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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN
STATE AGENCIES' COMPLIANCE WITH THE
STATE'S OPERATIONAL SERVICES DIVISION'S
AUDIT RESOLUTION POLICY
APRIL 1, 2001 THROUGH APRIL 4, 2005**

**OFFICIAL AUDIT
REPORT
OCTOBER 31, 2006**

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INTRODUCTION**1**

Human service providers doing business with state agencies are subject to audits/reviews by their funding agencies, private accounting firms, and the Office of the State Auditor (OSA). To ensure that any problems identified during these audits are expeditiously and effectively resolved, in June 1992 the state's Operational Services Division (OSD), the agency responsible for regulating and overseeing the activities of contracted human service providers, established a policy titled "Audit Resolution Policy for Human and Social Services" (OSD's Audit Resolution Policy). This policy includes standards, policies, and procedures to which state agencies as well as providers must adhere for the successful resolution of audit issues. On August 20, 2002, the OSA issued Audit Report No. 2002-5088-15C, titled "Independent State Auditor's Report on Certain State Agencies' Compliance with the State Operational Services Division's Audit Resolution Policy." The scope of this audit was to determine the status of corrective actions by 10 state agencies regarding deficiencies identified in 27 audit reports issued by the OSA between December 12, 1997 and March 20, 2001. These 27 audit reports identified 144 deficiencies involving \$21,767,981 in state funds, and recommended numerous corrective measures, including the recoupment of as much as \$3,838,453 in state funds. Our prior audit found that although the 10 state agencies had either recovered or were in the process of recovering over \$2.5 million in state funds, they did not fully comply with OSD's Audit Resolution Policy. As a result, we noted that numerous deficiencies identified in OSA reports had not been corrected, and that hundreds of thousands in misused state funds had not been recovered.

The objectives of our current audit were to determine the status of the issues identified during our prior audit, and to review the corrective actions taken by state agencies to address the deficiencies identified in 33 audit reports relative to 38 human service providers issued by the OSA between April 1, 2001 and April 4, 2005. These 33 audit reports identified 157 deficiencies involving \$51,422,065 in state funds received from eight state agencies: the departments of Social Services, Mental Health, Public Health, Mental Retardation, Transitional Assistance, Youth Services, Veterans' Services, and Early Education and Care; and recommended numerous corrective measures, including the recoupment of as much as \$22,307,280 in state funds.

During our current audit, we found that state agencies are still not fully complying with OSD's Audit Resolution Policy. For example, as of the end of our audit period, state agencies had not entered into Corrective Action Plans (CAPs) with 11 of the 38 providers included in our current audit. At these 11 providers, we identified numerous deficiencies and recommended the recoupment of \$1,751,196 in state funds. Additionally, we found that 11 other CAPs were implemented an average of 460 days beyond the timeframe established by OSD, and that two other state agencies reduced the the amount recommended to be recovered from the providers by \$657,306 without the knowledge or approval of OSD. Finally, we found four instances in which three state purchasing agencies had misused state funds by using their contracted human service providers as fiscal conduits to pay over \$673,591 for departmental goods and services in violation of Chapter 29, Section 29B, of the Massachusetts General Laws.

AUDIT RESULTS **6**

1. PRIOR AUDIT RESULTS UNRESOLVED – STATE AGENCIES ARE STILL NOT FULLY COMPLYING WITH OSD’S RESOLUTION POLICY **6**

During our prior audit, we found that the controls established by state agencies to ensure compliance with OSD’s Audit Resolution Policy were in many instances inadequate. For example, only three of the 10 state agencies involved in our prior audit had established compliance policies and procedures, and officials at one of the state agencies stated that they had never heard of OSD’s Audit Resolution Policy. Accordingly, we found a number of problems with the level of state agency compliance with this policy. Specifically, for five of the 27 audits included in our prior review, 16 deficiencies were identified and the recoupment of \$319,554 was recommended; however, the contracting state agencies did not develop CAPs required by OSD’s policy. We also found that for 12 audits which identified a total of 69 deficiencies and recommended the recoupment of \$1,860,800, the contracting state agencies did develop CAPs, but not within the six-month period required by the policy. Instead, those CAPs were approved between 17 and 41 months after the audit reports were issued. In another instance, we found that contrary to OSD’s Audit Resolution Policy, a CAP approved by a state purchasing agency did not address all of the deficiencies identified in our audit report, including the recoupment of \$16,316. In addition, we found that in four instances, state agencies agreed to receive a combined \$84,291 less than the amount recommended in the OSA audit reports. As a result of these deficiencies, the OSA recommended that state agencies take the measures necessary to ensure that they adhere to OSD’s standards for the establishment of an adequate audit resolution system. At a minimum, such measures should include the development and implementation of formal written procedures for the audit resolution process. Further, OSD should consider providing additional information or training on this policy to all state agencies involved in the procurement of human services.

During our current audit, we determined that despite receiving additional guidance and training from OSD, only one of the eight state agencies included in our audit had developed and implemented adequate formal written policies and procedures in compliance with OSD’s Audit Resolution Policy. We also found that the previously reported systematic problems we found regarding state agencies’ compliance with OSD’s Audit Resolution Policy still existed, and in some instances, had worsened.

2. STATE AGENCY NONCOMPLIANCE WITH OSD’S AUDIT RESOLUTION POLICY RESULTED IN NUMEROUS UNCORRECTED DEFICIENCIES AND AT LEAST \$2,408,502 IN STATE FUNDS NOT BEING RECOVERED **13**

We found that, for the 38 human service providers included in our current audit, the contracting state agencies either properly implemented CAPs or took other measures, such as referring the audit to law enforcement agencies, for nine of the 38 providers. For three of these nine audits, which were referred to the Office of the Attorney General, the OSA recommended recovery of \$19,520,605. Two cases are pending resolution while a recent settlement in the third returned approximately \$700,000 in state funds to the

Commonwealth. However, for the remaining 29 providers, we found numerous problems, some even more significant than those identified during our prior audit, as follows:

- Two instances in which state agencies reduced the OSA’s recommended recoupment amounts by \$657,306 without the knowledge or approval of OSD.
- Eleven audits did not have negotiated CAPs between the human service provider and its state purchasing agency. As a result, up to \$1,751,196 was not repaid to the Commonwealth, and numerous other noncompliance and internal control deficiencies were not resolved. Included in these audits were four instances in which three state purchasing agencies had not complied with the requirements of Chapter 29 Section 29B, of the General Laws, as they used their contracted human service providers as fiscal conduits to make purchases of departmental goods and services totaling over \$673,591. Although we did not recommend the recoupment of this \$673,591, OSD has assumed the responsibility of resolution of these issues, which has delayed the implementation of the required CAPs.
- Eleven audits with CAPs involving as much as \$951,704 in unallowable expenses charged to state contracts were not processed within the 180 day timeframe prescribed in OSD’s Audit Resolution Policy. These CAPs were implemented from 203 to 1,237 days, after the issuance of the audit report, an average of 460 days beyond the six-month timeframe prescribed by OSD’s Audit Resolution Policy.
- Six CAPs did not properly address all of the issues reported in OSA audit reports. For example, in some cases, the Principal Purchasing Agencies (PPAs) did not ensure that their human service providers established adequate internal controls over all aspects of their operations, while in other instances, PPAs did not conduct the recommended reviews of expenses in areas where problems were identified by the OSA to determine whether additional funds should be recovered.
- Four state agencies took corrective measures relative to OSA audits for seven human service providers, but did so without establishing the required CAPs.

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INTRODUCTION

Background

Human service providers doing business with state agencies are subject to audits/reviews by private accounting firms, the agencies funding those providers, and the Office of the State Auditor (OSA). To ensure that any problems identified during those audits are expeditiously and effectively resolved, in June 1992 the state's Operational Services Division¹ (OSD) issued a policy titled "Audit Resolution Policy for Human and Social Services" (OSD's Audit Resolution Policy). This policy was issued pursuant to 808 Code of Massachusetts Regulations (CMR) 1.04 (10), which requires OSD to maintain an audit resolution policy for audits of human service providers, as well as contractors operating educational programs for children with special needs, in accordance with Chapter 71B of the Massachusetts General Laws.

