



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – July 25, 2013

Vinfen Corporation Administration of Limited Unit Rate Service Agreements

For the period July 1, 2008 through June 30, 2011



TABLE OF CONTENTS

INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS	1
OVERVIEW OF AGENCY	4
SCOPE, OBJECTIVES, AND METHODOLOGY	5
TESTING RESULTS.....	7
1. QUESTIONABLE USE OF \$1,141,511 IN LUSA FUNDS	7
a. Retroactive Authorization of LUSA Services Totaling \$750,947	9
b. Inadequate Documentation Related to \$938,171 in LUSA Service Authorizations and Payments.....	9
c. Inappropriate Use of LUSA Funds Totaling \$203,339 to Pay for Personal Support and Other Services and Inadequate Documentation of These Services	11

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 period¹ 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 Vinfen Corporation (Vinfen), for on-site testing. Vinfen received approximately \$1,627,502 of the above-stated \$62.2 million in total DDS LUSA payments. Approximately \$1,141,511 (70.1%) of the payments to Vinfen 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 Vinfen'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 Vinfen.

Highlight of Testing Results Specific to Vinfen Corporation

We found problems with all \$1,141,511 of Vinfen'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 \$750,947 in payments to Vinfen of \$938,171 subject to DDS service authorization requirements, DDS and Vinfen retroactively processed the authorization, in violation of DDS requirements.
- We found additional documentation problems for all of the above \$938,171 in LUSA payments to Vinfen, including missing or inadequate documentation of authorization for services and 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 used additional LUSA funding to pay Vinfen \$203,339 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 \$30,377 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 \$172,962 identified by DDS as Transitional Services that should have been competitively procured but were not. Vinfen had not maintained adequate documentation of service delivery for the \$203,339 in payments. As a result, there was no assurance that the transactions involved were for PSS and Transitional Services or for other appropriate LUSA purposes.

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 Vinfen are covered by that recommendation. In accordance with the

recommendations of the overall report and the testing results specific to Vinfen, Vinfen 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

Vinfen Corporation (Vinfen), whose administrative offices are located at 950 Cambridge Street, Cambridge, Massachusetts, was incorporated on July 1, 1977 as a private, nonprofit human-services organization providing services to adults and children with mental illness, developmental disabilities, and behavioral health disabilities. According to its publications, Vinfen supports more than 300 sites with approximately 2,000 employees in Massachusetts, from the New Hampshire border to Greater Boston to Cape Cod, as well as in Connecticut. The agency states that it “helps people by offering them the opportunities to develop and attain the highest possible level of independence and quality of life” by “[delivering] a broad range of services to people with mental illness, developmental disabilities, and behavioral health disabilities, as well as to their families, neighbors, and communities.” Vinfen’s program services span a wide spectrum of service types, including a variety of residential, day, vocational, and other support services provided to Department of Developmental Services (DDS) clients.

Vinfen annually receives over \$30.8 million in contract payments from DDS. Revenues and support from other state agencies and public and private sources raise total revenues for Vinfen and its affiliated entities to approximately \$111.3 million per year. DDS’s Limited Unit Rate Service Agreement (LUSA) contract payments to Vinfen, 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	\$ 379,143	\$ 235,772	62.2%
2010	646,691	545,174	84.3%
2011	<u>601,668</u>	<u>360,565</u>	59.9%
	<u>\$ 1,627,502</u>	<u>\$ 1,141,511</u>	70.1%

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. Vinfen Corporation (Vinfen) was one of the 15 contractors selected for on-site testing as part of the overall DDS audit. Vinfen accounted for approximately \$1,627,502 in LUSA payments for the three-fiscal-year period. Approximately \$1,141,511 of Vinfen's LUSA payments was processed during the Commonwealth's accounts-payable periods.

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

TESTING RESULTS

1. QUESTIONABLE USE OF \$1,141,511 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 Vinfen Corporation (Vinfen). These included DDS and Vinfen retroactively processing service authorization approval for \$750,947 in LUSA transactions, contrary to DDS requirements; Vinfen maintaining insufficient authorization, invoicing, and service delivery documentation for \$938,171 in transactions; and DDS improperly using \$203,339 of LUSA funding to pay Vinfen 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 \$1,141,511.

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 Vinfen 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 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: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 Vinfen-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 \$750,947

Despite the above-described ASF processing requirement established by DDS, of \$938,171 in accounts-payable-period LUSA payments to Vinfen that were subject to service authorization requirements, \$750,947 had been paid for services that DDS and Vinfen had retroactively authorized, in violation of the requirements.⁴ 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	\$138,267	\$329,494	\$283,186	\$750,947

As described in the next section, these amounts exclude payments totaling \$40,751 for which documentation available at Vinfen was not sufficient to determine whether authorization had been properly processed in a timely manner.

b. Inadequate Documentation Related to \$938,171 in LUSA Service Authorizations and Payments

We found additional documentation problems for all of the above \$938,171 in accounts-payable-period LUSA payments to Vinfen. 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.

