Commonwealth of Massachusetts
Office of the State Auditor
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Official Audit Report-Issued August 6, 2013

Toward Independent Living & Learning, 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 Toward Independent Living and Learning, Inc. (TILL), for on-site testing. TILL received approximately $948,053 of the above-stated $62.2 million in total DDS LUSA payments. Approximately $528,681 (55.8%) of the payments to TILL 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 TILL'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 TILL.

Highlight of Testing Results Specific to Toward Independent Living and Learning, Inc.

We found problems with all $528,681 of TILL'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 $84,648 in payments to TILL of $276,156 subject to DDS service authorization requirements, DDS and TILL retroactively processed the authorization, in violation of DDS requirements.

- We found additional documentation problems for all of the above $276,156 in LUSA payments to TILL, including $177,539 in payments for which required service authorization documentation was absent and $3,754 for which service authorization documentation was undated. The problems also included other service authorization documentation deficiencies and inadequate documentation of client service delivery. The lack of adequate documentation violated provisions of the Commonwealth Terms and Conditions for Human and Social Services, and as a result, there was insufficient evidence to show that these LUSA payments had been properly authorized and accounted for; that they were not duplicative or excessive; and that the contractor had actually provided the LUSA services billed.

- Contrary to DDS contract requirements, DDS and TILL improperly used $197,900 in LUSA funding during the audit period to pay for capital assets and other non-service items such as equipment, supplies, and staff recruitment bonuses.

- DDS used additional LUSA funding to pay TILL $54,625 for transactions that should have been processed through non-LUSA contracts; this resulted in a variety of procurement, service utilization, and accounting problems. These transactions included $48,625 identified as Personal Support Services (PSS) paid as a matter of administrative convenience for year-end reconciliation payments involving PSS provided through regular contract programs and $6,000 identified as transportation reimbursements that should have been processed through non-LUSA payment mechanisms. As a result of documentation deficiencies and ambiguities for these payments, there was no assurance that the transactions involved were for appropriate LUSA purposes or that the nature of the payments had been accurately reported in DDS accounting records.

Recommendations of the State Auditor

OSA's overall audit report on DDS's administration of LUSA contracts recommended that responsible oversight agencies, including the state's Operational Services Division and the Office of the State Comptroller, review the issues detailed in the report and take whatever actions they deem appropriate to address those issues, including strengthening their oversight over these DDS transactions. The payments to TILL are covered by that recommendation. In accordance with the recommendations of the overall report and the testing results specific to TILL, TILL 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

Toward Independent Living and Learning Inc. (TILL), whose administrative offices are located at 20 Eastbrook Road, Dedham, Massachusetts, was incorporated on May 1, 1979 as a private, nonprofit human-services organization. According to its Web site, TILL provides "an extensive and comprehensive range of residential, clinical, family support services and day and vocational programs that meet the needs of individuals and their families of all ages with disabilities throughout Eastern Massachusetts and Southern New Hampshire" and "work[s] with individuals with acquired brain injuries, mental health issues, developmental disabilities and those on the autism spectrum."

TILL is one of the Department of Developmental Services' (DDS's) nonprofit contractors primarily serving eastern Massachusetts. TILL annually receives over $20.9 million in contract payments from DDS. Revenues and support from other state agencies and public and private sources raise total revenues for TILL and its affiliated entities to approximately $31.3 million per year.

DDS's Limited Unit Rate Service Agreement (LUSA) contract payments to TILL, 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	$249,603	$ 177,622	71.2%
2010	524,089	254,244	48.5%
2011	174,361	96,815	55.5%
	$948,053	$ 528,681	55.8%

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. Toward Independent Living and Learning, Inc. (TILL) was one of the 15 contractors selected for on-site testing as part of the overall DDS audit. TILL accounted for approximately $948,053 in LUSA payments for the three-fiscal-year period. Approximately $528,681 of the TILL payments was processed during the Commonwealth's accounts-payable periods.

The procedures completed at TILL 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 TILL, 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 report, No. 2012-0234-3C.

We selected TILL 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 TILL managers to discuss testing results pertaining to TILL. We also solicited TILL information and input regarding DDS system-wide LUSA issues for use in the overall LUSA audit project.

TESTING RESULTS

1. QUESTIONABLE USE OF $528,681 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 Toward Independent Living and Learning, Inc. (TILL). These included DDS and TILL retroactively processing service authorization approval for $84,648 in LUSA transactions, contrary to DDS requirements; TILL maintaining insufficient authorization, invoicing, and service delivery documentation for $276,156 in transactions; DDS improperly using $197,900 of LUSA funding to pay TILL for capital assets and other non-service items; and DDS improperly using $54,625 of LUSA funding to pay TILL 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 $528,681.