OSD's Audit Resolution Policy (see Appendix II) includes standards, policies, and procedures to which state agencies and human service providers must adhere for the successful resolution of audit issues. This policy requires state agencies to assign a high priority to establishing corrective measures and resolving any deficiencies identified during audits.

When the OSA issues an audit report, it sends copies to the auditee, the auditee's funding agencies, OSD, and other interested parties. To resolve any problems identified in these reports, an auditee must collaborate with its state purchasing agency and prepare, in accordance with the requirements of OSD's Audit Resolution Policy, a written Corrective Action Plan (CAP) approved by its Board of Directors. This CAP must be submitted to the state agency that is its Principal Purchasing Agency (PPA)². According to OSD's Audit Resolution Policy, the CAP must address all audit findings, deficiencies, and uncorrected findings of prior audits; must use reference numbers utilized by OSA to identify the deficiencies; and must specify corrective actions that the provider will take to address the deficiencies, and the dates by which they will implement those actions.

Within six months of receiving the audit report and CAP, the auditee's PPA must issue a management decision on the findings and recommendations of the audit report, as well as on the auditee's proposed CAP. According to OSD officials, the CAP is not officially complete and cannot be accepted by OSD until the PPA's management has evaluated and approved the auditee's

¹ This policy was issued by OSD under its former name, the Division of Purchased Services (DPS).

² A provider's PPA is typically the state agency that provides most of its state funding.

proposed corrective actions for resolving the identified deficiencies. The original CAP and the written management decision are combined into an Administrative Agreement, which is signed by the authorized representatives of the human service provider and its PPA. A copy of this document is then forwarded to OSD and the appropriate state secretariat. OSD's Audit Resolution Policy states that the PPA must issue its management decisions as quickly as possible.

On August 20, 2002, the OSA issued its first report on this subject (No. 2002-5088-15C), titled "Independent State Auditor's Report on Certain State Agencies' Compliance with the State Operational Services Division's Audit Resolution Policy." The scope of this audit was to determine the status of corrective actions taken by state agencies to address the deficiencies identified in 27 audit reports issued by the OSA between December 12, 1997 and March 20, 2001. The 27 reports involved 10 state oversight agencies; the departments of Social Services (DSS), Mental Health (DMH), Public Health (DPH), Mental Retardation (DMR), Education (DOE), Transitional Assistance (DTA), Veterans' Services (DVS), and Housing and Community Development; the Office of Child Care Services; and the Executive Office of Elder Affairs; identified 144 deficiencies involving \$21,767,981 in state funds; and recommended numerous corrective measures, including the recoument of as much as \$3,838,453 in state funds. Our prior audit found that although the 10 state agencies had either recovered or were in the process of recovering over \$2.5 million in state funds, they did not fully comply with OSD's Audit Resolution Policy. As a result, we noted that numerous deficiencies identified in our reports had not been corrected, and that hundreds of thousands in misused state funds had not been recovered. Consequently, at that time, the OSA made a number of recommendations to address these problems.

As a result of the deficiencies identified in our previous audit and the significant issues identified in our subsequent audits of human service providers, we conducted a follow-up audit to assess the status of the problems we identified during our prior review and to evaluate whether improvements have been achieved in state agencies' compliance with OSD's Audit Resolution Policy.

Audit Scope, Objectives, and Methodology

The scope of our current review was to determine the status of corrective actions taken by state agencies regarding deficiencies identified in 33 audit reports³ relative to the activities of 38 contracted human service providers issued by the OSA between April 1, 2001 and April 4, 2005. These 33 audit reports involving the following eight state agencies: DSS, DMH, DPH, DMR, DTA, DVS, the Department of Youth Services, and the Department of Early Education and Care identified 157 deficiencies involving \$51,422,065 in state funds and recommended numerous corrective measures, including the recoupment of as much as \$22,307,280 in state funds. In addition, we conducted audit work to determine the status of the issues and recommendations discussed in our prior audit report (No. 2002-5088-15C) on this subject.

Our review was conducted in accordance with applicable generally accepted government auditing standards for performance audits and included procedures we considered necessary to meet our review objectives.

Our audit assessed the following:

- The status of issues identified and recommendations made during our prior audit (Audit Report No. 2002-5088-15C) on this subject
- Each state agency's compliance with OSD's Audit Resolution Policy for the 33 OSA audits included in our current audit
- The adequacy and appropriateness of the measures taken by state agencies in resolving the problems identified in the 33 OSA audits

To achieve our objectives, we first spoke with OSD officials and reviewed OSD's Audit Resolution Policy. We then obtained from the applicable state agencies all available documentation regarding the resolution of the problems identified in the 33 selected OSA audit reports during our current review and the status of outstanding issues disclosed during our prior review. We reviewed this documentation and spoke with officials from each state agency to determine what measures those agencies had taken to ensure that CAPs are being fully implemented in accordance with OSD's policy. Our special-scope review was limited to an examination of the actions taken by the state

³ One of the audits included in our review (No. 2002-5086-3C) was a statewide audit of the state's Salary Reserve Program at multiple contracted human service providers. As a result of this audit, CAPs needed to be implemented with six human service providers, which brings the total CAPs for the 33 audits to 38.

agencies to resolve the deficiencies identified in the audit reports identified in Appendix I of this report and the issues identified in our prior review.

At the conclusion of our audit field work, a draft copy of this report was provided to the state's Executive Office of Health and Human Services (EOHHS) for the purposes of soliciting written comments from those EOHHS agencies that were included in our audit. The written comments that we received from EOHHS relative to the specific issues detailed in our report are included after each audit result. However, EOHHS officials also provided general comments, which are as follows:

EOHHS agrees with the audit's general findings that, for the period of time covered by the audit report, there are instances of failure to adhere to the OSD audit resolution policy. Both EOHHS and agencies recognize the need to establish improvements . . .

Since 2004, through the Purchasing Strategies Initiative, EOHHS has been working in close collaboration with the Operational Services Division and our constituent agencies to improve internal controls and program integrity in the POS system. Together with its constituent agencies, EOHHS has established ten significant management reforms to improve consistency of oversight and coordination at the Secretariat level, as follows:

- 1. June 2004 - a Purchase of Service (POS) Program Integrity Committee was established to improve the oversight of Secretariat agencies and to standardize EOHHS provider qualification and audit policies and procedures.*
- 2. July 2005 - the EOHHS established a POS Program Integrity Unit to take the lead in these meetings. Its work focused on review and modification of the FY2007 Provider Qualification process and on establishing regular communication with purchasing agencies.*
- 3. August 2005 - EOHHS launched the Provider Data Management System on the Virtual Gateway, which allows all purchasing agencies to view important summary information on providers. Of particular relevance is that this summary information includes the status of any Corrective Action Plans. It also includes summaries of information from the Uniform Financial Reports, presented in a manner that supports the annual Provider Qualification process.*
- 4. August 2005 - At the direction of EOHHS, purchasing agencies appointed Audit Resolution Liaisons for communication and coordination with EOHHS regarding provider qualification and audit.*
- 5. January 2006 - the EOHHS POS Program Integrity Unit developed an FY2007 POS Provider Qualification Manual that establishes guidance, uniformity, and coordination for the POS Provider Qualification process. Chapter 5 of this manual, Completing a Corrective Action Plan (CAP), provides detailed instructions regarding when a CAP is required and on the process for completing the standardized CAP template.*

6. *February 2006* - an updated Master Provider Qualification Status Report was developed to track the approximately 1,150 EOHHS health and human service providers' annual qualification statuses.
7. *February and March 2006* - the POS Program Integrity Unit trained thirty-one Secretariat staff on implementation of provider qualifications and audits.
8. *June, 2006* -All POS providers had an up-to-date qualification reviews, completed by their PPA. Statuses are logged centrally by the EOHHS POS Program Integrity Unit
9. *July 2006* - An example of Audit Resolution Procedures was distributed to all Secretariat Audit Resolution Liaisons to serve as a model for developing Agency procedures.
10. *Currently* - EOHHS is finalizing Secretariat-level policies and procedures for implementing the OSD Audit Resolution Policy. The new procedures follow OSD and Federal oversight agencies guidelines and will set a consistent standard for resolution of audits across all purchasing agencies. The new Audit Resolution Policy and procedures will be implemented by purchasing agencies by November 2006.