⁴ DDS has not uniformly required use of ASFs in conjunction with the special LUSA payments for Transitional Services, which are discussed in Section c., below. However, in the case of Vinfen's Transitional Service payments, ASFs were present but had been processed retroactively for \$33,987 of the transactions. That retroactive processing amount is separate from and in addition to the \$750,947 retroactive-processing total identified in this section.

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	\$168,153	\$430,802	\$339,216	\$938,171

ASF documentation was missing for \$10,309 in payments. For an additional \$30,442 in payments, ASF documentation was present but had not been dated. 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. For example, an ASF might be present but documentation might not identify individual clients to be served, the type of service to be provided, or the timeframe authorized for service delivery.

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, Vinfen 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. Vinfen'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 in Vinfen's year-end financial report filings with OSD⁵ 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 LUSA 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

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

reasonably estimate the extent to which the compensation DDS provided to Vinfen was excessive.

c. Inappropriate Use of LUSA Funds Totaling \$203,339 to Pay for Personal Support and Other Services and Inadequate Documentation of These Services

During our testing period, DDS used LUSA funding to pay Vinfen \$203,339 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 \$30,377 identified as Personal Support Services (PSS) and \$172,962 identified by DDS as Transitional Services.

Specifically, we found that DDS used \$30,377 in LUSA funding to make year-end reconciliation payments to Vinfen 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. Based on the nature of the transactions as presented by DDS and Vinfen in invoices and the Massachusetts Management Accounting and Reporting System's accounting records, DDS should have processed the payments to Vinfen through other, non-LUSA, means, such as year-end amendments to Vinfen's regular non-LUSA contracts.

DDS accounting records identified \$172,962 in LUSA payments as being for institutional-to-community-living Transitional Services, part of a special DDS initiative that was mandated by a legal settlement agreement resulting from a federal lawsuit. As detailed in our full report on DDS's administration of LUSA agreements, the Transitional Service transactions with Vinfen

were part of a larger set of transactions that apparently should have been competitively procured and reimbursed through regular contracts rather than through LUSAs.

The table below breaks out the above-named transactions with Vinfen 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	\$15,858	\$ 3,165	\$11,354	\$ 30,377
Transitional Services	<u>51,761</u>	<u>111,207</u>	<u>9,994</u>	<u>172,962</u>
Total	<u>\$67,619</u>	<u>\$ 114,372</u>	<u>\$21,348</u>	<u>\$ 203,339</u>

For both the PSS and Transitional Service transactions, Vinfen did not provide us with documentation necessary to provide assurance that the invoiced services had actually been delivered. As required by the previously quoted contracting terms and conditions, Vinfen should have maintained service-specific detailed timesheets documenting the delivery of PSS and Transitional Services provided on a supplemental one-on-one employee-to-client basis. However, Vinfen did not maintain such documentation. As a result, there was no assurance that the transactions involved were for PSS and Transitional Services or for other appropriate LUSA purposes.

Although not consistently required by DDS in conjunction with these payments, ASFs were present, but they had been improperly processed retroactively for \$33,987 of the \$172,962 in Transitional Service transactions. That retroactive processing amount is in addition to the above-identified \$750,947 retroactive processing total.

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 Vinfen are covered by that recommendation. In accordance with the recommendations of the overall report

and the testing results specific to Vinfen, Vinfen should implement appropriate control measures to ensure that all LUSA services are performed, documented, billed, and accounted for in compliance with applicable requirements.

Vinfen's Response

In response to the issues presented in this report, Vinfen proved the following comments:

Since the audits, Vinfen has worked collaboratively with DDS to implement the new processes as defined by DDS and has participated in the appropriate training to ensure compliance with the revised procedures.

Vinfen disagrees with any assertion that Vinfen received any questionable payments, for two reasons. First, Vinfen complied during the audit period with all directives of DDS concerning billing under LUSAs. Second, during that period, Vinfen maintained all necessary documentation to support its billings to DDS. We do agree fully with recommendations in the draft report to improve the financial operation of the DDS provider service system of authorizing and paying for intermittent, temporary, and as-needed services via the use of LUSAs. After significant revisions of the DDS system and re-training of providers, including Vinfen, the practices cited as problems have been dramatically reduced or eliminated. For all of FY 2013, the DDS LUSA payments to Vinfen are forecast to be about \$8,000, compared to over \$500,000 annually in the three years of the audit.

The retroactive approval of LUSA services has ceased, and alternative contracting mechanisms have been put in place to satisfy client service requirements, and to accomplish subsequent provider reimbursements. Service categories which the audit claimed were inappropriately billed under LUSA's were ended, and again, alternative contracting methods were substituted. Finally, regarding the service documentation for these on-going intermittent, supplemental services dictated by clients' behavioral or medical needs, Vinfen is conducting a thorough internal review of its program-based service record protocols to ensure that the highest standards for service documentation are maintained.