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 TILL complete an Authorization for Services process before services begin. The process uses an Authorization for Services Form (ASF) signed by a DDS manager, typically an Area Director, to establish the specific type of service, service date ranges, appropriation source, and amount of LUSA funding that will reimburse the contractor for services provided to the client.[2]

[2] Certain exceptions to this authorization requirement involve DDS's use of LUSA funds for transactions that should instead have been processed through other payment mechanisms as described in Section d. of this finding. DDS has not uniformly required use of ASFs for those transactions.

In addition to obtaining ASF approval, contractors must maintain service delivery and related documentation as required by Section 7 of the Commonwealth Terms and Conditions for Human and Social Services, which specifies that:

> *The Contractor shall maintain records, books, files and other data as required by 808 CMR 1.00 and as specified in a Contract and in such detail as shall properly substantiate claims for payment under a Contract, for a minimum retention period of seven (7) years beginning on the first day after the final payment under a Contract, or such longer period as is necessary for the resolution of any litigation, claim, negotiation, audit or other inquiry involving a Contract.*

It is essential that, in addition to authorization, invoice, and accompanying summary service delivery reports, contractors maintain documentation sufficient to verify that invoiced services were actually delivered and to establish that the services rendered were not within the scope of activity already covered and reimbursed by regular, non-LUSA, program contracts. Documentation of compliance with the activity and reimbursement restriction is of particular concern, since DDS's regular non-LUSA contracts have typically been established using payment rates that have been increased by as much as 17.6% to ensure that contractors are appropriately reimbursed for full program costs where programs are underutilized for legitimate reasons such as unanticipated vacancies or client hospitalizations. As explained by applicable Operational Services Division (OSD) policy:[3]

> *The inclusion of a utilization factor in unit rate contracts may result in a situation where a specific contractor is serving consumers at a higher utilization level than negotiated or anticipated and thus reaches the maximum obligation of the contract (or "bills out") before the end of the contract period. In this case, the contractor is required to provide services up to the total capacity purchased by the contract . . . for the remainder of the contract period with no additional funding. The application of a utilization factor does not result in the contractor delivering "free" services; rather, in these cases, a contractor has merely been fully reimbursed for the costs associated with the program in a shorter period of time than the full contract duration . . . .*

As a result, if a LUSA agreement is erroneously used to pay for services that have already been effectively reimbursed through a regular contract, the contractor may improperly receive excessive or duplicative reimbursement of program costs.

The subsections below describe the TILL-related issues identified as part of testing procedures performed.

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

a. Retroactive Authorization of LUSA Services Totaling $84,648

Despite the above-described ASF processing requirement established by DDS, of $276,156 in accounts-payable-period LUSA payments to TILL that were subject to service authorization requirements, $84,648 had been paid for services that DDS and TILL 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	$47,971	$19,627	$17,050	$84,648

As described in the next section, these amounts exclude payments totaling $173,420 for which documentation available at TILL was not sufficient to determine whether authorization had been properly processed in a timely manner.

b. Inadequate Documentation Related to $276,156 in LUSA Service Authorizations and Payments

We found documentation problems for LUSA payments totaling $276,156. 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	$57,934	$125,951	$92,271	$276,156

ASF documentation was missing for $177,539 and undated for $3,754 in payments. Even when ASF documentation was present, it was not always possible to determine when, or even whether, the service authorization process had been completed for individual clients and the agreed-upon terms of service. For example, an ASF might be present but documentation might not identify individual clients to be served or the number of units and applicable rates authorized for service delivery.

Required documentation of actual service delivery was also inadequate (e.g., unsigned timesheets) or so ambiguous as to be questionable. Examples of the type of documentation that should be maintained include contemporaneously prepared, employee-signed, daily time/service documentation records for one-on-one services to individual clients, correlating to invoice submissions. TILL 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 TILL's invoices and service delivery reports was not made available for testing. Documentation both in TILL's year-end financial report filings with OSD[4] and in TILL's records was also not sufficient to adequately correlate to service delivery information, DDS LUSA payments, and service delivery costs to the organization's operational programs as needed to ensure that payments were outside the scope of regular DDS contracts and did not result in excessive or duplicative reimbursement. Because these deficiencies were so extensive, it was not possible to perform the analysis and testing required to reasonably estimate the extent to which the compensation DDS provided to TILL was excessive.

c. Improper Use of $197,900 in LUSA Funds for Capital-Asset and Other Non-Service-Item Reimbursements

LUSA agreements are supposed to be used to provide direct services to clients, rather than to directly reimburse contractors for capital items such as vehicles or for other non-service items such as employee overtime costs. Pursuant to rules and regulations established by OSD and the Office of the State Comptroller (OSC), contractors providing human services to state agencies