Since 2004, EOHHS has hired three full-time employees to improve internal control and oversight of POS providers. The EOHHS' constituent purchasing agencies have been strong, active participants in these efforts, resulting in more efficient and standardized oversight and coordination. The management reforms outlined above reflect the efforts of EOHHS and its agencies to establish consistent and effective internal control policies for oversight of POS providers and contracts.... Evidenced by the extensive work undertaken by EOHHS and its constituent agencies described above, EOHHS does agree that there is continuing need for enhanced oversight. ...

AUDIT RESULTS

1. PRIOR AUDIT RESULTS UNRESOLVED – STATE AGENCIES ARE STILL NOT FULLY COMPLYING WITH OSD’S RESOLUTION POLICY

During our prior audit (No. 2002-5088-15C), we found that in many instances, the controls established by state agencies to ensure compliance with the Operational Services Division’s (OSD’s) Audit Resolution Policy were inadequate. For example, only three of the 10 state agencies involved in our prior audit had established compliance policies and procedures, and officials at one agency said they had never heard of OSD’s resolution policy. We also found that as a result of inadequate controls, state agencies had problems complying with this policy. In five of the 27 audits included in our prior review, 16 deficiencies were identified and the recoupment of \$319,554 was recommended; however, the contracting state agencies did not develop the Corrective Action Plans (CAPs) required by OSD’s policy to provide for the recoupment of these funds. We also found that for 12 audits which identified a total of 69 deficiencies and recommended the recoupment of \$1,860,800, the contracting state agencies did develop CAPs, but not within the six-month period required by the policy. Those CAPs were instead approved between 17 and 41 months after the Office of the State Auditor (OSA) audit reports were issued. In another instance, we found that contrary to OSD’s Audit Resolution Policy, a CAP approved by a state purchasing agency did not address all of the deficiencies identified in the audit report, including the recoupment of \$16,316. In addition, we found that in four instances, state agencies agreed to receive a combined \$84,291 less than the amount recommended in the OSA audit reports.

We recommended in our prior review that the state agencies involved take the measures necessary to ensure that they adhere to OSD’s standards for the establishment of an adequate audit resolution system. At a minimum, such measures should include the development and implementation of formal written procedures for the audit resolution process. We further recommended that OSD consider providing additional information or training on this policy to all state agencies involved in the procurement of human services.

During our current audit, we determined that only one of the eight state agencies, the Department of Social Services (DSS), had developed and implemented adequate formal written policies and procedures relative to compliance with OSD’s Audit Resolution Policy. We

determined that the systemic problems we identified during our prior audit still existed, and in some instances, had worsened. Our specific concerns are detailed in the sections below:

a. State Agencies Are Still Not Entering into Negotiated CAPs That Address All of the Problems Identified by OSA Audits as Required by OSD's Audit Resolution Policy

Our prior audit identified that 10 of the 27 audits (37%) in our sample did not have the required negotiated CAPs between the human service provider and its Principal Purchasing Agency (PPA). As a result, hundreds of thousands in state funding was not repaid to the Commonwealth, and numerous other noncompliance and internal control deficiencies were not corrected.

During our current audit, we determined that state agencies had entered into CAPs with 18 of these 27 service providers; referred six other audits to law enforcement agencies for resolution; and for three audits, the PPAs did not develop a formal CAP, but took measures to address the audit issues identified in our audits. However, we found that 10 of the 18 CAPs that were entered into between the state agencies and their contracted human service contained deficiencies, as follows:

- Ten of the implemented CAPs did not fully address all the recommendations made in OSA audits, such as state agencies conducting reviews for records that fall outside our audit period to see whether any additional funds needed to be recovered, making sure their human service providers amend their appropriate Uniform Financial Statements and Independent Auditor's Reports (UFRs) to ensure the accurate disclosure of financial information, and making sure that their human service providers established adequate internal controls over various aspects of their operations.
- Ten of the implemented CAPs were not adequately prepared, in that the CAP document did not specify required information, such as the corrective actions to be taken, timeframes for correction, means that would be used to evaluate if the issue was resolved, and the person responsible for resolving the issue.

During our current audit, we found that state agencies were still not entering into CAPs with their human service providers as required by OSD's Audit Resolution Policy (see Audit Result No. 2c) and that many of the CAPs established were deficient.

b. State Agencies Are Still Not Recovering All of the Funds Recommended for Recoupment in OSA Audit Reports

During our prior audit, we found that, contrary to OSD's Audit Resolution Policy, three state agencies in five instances agreed to receive less than the sums the OSA audit report had recommended for recoupment. For such cases, OSD's Audit Resolution Policy states:

Department management decisions and corrective actions must be consistent with law, regulations, contract terms and conditions and policies established by the Department, Secretariat, OSD, the federal government and other oversight entities as applicable. Written justification supported by sufficient, competent and relevant evidence must account for the legal basis for any decisions not agreeing with the independent auditor's findings and recommendations. Evidence that was not available for review by the independent auditor during the field work stage of the audit and which the auditor indicated may be relevant to the audit findings, may be reviewed and utilized for making management decisions. However, evidence that was available but not furnished to the auditor as requested by the auditor during the field work stage of the audit may not be reviewed or considered in making management decisions.

Management decisions not to collect funds in whole or in part related to non-reimbursable cost overpayments (Questioned Costs) and cost reimbursement contract overpayments must be reviewed by the legal counsel of the purchasing Department, the applicable Secretariat and DPS's audit and legal staff for appropriateness. Decisions not to collect these funds and to write them off as Commonwealth bad debts must be authorized by DPS, the applicable Secretariat, Office of the Comptroller and applicable federal cognizant and oversight agencies and the President's Office of Management and Budget, as appropriate.

The instances of unauthorized reductions to OSA's recommended recoupment are shown in the following table:

Audit Number	Name of Provider	PPA	Recommended Amount	Recovered Amount	Difference
97-4370-3	Cooperative for Human Services, Inc.	DMR	\$ 2,623	-	\$ 2,623
98-4305-3	Justice Resource Institute, Inc.	DSS	103,299	\$48,661	54,638
98-4380-3	Massachusetts Half-Way Houses, Inc.	DMR	18,513	-	18,513
98-4383-3	Riverside Community Mental Health and Retardation Center, Inc.	DMH	14,438	3,353	11,085
96-4050-3	Vinfen Corporation	DMH	<u>198,235</u>	<u>-</u>	<u>198,235</u>
Total			<u>\$337,108</u>	<u>\$52,014</u>	<u>\$285,094</u>

Our current review of these prior audit reductions identified the following subsequent departmental actions:

- In the case of Cooperative for Human Services, Inc., the PPA did not seek recovery for nonreimbursable expenses that were billed for services not provided. Instead, PPA officials stated that they determined that since the reimbursement to the human service provider was done at the PPA's request, the PPA assumed responsibility for these improper billings and therefore did not seek recoupment of these funds.
- In the case of Justice Resource Institute, Inc., the PPA reduced the amount it recovered from this provider. According to PPA officials, this reduction was based on a review of these questionable expenses conducted by the human service provider's private accounting firm.
- In the case of Massachusetts Half-Way Houses, Inc., the PPA did not seek recovery of the \$18,513 in nonreimbursable expenses billed to state contracts incurred by its prior Executive Director. According to the provider's PPA, this decision was based on the opinion of the human service provider's legal counsel that the legal costs involved in recovering these funds would be more than the amount recommended for recovery.
- In the case of Riverside Community Mental Health and Retardation Center, Inc., the PPA agreed to reduce the recommended recoupment for nonreimbursable expenses because the provider agreed to amend the Uniform Financial Statements and Independent Auditor's Reports (UFRs) it submitted to the state to indicate that the questionable expenses were not paid for with state funds. However, the provider, with the approval of the PPA, never filed these amended UFRs, citing the substantial costs associated with refiling this information.
- In the case of Vinfen Corporation, the PPA did not require the human service provider to amend its UFRs in accordance with the OSA's recommendation. Rather, the PPA accepted Vinfen's following assertion in its written response to the CAP:

Vinfen disagrees with the Auditor's conclusion that the costs were nonreimbursable....Since Vinfen has ample unrestricted funds to cover losses on part of its subsidiary corporations, Vinfen will in its Uniform Financial Reports going forward identify any losses on the part of its subsidiaries as nonreimbursable costs.

