed off by the President/CEO and approved by the Chairman of the Finance Committee of the Board of Directors.*
>
> *. . . .SSMH provided copies of receipts from American Express that detailed the specific purchases. . . .There were circumstances where original credit card receipts, e.g., Internet purchases, simply were not made available to the purchaser and SSMH relied upon copies of receipts supplied with the monthly billing statement by American Express.*
>
> *In instances where airline tickets were purchased over the phone or internet by the Executive Assistant to the President/CEO for the staff and which were approved by the President/CEO, the only credit card receipts were copies of individual invoice receipts for staff that detailed the ticket numbers for all passengers. Examples of such trips are the staff recruitment initiative to Toronto, Canada and participation in a training session in the applications of SSMH's Management Information System (CMHC/MIS). As an additional control, the President/CEO or the Treasurer accompanied staff on the above trips and certified the expenses by signing the above referenced expense form recommended by the independent auditors of SSMH.*
>
> *Original credit card receipts were not available to three staff psychologists attending a conference of the Association of Behavior Analysis in Phoenix, approved by the President/CEO.*
>
> *There are numerous purchases of equipment, supplies, and recruitment advertisement over the Internet where original credit card receipts were not available. SSMH is now requiring a print out of the order to be submitted as further documentation of all purchases. . . .*

Auditor's Reply

As stated in our report, SSMH officials themselves acknowledged that although SSMH's credit card policy requires credit card receipts, some agency staff did not comply with this policy. In fact, for the period July 1, 2001 though March 31, 2003, SMH charged a total of 642 credit card expenses totaling $282,926 against its contracts. During our audit, we reviewed the documentation SSMH was maintaining relative to these expenses and found that although SSMH's credit card policy requires adequate supporting documentation to support the expenses submitted, agency staff do not always adhere to these procedures. We found that for the audit period, SSMH billed state contracts $19,140 in credit card expenses that were undocumented. Clearly photocopies of invoices and receipts, and attestations by agency staff for items purchased on the Internet for which they have no receipts, do not constitute adequate documentation. Since these expenses were undocumented, they are non-reimbursable in accordance with OSD regulations.

6. UNALLOWABLE INVESTMENT EXPENSES TOTALING $7,810 BILLED TO STATE CONTRACTS

During fiscal year 2002, SSMH charged its state contracts $7,810 for losses it incurred on an investment. According to OSD's regulations, such expenses are unallowable and non-reimbursable under state contracts. 808 CMR 1.05 (12), promulgated by OSD, states that such expenses are non-reimbursable:

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

Additionally 808 CMR 1.05 (6) states:

> *Bad Debts. Those amounts (whether estimated or actual) which represent the portion of an account or note receivable that proves to be entirely uncollectible despite collection efforts including legal action, and any related legal costs.*

According to SSMH officials, in November 1990, SSMH, along with 11 other human service agencies, became stockholders in Health Services Network, Incorporated (HSN) [the name was changed to Health Access Network, Inc on December 12, 1991]. Health Access Network Inc. (HAN) was a domestic for-profit corporation organized in Massachusetts on June 12, 1990 in accordance with Chapter 156B of Massachusetts General Laws. The intent of this investment was that the Network would develop, own, and manage a preferred provider organization for mental health, mental retardation and substance abuse services that would benefit all 12 participating agencies. However, HSN was officially dissolved on August 31, 1998. During fiscal year 2002, SSMH expensed $11,000 of this investment on its UFR as bad debt and allocated a total of $7,810 of these expenses to its state funded programs. As previously noted, according to state regulations, the expensing of bad debt is a non-reimbursable expense under state contracts. Regarding this matter, SSMH acknowledged that the impact this action had on state funds was overlooked

Recommendation

DMH should recover from SSMH the $7,810 in unallowable bad debt expenses SSMH charged against its state contracts during fiscal year 2002. In the future, SSMH should take measures to ensure that it does not charge such unallowable expenses against its state contracts.