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

are, with limited exceptions, reimbursed only for providing units of services such as a day of residential service programing to a client. However, contractors often require the use of capital assets such as property and equipment to provide these services. Such items are typically treated as capital-asset items, and contractors are allowed to charge the costs of the capital items they purchase over their useful life against their state contracts. OSD has also established a Capital Item Procurement Policy that, under special circumstances, allows DDS and other state agencies either to lend state-owned assets to contractors for program use or to reimburse contractors for the preapproved purchase of certain capital items. Those special arrangements are carefully restricted to protect the Commonwealth's title interest in the assets and, in addition to requiring preapproval, require that purchased items be competitively procured and that purchases be limited to movable assets such as vehicles, appliances, and furniture rather than fixed assets such as buildings, heating systems, or other property improvements such as driveway paving. State capital-item reimbursements must also be separately accounted for through special contracting forms promulgated by OSD and be recorded in the state accounting system using special expenditure classification codes different from the ones established by OSC for use in purchasing human-service program and support services. Regardless of whether a particular non-service item is a capital item or another form of non-service activity such as non-capitalized small-value items, none of these non-service items should be purchased through the LUSA contracting mechanism, since the purchase of these items would not be consistent with the specified purpose of LUSA funding.

Despite these restrictions, we found that DDS and TILL improperly used $197,900 in LUSA funding during the testing period to purchase non-service items rather than LUSA-related services, as summarized below:

Payments for Capital and Other Non-Service Items

	Fiscal Year 2009	Fiscal Year 2010	Total
Capital Items			
Computers and fixed asset improvements such as driveways	$ 12,423	$ 52,822	$ 65,245
Other Non-Service Items			
Miscellaneous equipment, supplies, and staff recruitment bonuses	60,287	72,368	132,655
Total Capital and Other Non-Service Payments	$ 72,710	$ 125,190	$ 197,900

d. Improperly Processed Transportation Reimbursements and Inappropriate Use of $54,625 of LUSA Funds to Pay for Personal Support Services for Which Service Delivery Documentation Was Inadequate

During our testing period, DDS used LUSA funding to pay TILL $54,625 for transactions that should have been processed through non-LUSA contracts; this resulted in a variety of procurement, service utilization, and accounting problems. These transactions included $48,625 identified as Personal Support Services (PSS) and $6,000 identified as transportation services.

Specifically, we found that DDS reported using $48,625 in LUSA funding to make year-end reconciliation payments to TILL for PSS provided through regular residential contract programs. PSS cover preauthorized staffing hours needed to provide MassHealth- (Medicaid-) eligible DDS clients with instrumental activities of daily living (IADL) assistance that has been contracted for through regular DDS human-service-program contracts. Because authorized service levels are routinely underutilized, only approximately 88% of the authorized PSS reimbursement is incorporated into each contractor's regular program contract. As a matter of administrative processing convenience, DDS has used LUSA payments for the purpose of making supplemental year-end reconciliation payments to contractors for any amounts determined to be owed where actual utilization is claimed to exceed 88%. Those payments were made through LUSAs even though the terms of LUSA agreements do not provide for the reconciliation process. DDS policies governing the use of LUSAs and DDS policy and contract language instead provide for the use of amendments to regular DDS contracts to address such situations. DDS should have processed the payments to TILL through other, non-LUSA, means, such as year-end amendments to TILL's regular non-LUSA contracts.

DDS also made $6,000 in LUSA payments to reimburse TILL for non-intermittent transportation services for a client in a regular DDS contract-funded program. Those transportation reimbursements were not within the proper scope of LUSA funding arrangements, and the costs involved should have been paid through non-LUSA payment mechanisms such as amendments to the regular program contract covering the client.

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

Inappropriate LUSA PSS and Transitional Service Transactions

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Total
Personal Support Services	$40,978	$3,103	$4,544	$48,625
Transportation Reimbursements	6,000	0	0	6,000
Total	$46,978	$3,103	$4,544	$54,625

In addition to the inappropriate DDS use of LUSA payment mechanisms, other issues existed for these transactions. Despite the above-quoted contracting terms and conditions, TILL did not maintain adequate documentation that correlated to these payments. As a result of these documentation deficiencies and ambiguities, there was no assurance that the transactions were for appropriate LUSA purposes or that the nature of the payments had been accurately reported in DDS accounting records.

Recommendations

OSA's overall audit report on DDS's administration of LUSA contracts recommended that responsible oversight agencies, including OSD and OSC, review the issues detailed in the report and take whatever actions they deem appropriate to address those issues, including strengthening their oversight over these DDS transactions. The payments to TILL are covered by that recommendation. In accordance with the recommendations of the overall report and the testing results specific to TILL, TILL should implement appropriate control measures to ensure that all LUSA services are performed, documented, billed, and accounted for in compliance with applicable requirements.