During our current audit, we determined that this problem still exists. Specifically, we found that in two of the 33 audits included in our current review, two state agencies--the Department of Mental Health (DMH) and the Department of Transitional Assistance (DTA)--agreed to recover \$657,306 less than the sums the OSA audit reports had recommended for recoupment (see Audit Result No. 2b).

c. State Agencies are Still Not Processing CAPs Within Six Month Timeframe Prescribed in OSD's Audit Resolution Policy

OSD's Audit Resolution Policy requires that, within a six-month period after an audit has been issued, the PPA is to resolve all audit findings, deficiencies, and uncorrected prior audit findings identified during that audit. Specifically, this policy states, in part:

Initiation of audit resolution. The Department must require prompt resolution and corrective action on audit recommendations. The Department must issue a management decision on audit findings within six months after receipt of the Contractor's audit report and corrective action plan, and ensure that the Contractor takes appropriate and timely corrective action. Corrective action should proceed as rapidly as possible.

Department process. The purchasing Department must provide a means to ensure timely responses to the independent auditor's reports if Contractor responses have not been incorporated into the independent auditor's reports. The process must provide sufficient time to permit resolution to take place within the six-month period

Despite these requirements, our prior audit disclosed that 12 audits with CAPs involving as much as \$1,860,800 in unallowable expenses charged to state contracts were not processed within the timeframe prescribed in OSD's Audit Resolution Policy. In one case, the CAP was not implemented until approximately 41 months after the OSA audit report was issued.

During our current audit, we found that this problem still exists. Specifically, for 11 of the 38 providers (29%) included in our current review, CAPs were processed, on average, 460 days later than the implementation dates required by OSD's Audit Resolution Policy.

Recommendation

To address our concerns, state agencies should take the measures necessary to ensure that they adhere to OSD's standards for the establishment of an adequate audit resolution system and adhere to its Audit Resolution Policy. At a minimum, such measures should include the development and implementation of formal written procedures for the audit resolution process.

Auditee's Response

In response to this audit result, EOHHS, on behalf of its agencies, provided the following comments:

EOHHS is currently monitoring the completion of CAPs for EOHHS providers that resulted from OSA audits issued between January 30, 1998 and April 4, 2005. Additional

monitoring of OSA audits issued subsequent to April 4, 2005 will begin in October, 2006. Additionally, EOHHS has developed a central repository for information on any CAPs established as the result of our own annual provider re-qualification reviews. The status of these CAPs is tracked monthly by EOHHS POS Program Integrity Unit staff.

EOHHS procedures for developing a CAP will ensure that all findings noted in an OSA audit report are listed on the CAP by the PPA. With regard to OSA recommended recoveries of disallowed costs, EOHHS will clarify its policies and procedures to ensure that any modification of resolution amounts pertaining to disallowed costs are negotiable only with OSA. Only questioned costs may be reviewed, and potentially modified in accordance with OSD policy, by the PPA for sufficient, competent and relevant evidence. This evidence must be presented as basis for any final management decisions that differ from the Independent auditor's findings and recommendations. Department management decisions not to collect funds (Questioned Costs) in whole or in part will be made according to OSD policy.

During January 2006, the EOHHS POS Program Integrity Unit developed an FY2007 POS Provider Qualification Manual that established guidance, uniformity, and coordination of the POS Provider Qualification process. Chapter 5 of this manual, Completing a Corrective Action Plan (CAP), provides instruction on when a CAP is required and a description of the process for completing the standardized CAP template. Training for thirty-one Secretariat staff was conducted during February and March of 2006.

Currently, EOHHS is in the process of finalizing OSA Audit Resolution Oversight Policy and procedures. The new policy and procedures will follow OSD and other federal oversight agencies guidelines. The new Audit Resolution Policy and procedures will be implemented by Secretariat agencies by November 2006.

In addition, although we recognize the need for more consistency in policy and procedure, EOHHS offers that many of these audits are extremely complex and the six-month requirement may be inadequate for full resolution to occur. From our viewpoint, we would suggest that OSD policy allow for extension requests in specific cases in which audit issues or audit resolution coordination may present special challenges requiring more time for resolution.

In addition to its comments relative to this audit result, EOHHS responded that there were several discrepancies between the information detailed in our audit results and EOHHS records, as follows:

Under Finding 1b.

- *OSA references two audits of DMR providers. In the first of these, Cooperative for Human Services, Inc., the audit correctly reflects the fact that DMR determined that the provider was not responsible for making the repayment in question. At the same time, however, the audit mistakenly suggests that a similar approach was taken by DMR in the case of Massachusetts Half-Way Houses, Inc. That is not correct. In that instance DMR entered into an Administrative Agreement with the provider on December 4, 2000, which resulted in the recovery of \$17,247 from the provider.*

- *In the case of Audit 98-4305-3, Justice Resource Institute the recovery reduction of \$54,638 was the result of a legitimate re-filing of JRI's FY 1996 and FY 1997 UFR and the use of unrestricted general and administrative revenues. Both OSD and DSS consider this audit resolved. However, while this audit may be resolved, EOHHS does acknowledge that appropriate paperwork may not have been completed and placed on file.*

Auditor's Reply

Based on its response, EOHHS and its sub-agencies are taking measures to ensure future compliance with OSD's Audit Resolution Policy. However, given the fact that these same problems were identified in our prior audit report which was issued over four years ago, we question why it has taken so long to address these problems. As a result of EOHHS and its agencies' failure to address the identified deficiencies in a timely manner, the Commonwealth lost the opportunity to recover millions in state funds in a timely manner which could have been used to provide services to its most needy citizens.

In its response, EOHHS states that it will clarify its policies and procedures to ensure that any modification of resolution amounts pertaining to disallowed costs are negotiable only with the OSA. However, as stated in our report, OSD's Audit Resolution Policy clearly defines the process that state agencies should follow when it is decided not to collect the recommend recoupment amount. Specifically, this policy states in part;

Management decisions not to collect funds in whole or in part related to non-reimbursable cost overpayments (Questioned Costs) and cost reimbursement contract overpayments must be reviewed by the legal counsel of the purchasing Department, the applicable Secretariat and DPS's audit and legal staff for appropriateness. Decisions not to collect these funds and to write them off as Commonwealth bad debts must be authorized by DPS, the applicable Secretariat, Office of the Comptroller and applicable federal cognizant and oversight agencies and the President's Office of Management and Budget, as appropriate.

The OSA is responsible for conducting discretionary audits of contracted human service providers in accordance with Generally Accepted Government Auditing Standards and to report any deficiencies that may be identified during these audits to the appropriate state funding agencies. As noted above, the OSA is not involved in OSD's audit resolution process, nor does it negotiate the mitigation of its audit results. If EOHHS and/or one of its agencies want to recoup less than was recommended in an OSA report, it needs to follow the process established in OSD's Audit Resolution Policy.

Regarding the discrepancies that EOHHS contends are in our report, we offer the following facts:

Regarding Massachusetts Half-Way Houses Inc. (MHHI), EOHHS is correct in its statement that \$17,247 was recovered from this provider as a result of unallowable meals, travel, and fringe benefits and a retirement party MHHI provided to its former Executive Director. However, in this same audit, we also identified an additional \$18,513 in unallowable and unauthorized compensation provided to its former Executive Director. Based on the documentation provided to us by the vendor's PPA relative to this \$18,513, our report correctly states that the PPA decided not to seek recovery of these funds based on the opinion of the service provider's legal counsel that litigation costs would be more than the compensation that could be recovered.