Auditee's Response

In response to this issue, SSMH officials provided the following comments:

> *South Shore Mental Health, Inc. respectfully disagrees with this finding. We do agree that the UFR for fiscal year 2002 should have recognized this entry as a non-reimbursable expense. This was an oversight.*
>
> *However, it was not part of any cost or rate agreement (negotiated or non-negotiated) or billing activity with the Commonwealth and, therefore, should not be subject to recoupment. Additionally, as reported in the fiscal year 2002 UFR, SSMH has sufficient unrestricted revenue in that year to cover this amount.*
>
> *It is important to note, the identified investment expenses were not billed to any State contracts.*

Auditor's Reply

As SSMH acknowledges in its response, these bad debt expenses should have been reported as non-reimbursable expenses on SSMH's 2002 UFR. SSMH allocated these expenses to state funded programs as administrative expenses during fiscal year 2002 and according to OSD regulations, bad debt expenses such as these are non-reimbursable under state contracts. Consequently, OSD, in conjunction with DMR, should take whatever action it deems necessary to recover these funds. Further, SSMH should take the appropriate actions to ensure that in the future, only allowable expenses are allocated against state contracts.

APPENDIX

Listing of SSMH Programs

As of March 31, 2003

Program Name	Address
Supported Employment-Day Services	460 Quincy Ave., Quincy
Family Growth-Family Intervention	6 Fort Street, Quincy
PACT-Assertive Community Treatment	6 Fort Street, Quincy
Community Rehabilitation-Support	460 Quincy Ave., Quincy
Community Rehab/Outpatient Support	8-10 Hancock Street, Quincy
Community Rehab/FEMA/Outpatient	8-10 Hancock Street, Quincy
Foundations-Community & School Support	6 Fort Street, Quincy
Foundations-Child/Family Outpatient	6 Fort Street, Quincy
Discovery Day Treatment-Psychiatric	8-12 Hancock Street, Quincy
Foundations-Flexible Support	460 Quincy Ave., Quincy
Mid-Cape Rehab-Community Support	310 Barnstable Rd., Hyannis
Mid-Cape Rehabilitation-Support	310 Barnstable Rd., Hyannis
Mid-Cape Rehabilitation-Outpatient	310 Barnstable Rd., Hyannis
Regional Consultation-Early Intervention	6 Fort Street, Quincy
MR Resource Clinical Team	460 Quincy Ave., Quincy
Lower Cape Rehabilitation Services	11-13 Baystate Ct., Brewster
Lower Cape Rehab-Community/Outpatient	11-13 Baystate Ct., Brewster
Lower Cape Rehab-Outpatient	11-13 Baystate Ct., Brewster
Weekend Respite-Family Support	16 Moon Island Rd., Quincy
Specialized Evaluations	6 Fort Street, Quincy
Plymouth Residential Network	Various
Plymouth Residential Network-Support	Various
Plymouth Individual Support	64 Industrial Pk., Plymouth
South Coastal Satellites-Residential Support	Various, Randolph
DMH Residential Network-Single/Mixed	Various
DMH Residential Network-Single-Mixed	Various
Clinical Team-Emergency Services	64 Industrial Pk., Plymouth
Emergency Services-Respite	64 Industrial Pk., Plymouth
Early Intervention-Child Services	6 Fort Street, Quincy

Early Intervention-Child Services	6 Fort Street, Quincy
Choice Day Hab-Individual Supports	16 Moon Island Rd., Quincy
Crisis-Bed/Intervention	460 Quincy Ave., Quincy
Outpatient Services	460 Quincy Ave., Quincy
Bayview Associates-Outpatient Services	6 Fort Street, Quincy
Elderly Outreach	460 Quincy Ave., Quincy
Taunton/Attleboro Residences	Various
Fall River Residential Network	Various
Fall River Residential Network	Various
Quitting Time	6 Fort Street, Quincy
ICS Beds-Respite	12 Hancock Ct., Quincy
SHIP-Statewide Head Injury Program	6 Fort Street, Quincy
Specialized Evaluations/Trauma/Group	64 Industrial Pk., Plymouth