TILL's Response

In response to our report, TILL's President / Executive Director provided specific comments, which are excerpted below.

> *TILL followed the guidelines and policies set by DDS during this audit period with regard to LUSA expenditures. As a result of your audit findings for DDS, they have instituted new policies and procedures with regard to LUSA expenditures and TILL has conformed to those policies and procedures since they were put in place . . . .*

> *We would like to note that the Authorization for Services process (ASF) described was not in place by DDS during this audit period or if it was in place it was not enforced by DDS to its providers. Since the audit of DDS, area offices have put that process in place and TILL has conformed to that procedure in all cases. . . .*
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> *In the provision of services to individuals with disabilities it is often difficult if not impossible to predict needs which are not identified in the beginning of the fiscal year when contracted figures are established . . . . There is no mechanism in place which allows for predicting an amount of reimbursement needed until after the [service activity] is completed. This results in retroactive reimbursement . . . . The procedures for reimbursement are important and we will adhere to them as requested by DDS funding source but the dilemma must be noted.*
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> *On page [10], examples are given of contemporaneously employee signed daily time/service documentation. We disagree with the finding that "documents are prepared by administrative support personnel who themselves lack the personal knowledge necessary to attest to the accuracy of the billing submissions." Our system of checks and balances are thorough and time cards come directly from the employee providing the hours with an approval system from their immediate supervisor and then to one more level of approval. The system is well documented and provides internal assurance that the work has been completed as documented . . . .*
>
> *TILL submitted documentation [of expenses for the Capital and Non-Service Items identified on p. 11] in keeping with DDS requests and also kept within its capitalization amount with regard to amounts within our capitalization limits. We submitted requests which DDS approved for items deemed necessary for clients by TILL and DDS. Designated program use and location of supplies and equipment is clearly noted in TILL's internal accounting.*

TILL's President / Executive Director also provided general comments in terms of assurance that the agency believes that DDS has implemented appropriate changes in the administration of LUSAs in response to the overall report and that "[TILL's] internal systems allow for a clear path of documentation of LUSA expenses and LUSA funds are only used for their intended purpose."

Auditor's Reply

The ASF process described in this report was in place throughout the DDS system during the entire audit period. Further, the processing requirements for LUSA services had been fully documented in DDS policy and instructions provided to its contractors, including TILL. However, TILL correctly points out that DDS did not uniformly enforce these requirements.

We acknowledge that there are instances where individual client service needs cannot be fully predicted at the beginning of the fiscal year. However, appropriate procedures exist throughout the state contracting system that provide for building flexibility into contracts and for amending contracts as these unanticipated circumstances arise. In fact, the DDS LUSA and ASF policies and procedures provide for addressing such unanticipated circumstances as they arise over the course of a fiscal year. It should be noted that our overall audit of DDS's administration of LUSAs examined comparable transactions at other human service agencies and determined that the contracting systems of those agencies appeared to be operating successfully without resorting to the disproportionate issuance of payments at the end of the fiscal year. In contrast, as noted in this report, 55.8% of TILL's LUSA transactions were processed during the year-end accounts-payable period. Had TILL's LUSA transactions been, as described in TILL's response, for special service needs, one could reasonably expect that they would have occurred and been processed throughout the fiscal year instead of disproportionately at year-end.

We disagree with TILL's assertions regarding the sufficiency of TILL documentation of service delivery. As stated in our report, "TILL 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." While on site, we discussed with TILL officials the fact that TILL did not retain or provide satisfactory evidence of service delivery as required by the Commonwealth Terms and Conditions for Human and Social Services. Although TILL asserts that its internal-control systems provide assurance that billing documents prepared by administrative staff are accurate, the agency did not retain the underlying documentation required to perform tests to verify the accuracy of this assertion. In addition, TILL's response only asserts the accuracy of payroll time-card processing and does not address the issue of the accuracy of reporting of activity that is performed by employees for individual clients and charged against LUSA contracts.

As stated in this report, DDS and TILL improperly used $197,900 in LUSA funding during the testing period to purchase non-service items rather than LUSA-related services. These transactions included $65,245 in capital asset transactions and $132,655 in other non-service items. TILL's response simply asserts that it accounted for these transactions appropriately in its own accounting system and that the submitted billing documentation had conformed to DDS requests. Nevertheless, using LUSA funding to process these transactions contravened both DDS restrictions on how LUSA funds could be used and OSD policy restrictions on how reimbursement of contractor capital-asset transactions could be processed. These restrictions were in place throughout the testing period, and managers at both DDS and its contractors should have been aware of them.