Regarding JRI, EOHHS contends in its response that the recovery of the funds in question totaling \$54,638 was resolved by JRI re-filing its fiscal years 1996 and 1997 UFRs and allocating these non-reimbursable costs to its unrestricted general and administrative revenues. JRI did in fact re-file its fiscal years 1996 and 1997 UFRs. However, the amount of expenses that were reallocated by JRI to its unrestricted general and administrative revenues during these two fiscal years was \$54,638 less than the amount recommended for recovery in the OSA report.

2. STATE AGENCY NONCOMPLIANCE WITH OSD'S AUDIT RESOLUTION POLICY RESULTED IN NUMEROUS UNCORRECTED DEFICIENCIES AND AT LEAST \$2,408,502 IN STATE FUNDS NOT BEING RECOVERED

We found that for the 38 human service providers included in our current audit, the contracting state agencies either properly implemented CAPs or took other measures, such as referring the audit to law enforcement agencies, for nine of the 38 providers. However, for the remaining 29 providers, we found numerous problems, some even more significant than those identified during our prior audit, as follows:

- Two instances in which state agencies reduced the OSA's recommended recoupment amounts by \$657,306 without the knowledge or approval of OSD.
- Eleven audits did not have negotiated CAPs between the human service provider and its state purchasing agency; as a result, up to \$1,751,196 was not repaid to the Commonwealth, and numerous other noncompliance and internal control deficiencies were not resolved. Included in these audits were four instances in which three state purchasing agencies had not complied with the requirements of Chapter 29, Section 29B, of the Massachusetts General Laws, as they used their

contracted human service providers as fiscal conduits to make purchases of departmental goods and services totaling over \$673,591. Although we did not recommend the recoupment of this \$673,591, we did recommend that state agencies discontinue this practice. Further, regarding this matter, OSD stated the following:

As a result of OSD's serious concerns regarding a pattern of fiscal conduit relationships between state agencies and contractors identified in OSA audits, the Division made the decision on 2/8/05 to assume direct responsibility for resolving all OSA audits citing the prohibited fiscal conduit activities...

- Eleven audits with CAPs involving as much as \$951,704 in unallowable expenses charged to state contracts were not processed within the 180 day timeframe prescribed in OSD's Audit Resolution Policy. These CAPs were implemented from 203 to 1,237 days after the issuance of the audit report, or an average of 460 days beyond the six month timeframe prescribed by OSD's Audit Resolution Policy.
- Six CAPs did not properly address all of the issues reported in OSA audits. For example, in some cases, PPAs did not ensure that their human service providers established adequate internal controls over all aspects of their operations, whereas in other instances, PPAs did not conduct the recommended reviews of expenses in areas where problems were identified by the OSA to determine if additional funds should be recovered.
- Four state agencies took corrective measures relative to OSA audits for seven human service providers, but did so without establishing the required CAPs.

The specific problems we identified during our current audit are discussed in detail in the following sections:

a. Two State Agencies Correctly Implemented CAPs, and for Seven Other Audits, OSD or the Auditee's PPA Took Measures That Did Not Require a CAP

We determined that for two of the 38 selected human service providers in which \$19,952 was recommended for recovery, the PPA implemented a CAP in accordance with OSD's Audit Resolution Policy. For seven other audits in which \$19,520,605 was recommended for recovery, OSA, OSD or the auditee's PPA took measures that resulted in the PPA's not having to enter into a CAP with the provider, as follows:

- Two of the providers, Thorndike School, Inc. and Heritage School Inc., had ceased operating; therefore no CAPs could be implemented.
- Two audits of the New England Shelter for Homeless Veterans, Inc. included the same deficiency that was adequately resolved by its PPA without CAPs.

- Three of the audits in which the OSA recommended the recovery of \$19,520,605 in state funds were referred to the Commonwealth's Office of the Attorney General (OAG) and are still pending resolution, as indicated in the table below:

Audit Number	Name of Vendor	Recommended Recoupment
2001-4428-3	Community Group, Inc.	\$651,739
2003-4477-3C	Pakachoag Acres Day Care Center, Inc. *	1,439,981
2002-4453-3C	Spectrum Health Systems, Inc.	<u>17,428,885</u>
	Total	<u>\$19,520,605</u>

*According to a June 22, 2006 news release issued by the OAG, the OAG reached a settlement agreement with this provider, which included the return to the Commonwealth almost \$700,000 in state funds.

b. State Agencies Reduced OSA's Recommended Recoupment Amounts by \$657,306 without the Knowledge or Approval of OSD

During our current audit, we found that contrary to OSD's Audit Resolution Policy, two state agencies agreed to receive less than the amounts the OSA audit report had recommended for recoupment, without the knowledge or approval of OSD. For such cases, OSD's Audit Resolution Policy states:

Department management decisions and corrective actions must be consistent with law, regulations, contract terms and conditions and policies established by the Department, Secretariat, OSD, the federal government and other oversight entities as applicable. Written justification supported by sufficient, competent and relevant evidence must account for the legal basis for any decisions not agreeing with the independent auditor's findings and recommendations. Evidence that was not available for review by the independent auditor during the fieldwork stage of the audit and which the auditor indicated might be relevant to the audit findings, may be reviewed and utilized for making management decisions. However, evidence that was available but not furnished to the auditor as requested by the auditor during the field work stage of the audit may not be reviewed or considered in making management decisions.

Management decisions not to collect funds in whole or in part related to non-reimbursable cost overpayments (Questioned Costs) and cost reimbursement contract overpayments must be reviewed by the legal counsel of the purchasing Department, the applicable Secretariat and DPS's audit and legal staff for appropriateness. Decisions not to collect these funds and to write them off as Commonwealth bad debts must be authorized by DPS, the applicable Secretariat, Office of the Comptroller and applicable federal cognizant and oversight agencies and the President's Office of Management and Budget, as appropriate.

The unauthorized reductions to OSA's recommended recoupment were as follows:

Audit Number	Name of Vendor	PPA	Recommended Amount	Recovered Amount	Difference
2003-4181-3C	Northeastern Family Institute Massachusetts, Inc. (NFI)	DMH	\$624,631	\$ 9,803	\$614,828
2000-4421-3	Corporation for Public Management, Inc (CPM)	DTA	<u>46,798</u>	<u>4,320</u>	<u>42,478</u>
Total			<u>\$671,429</u>	<u>\$14,123</u>	<u>\$657,306</u>

In the case of NFI, DMH did not seek to recoup nonreimbursable building facility expenses of as much as \$613,708. In its report, the OSA recommended that OSD monitor the sale of a property owned by the provider to ensure that any surplus revenues generated from the sale, less any amounts deemed to be allowable expenses by OSD and DMH, were reimbursed to the state. The sale of the building occurred on December 30, 2003. However, DMH allowed the service provider to keep its net gain of \$265,987 from the sale of this property by simply making an accounting entry to the agency's financial records without remitting any funds to the Commonwealth. In addition, during this same audit, DMH reduced the amount that the OSA recommended should be recovered from NFI for unallowable management fees it charged against state contracts by \$1,120 (from \$10,923 to \$9,803). DMH officials indicated that their decision to reduce the amount the OSA recommended for recovery from this provider was based on communications with the provider and records they received from the provider subsequent to our audit. It should be noted that DMH did not submit an approved CAP as required to OSD for approval until January 17, 2006 (one year and seven months from OSA's audit report issue date).

In the case of CPM, the OSA recommended recoupment of \$46,798 for unallowable program and fringe benefit expenses. In order to resolve this issue, DTA collaborated with the state agency whose contracts funded these expenses--the Department of Youth Services (DYS)--to seek the recovery of these funds. However, DYS subsequently sent a letter to DTA detailing its decision not to seek recovery of \$42,478 in nonreimbursable, non-program-related expenses, which stated in part, as follows:

DYS purchased these gift certificates and passes to provide rewards for the youth participating in the DYS programs. The Department of Youth Services treated the names of the individuals receiving gift certificates as confidential. CPM accepted in

good faith the explanation provided by DYS for the gift certificates and passes purchased. . . .These non-program related activities included paying conference expenses for DYS employees. DYS employees attended these conferences. . . .It is not the intention of DYS to seek costs attributable to this audit. . . .DYS is not interested in recouping these costs.

Clearly, by not recovering all the funds that were identified as misused, state agencies are foregoing the opportunity to recover funds that could be used to provide services to needy consumers.

c. Eleven Audits Did Not Have Negotiated CAPs between the Human Service Provider and the PPA; as a Result, up to \$1,751,196 Was Not Repaid to the Commonwealth and Numerous Other Noncompliance and Internal Control Deficiencies Were Not Resolved

OSD's Audit Resolution Policy requires that after human services providers receive a final audit report from the OSA, they prepare a written CAP that is to be submitted to the PPA. Specifically, this policy states, in part:

Written corrective action plans must be prepared and submitted by the Contractor after it receives a final audit report issued by the Office of the State Auditor (OSA) or by Department contracted auditor.

The PPA is ultimately responsible for the resolution of audit findings, must therefore ensure that providers submit written CAPs promptly so that corrective action begins as early as possible.

We found that despite these requirements, for the 11 human services providers included in our audit for which CAPs should have been developed, the contracting state agencies did not develop CAPs to meet the requirements of OSD's Audit Resolution Policy. For these 11 providers, the OSA audits had identified 53 deficiencies, including overbillings to state contracts, unallowable or undocumented costs, and internal control weaknesses, and the OSA had recommended the recoupment of \$1,751,196 in state funds.

The following is a summary of the problems we found for these 11 audits:

- For three audits in which the recoupment of \$338,489 in state funds was recommended, state agencies never entered into CAPs as required by OSD's Audit Resolution Policy.

Audit Number	Name of Provider	PPA	OSA Recommended Recoupment
2002-4464-3C	Bass River, Inc.	DMR	\$ 1,710
2003-4190-3C	South Shore Mental Health, Inc.	DMR	302,384
2000-4396-3	Toward Independent Living and Learning, Inc.	DMR	<u>34,395</u>
		Total	<u>\$338,489</u>

- For four of the audits in which we recommended the recoupment of \$502,869 in state funds, as of the end of our audit field work DMR had developed CAPs, but they had not yet been reviewed and approved by OSD.

Audit Number	Name of Provider	PPA	OSA Recommended Recoupment
2004-4482-3C	Cambridge Family and Children's Services, Inc.	DMR	\$54,701
2004-4485-3C	Lifestream, Inc.	DMR	113,767
2004-4270-3C	People, Inc.	DMR	21,249
2001-4429-3	Turning Point, Inc.	DMR	<u>313,152</u>
		Total	<u>\$502,869</u>

- Chapter 29, Section 29B, of the General Laws prohibits state agencies from using their human service providers as fiscal conduits. However, for four of the audits in which we identified \$909,838 in nonreimbursable expenses and other noncompliance issues, OSD has assumed the responsibility from the PPAs to develop and implement CAPs for these providers because their PPAs used these providers to conduct fiscal conduit activities. The four providers and the associated nonreimbursable expenses we identified during our audits at these providers are detailed in the table below:

Audit Number	Name of Provider	PPA	OSA Recommended Recoupment
2004-4357-3C	Alternatives Unlimited, Inc.	DMH	-
2005-4345-3C	The Bridge of Central Massachusetts, Inc.	DMH	-
2003-4466-3C	Better Community Living, Inc.	DMR	\$902,092
2003-4465-3C	East Middlesex Association for Retarded Citizens, Inc.	DMR	<u>7,746</u>
		Total	<u>\$909,838</u>

The following is a summary of the fiscal conduit activity we found at these four human service providers. Although we only recommended the recoupment of the aforementioned \$909,838 in nonreimbursable funds we identified during these audits, and did not

recommend the recoupment of the funds involved in the fiscal conduit activity, the table below details the extent of the fiscal conduit activity identified during our audits of these agencies.

Audit No.	Name of Provider	PPA	State Agency Involved in Fiscal Conduit Activity	Amount of Fiscal Conduit Expenses	Provider Administrative Expenses to Process Fiscal Conduit Expenses	Total
2004-4357-3C	Alternatives Unlimited, Inc.	DMH	DMR	\$42,600	\$5,400	\$48,000
2003-4466-3C	Better Community Living, Inc.	DMR	DMR	235,497	-	235,497
2005-4345-3C	The Bridge of Central Massachusetts, Inc.	DMH	DMH	15,456	788	16,244
2003-4465-3C	East Middlesex Association for Retarded Citizens, Inc.	DMR	DMR	<u>355,297</u>	<u>18,553</u>	<u>373,850</u>
			Total	<u>\$648,850</u>	<u>\$24,741</u>	<u>\$673,591</u>

If state agencies do not require service providers to develop the CAPs required by OSD's Audit Resolution Policy, they will have no assurance that problems identified during audits are being appropriately and expeditiously resolved or that recommended amounts from misappropriated funds are being recovered.

d. Eleven Audits with CAPs Involving as Much as \$951,704 in Unallowable Expenses Charged to State Contracts Were Not Processed within the Timeframe Prescribed in OSD's Audit Resolution Policy

OSD's Audit Resolution Policy requires that, within a six-month period after an audit has been issued, the state purchasing agency must resolve any deficiencies identified during that audit. This policy states, in part:

Initiation of audit resolution. The Department must require prompt resolution and corrective action on audit recommendations. The Department must issue a management decision on audit findings within six months after receipt of the Contractor's audit report and corrective action plan, and ensure that the Contractor takes appropriate and timely corrective action. Corrective action should proceed as rapidly as possible.

Department process. The purchasing Department must provide a means to ensure timely responses to the independent auditor's reports if Contractor responses have

not been incorporated into the independent auditor's reports. The process must provide sufficient time to permit resolution to take place within the six-month period.

We found that despite these requirements, five state agencies failed to approve CAPs for 11 of the audits within the timelines prescribed by OSD's policy, as detailed in the table below:

Audit No.	Name of Provider	PPA	Report Date	CAP Date	Days Since Report Issued
2004-4481-3C	Children's Aid & Family Services of Hampshire County, Inc.	DSS	8/12/04	2/27/06	555
2000-4422-3	Center for Health and Development, Inc.	DMH	8/16/01	3/14/02	208
2004-4486-3C	Comprehensive Mental Health Systems, Inc.	DMR	12/27/04	6/22/06	535
2000-4423-3	Health and Education Services, Inc.	DMH	1/25/02	4/18/06	1,237
2002-4450-3C	Friendly House, Inc.	DTA	7/24/02	5/17/04	653
2002-4376-3C	The Friends of Shattuck Shelter, Inc.	DPH	6/30/03	12/16/05	886
2002-5086-3C	Massachusetts Society for the Prevention of Cruelty to Children	DSS	10/29/02	5/22/03	203
2003-4181-3C	Northeastern Family Institute Massachusetts, Inc.	DMH	5/20/04	1/4/06	584
2003-4300-3C	Nauset, Inc.	DMR	5/23/03	6/26/06	1,113
2002-5086-3C	The Plummer Home for Boys, Inc.	DSS	10/29/02	2/2/04	453
2004-4478-3C	GROW Associates, Inc.	DMR	10/12/04	6/26/06	614

The average amount of days that lapsed between the issuance of the report and the end of our audit period was 640 days, or 460 beyond the 180-day (six-month) requirement established by OSD's Audit Resolution Policy for audit resolution.

Regarding this matter, the five state departments in question did not comment on why these CAPs for audits were not processed within the timelines established by OSD's Audit Resolution Policy.

e. Six of the CAPs Did Not Properly Address All of the OSA Issues

OSD's Audit Resolution Policy requires that all deficiencies reported in OSA audit reports, including material or nonmaterial noncompliance and weaknesses in internal controls, be identified and addressed in the CAP. The policy states, in part:

The corrective action plan must address all audit findings included in each of the independent auditor's reports issued by the Office of the State Auditor or issued in accordance with OMB Circular A-133. . . .When such findings are included in the auditor's report, they must be included in the CAP for A-133 or SAO audits and are encouraged to be included for non-A-133 audits. . . .

Additionally, OSD's Audit Resolution Policy requires that the CAP must include provisional requirements and execution by the Contractor and the PPA or designee by stating, in part:

Corrective action plans shall identify the findings, deficiencies, uncorrected prior audit findings and reference numbers utilized by the independent auditor to identify the findings. Corrective actions to be taken, along with specified action dates, must be identified in the corrective action plan and approved by the Contractor's board of directors.

The corrective action plan and purchasing Department management decisions must be incorporated into an administrative agreement signed by the authorized signatory of the Contractor and the purchasing Department or the principal purchasing agency's representative, as applicable.

We found that despite these requirements, the six CAPs detailed below either did not address all of the deficiencies identified in the OSA's audits of these human service providers, or were deficient in that they were missing vital information to comply with OSD's promulgated provisional requirements.

Audit No.	Name of Vendor	PPA
2000-4422-3	Center for Health & Development, Inc. (CHD)	DMH
2002-4376-3C	The Friends of Shattuck Shelter, Inc. (FOSS)	DPH
2004-4478-3C	GROW Associates, Inc. (GROW)	DMR
2000-4423-3	Health and Education Services, Inc. (HES)	DMH
2003-4181-3C	Northeastern Family Institute Massachusetts, Inc. (NFI)	DMH

- For three of the above audits, (CHD, HES, and GROW), the OSA recommended that state oversight agencies conduct additional reviews of transactions in areas where problems had been identified that fell outside the period covered by the audit, to determine if additional funds should be recovered. However, we determined that these reviews were never conducted. Regarding our review of CHD, a DMH official stated, "Due to other priority audits/reviews, we have been unable to commit to any

additional site reviews of CHD.” DMH provided the following comments relative to our review of HES: “No additional reviews have been conducted to date due to other audit priorities.” Our audit of GROW recommended that DMR conduct a review of the compensation provided to the agency’s former Executive Director to determine whether any additional funds should be recovered. As of the date of our audit, this review has not been addressed.

- For five audits, (FOSS, GROW, HES, NFI, and PHB), the OSA recommended that the human service provider implement adequate internal controls over various aspects of its operations. However, for four of these audits (HES, PHB, NFI, and FOSS), there were a total of 11 internal control problems at these agencies that needed to be corrected that were not addressed in their CAPs.
- For five audits, (CHD, FOSS, HES, NFI, and PHB), the developed CAPs were deficient in that they did not document such items as audit recommendations, corrective measures to be taken, verification that the recommendations have been addressed and corrective measures implemented, or the appropriate approvals.

f. Four State Agencies Took Corrective Measures without Establishing a CAP

As mentioned above, OSD’s Audit Resolution Policy requires that all deficiencies reported in OSA audit reports; including material noncompliance, nonmaterial noncompliance, and weaknesses in internal controls; be identified and addressed in a formal written CAP. However, our review determined that the deficiencies identified in the seven audits listed below were addressed without a formal written CAP.

Audit No.	Name of Provider	PPA
2001-4431-12	New England Aftercare Ministries, Inc.	DPH
2002-4411-3	Portuguese Youth Cultural Organization, Inc.	DPH
2000-4421-3	Corporation for Public Management, Inc.	DTA
2002-5086-3C	Advocates, Inc.	DMR
2002-5086-3C	North Suffolk Mental Health Association	DMH
2002-5086-3C	Eliot Community Human Services, Inc.	DYS
2002-5086-3C	Riverside Community Care	DMH

- In resolving the audit of New England Aftercare Ministries, Inc., OSD approved an alternative method of resolution for DPH to use other than the implementation of a CAP. Specifically, DPH performed a comprehensive site visit and submitted its report to OSD for approval. Although OSD accepted this alternative evidence in lieu of a CAP, OSD further indicated: “In the future OSD will be looking for a formal CAP. ...Although the follow up is an excellent compliance tool, all parties need an understanding of what measures will be put in place to address the issues as a standard which then can be compared in the site visit to what is actually taking place.”

- The Portuguese Youth Cultural Organization, Inc. and its PPA did not develop a CAP. However, based on the documentation provided to us by the human service provider's PPA, all the issues raised in our report had been resolved.
- The Corporation for Public Management, Inc. and its PPA did not develop a CAP. However, based on the documentation provided to us by the human service provider's PPA, all of the issues raised in our report relative to this state agency had been resolved.
- Four audits (Advocates, Inc., Eliot Community Human Services, Inc., North Suffolk Mental Health Association, and Riverside Community Care) identified deficiencies relative to internal controls over salary reserve contracts. According to documentation provided to us by these human service providers' PPAs, no CAPs were developed relative to these audits. However, these four human service providers have developed the recommended policies and procedures relative to their contractual requirements and submitted supporting documentation to their PPAs for approval.

Recommendation

To address our concerns, state purchasing agencies should take the measures necessary to fully comply with OSD's Audit Resolution Policy and negotiate and establish CAPs with their human service providers that:

- Have been reviewed and approved by OSD, particularly for any adjustments to OSA-recommended recoupment amounts;
- Are processed within timeframes prescribed in OSD's Audit Resolution Policy; and
- Properly address all of the issues reported in OSA audits.

OSD should assume the responsibility for ensuring that state agencies comply with its Audit Resolution Policy. To this end, it should, at least annually, file a report with the Secretary of the Executive Office of Health and Human Services and the State Legislature that identifies the state agencies that have not fully complied with this policy and the amount of state funds that remain uncollected.

Auditee's Response

In response to this audit result, EOHHS, on behalf of its agencies, provided the following comments:

As of September 8, 2006, four of the eleven human service providers had OSD-approved CAPs in place... The four providers with approved CAPs, representing \$208,427 in recoupments, are:

- *Cambridge Family and Children's Services, Inc. – (Audit# 2004-4482-3C)*
- *Lifestream, Inc. – (Audit# 2004-4485-3C)*
- *People, Inc. – (Audit# 2004-4270-3C)*
- *East Middlesex Association for Retarded Citizens, Inc. – (Audit# 2003-4465-3C)*

The Auditor also cites the audits of Bass River, Inc, South Shore Mental Health, Inc., and TILL. In each case, the PPA, DMR, is actively working on resolving the audits, and expects to complete corrective action plans in the near future. In the case of the audit of TILL, DMR understands that the audit is significantly behind the required timeframe. The audit presents particularly complex resolution issues and DMR remains committed to resolving it.

In addition, the first three DMR audits pertaining to Cambridge Family and Children's Services, Inc., Lifestream, Inc., and People, Inc., have now been approved by OSD.....

In addition, in the case of the audit of Turning Point, Inc., DMR submitted a comprehensive CAP to OSD. This CAP contained considerable information based on an interagency review of the findings and amounts in question, leading to the recommendation that the provider should repay \$57,464.46 to the Commonwealth and should also deliver \$35,800.12 in free services to DMR. On the basis of this, the provider has given DMR a check in the amount of \$57,464.46, and the provider has entered into an agreement to provide free services in the amount of \$35,800.12, thus complying with both components of the CAP. DMR is seeking additional guidance from OSD as to how to complete this audit resolution.

With respect to the issue of the improper use of fiscal conduit arrangements by purchasing agencies, DMR has issued an Advisory on prohibited fiscal conduits and all DMR staff involved in the contracting process have been required to read and certify that they understand the nature of fiscal conduits and the potential consequences for engaging in them. Additionally, DMR has completed a second round of statewide training for all DMR providers that focuses on the issue of fiscal conduits, in an effort to increase understanding about the need to avoid this prohibited practice.

As part of EOHHS' ongoing work with constituent agencies to improve overall POS internal control procedures, EOHHS will explore the viability of making the DMR practice a point of policy for all agencies to follow.

[Regarding Audit Result 2d]

Regarding the excess number of days it takes the PPAs to complete a CAP, EOHHS will be implementing an audit resolution procedure in which the POS Program Integrity Unit will receive a copy of the final audit report from the OSA of any EOHHS provider audited by the OSA. Once the report is received, the POS Program Integrity Unit will e-mail the report to the responsible PPA Audit Liaison. The PPA audit liaison will then forward the report via e-mail to any other EOHHS Secretariat agency affected by the OSA audit report.

[Regarding Audit Result No 2e]

As of September 8, 2006, five of the six human service providers now have OSD approved CAPs that address OSA concerns. One remains outstanding. The five providers with approved CAPs representing \$232,099 in re-couplements to the Commonwealth follow:

- *Center for Health & Development, Inc.- (Audit# 2000-4422-3)*
- *The Friends of Shattuck Shelter, Inc. – (Audit# 2002-4376-3C)*
- *GROW Associates, Inc. – (Audit# 2004-4478-3C)*
- *Health and Education Services, Inc. – (Audit# 2000-4423-3)*
- *The Plummer Home for Boys, Inc. – (Audit# 2002-5086-3C)*

Similar to our request for Finding 2c, while EOHHS recognizes that these CAPS may not have been in place at the time of the Audit report, we request that notation to this effect is included in the report.

[Regarding Audit Result No. 2f]

It is correct that CAPS were not developed with New England Aftercare Ministries and Portuguese Youth Cultural Organization. However, all issues identified in the two OSA reports were satisfactorily addressed. In both cases, the Department asked the OSA to complete an audit of the vendor upon DPH's identification of significant problems. In the future, EOHHS and its agencies will issue CAPs on audit findings, regardless of whether or not the OSA is involved in follow up activities.

In addition to its comments relative to this audit result, in its response, EOHHS contends that there are several discrepancies between the information detailed in our audit results and EOHHS records, as follows:

- *The audit report states that the CAP for the Health and Education Services, Inc. was 1,523 days overdue. Instead, the CAP and the receipt of the overpayment was only three months late due to the fact that the provider appealed the repayment of \$6,035 to OSD. The appeal was rejected by OSD. EOHHS requests that the draft indicate the lengthy turn-around was due to a legitimate appeal process.*

The CAP submitted as part of the resolution of the audit of GROW Associates, Inc. has been appropriately submitted to and approved by OSD. To the extent that this CAP in the Auditor's judgment did not reflect sufficient review of certain compensation issues, DMR is prepared to review that matter at this time and to take additional actions, as necessary.

Auditor's Reply

In its response, EOHHS indicates that subsequent to the end of our audit fieldwork, its agencies have been able to implement CAPs with a number of providers. We commend those EOHHS agencies who have been making reasonable efforts to implement CAPs, and once again encourage all EOHHS agencies to take the measures necessary to fully comply with OSD's Audit Resolution Policy.

We also believe that the actions that EOHHS states it will take to resolve the issue of state agencies using their providers as fiscal conduits were necessary. However, we believe that EOHHS should not just "explore the viability" of making the DMR practice a point of policy, but should take immediate measures to ensure that all of its agencies fully comply with state law and cease this practice. Further, we believe that the measures taken by EOHHS, as indicated in its response, to ensure that CAPs are implemented within the timelines prescribed by OSD's Audit Resolution Policy, were necessary and appropriate.

In its response, EOHHS contends that the delay in processing the CAP for Health and Education Services, Inc. (HES) was due to a lengthy appeal process. However, according to the information provided to us by HES's PPA, the audit was issued on January 25, 2002, an appeal was filed by the vendor with DMH on May 21, 2002, and the appeal was rejected by OSD on August 19, 2002. Despite this, the CAP was not submitted by DMH to OSD until April 18, 2006, almost four years later.

Finally, contrary to what EOHHS states in its response, GROW's CAP was rejected by OSD on May 11, 2006 because it did not address all of the recommendations made by the OSA. Specifically, OSD cited the lack of a repayment plan for the \$39,231 unallowable salary expenses for a former Executive Director and unallowable fringe benefit expenses for select employees. On June 27, 2006, a partial CAP was submitted to OSD. This partial CAP dealt with audit results in which recovery was not an issue. According to the information we obtained from OSD officials, at that time, DMR told OSD that a second CAP was being negotiated regarding the recovery issues.

APPENDIX I

Audit Reports Included in Our Current Audit

Audit No.	Name of Human Service Provider	Audit Period	Principal Purchasing Agency	Audit Report Issue Date
2004-4357-3C	Alternatives Unlimited, Inc.	7/1/01-6/30/03	DMH	1/20/05
2002-4464-3C	Bass River, Inc.	7/1/00-6/30/01	DMR	2/7/03
2003-4466-3C	Better Community Living, Inc.	7/1/00-6/30/03	DMR	12/3/04
2004-4482-3C	Cambridge Family and Children's Services, Inc.	7/1/01-12/31/03	DMR	12/9/04
2000-4422-3	Center For Health and Development, Inc.	7/1/97-6/30/00	DMH	8/16/01
2004-4481-3C	Children's Aid and Family Services of Hampshire County, Inc.	7/1/01-6/30/03	DSS	8/12/04
2002-4432-3	Clarendon Family Day Care, Inc.	10/1/99-6/30/01	EEC	4/5/02
2001-4428-3	Community Group, Inc.	10/1/96-9/30/01	DMR	2/3/03
2004-4486-3C	Comprehensive Mental Health Systems, Inc.	7/1/01-4/30/04	DMR	12/27/04
2000-4421-3	Corporation for Public Management, Inc.	7/1/98-10/20/00	DTA	5/14/02
2003-4465-3C	East Middlesex Association For Retarded Citizens, Inc.	7/1/00-1/31/03	DMR	1/21/04
2002-4450-3C	Friendly House, Inc.	7/1/99-12/31/01	DTA	7/24/02
2003-4474-3C	George H. & Irene L. Walker Home for Children, Inc.	7/1/01-6/30/02	DSS	1/29/04
2004-4478-3C	GROW Associates, Inc.	7/1/01-11/30/03	DMR	10/12/04
2000-4423-3	Health and Education Services, Inc.	7/1/98-6/30/00	DMH	1/25/02
2001-4427-3	Heritage School, Inc.	7/1/99-2/28/01	EEC	10/18/01
2004-4485-3C	Lifestream, Inc.	7/1/01-12/31/03	DMR	3/28/05
2003-4300-3C	Nauset, Inc.	7/1/99-12/31/02	DMR	5/23/03
2001-4431-12	New England Aftercare Ministries, Inc.	7/1/99-6/30/01	DPH	2/1/02

2003-4181-3C	Northeastern Family Institute Massachusetts, Inc.	7/1/00-6/30/03	DMH	5/20/04
2003-4477-3C	Pakachoag Acres Day Care Center, Inc.	7/1/95-12/31/03	EEC	3/4/05
2004-4270-3C	People, Inc.	7/1/01-12/31/03	DMR	4/4/05
2000-4411-3	Portuguese Youth Cultural Organization, Inc.	7/1/97-12/31/99	DPH	8/15/01
2003-4190-3C	South Shore Mental Health, Inc.	7/1/00-3/31/03	DMR	8/10/04
2002-4453-3C	Spectrum Health Systems, Inc.	1/1/92-12/31/02	DYS	2/26/04
2002-5086-3C	Statewide Review of the Implementation of the Salary Reserve Program for Direct Care Workers at Human Service Vendors Advocates, Inc. Community Group, Inc. Eliot Community Human Services, Inc. Massachusetts Society for the Prevention of Cruelty to Children North Suffolk Mental Health Association The Plummer Home for Boys, Inc. Riverside Community Care Turning Point, Inc.	7/1/98-6/30/01	DMH, DMR, DSS, DYS	10/29/02
2005-4345-3C	The Bridge of Central Massachusetts, Inc.	7/1/02-6/30/04	DMH	4/4/05
2002-4376-3C	The Friends of Shattuck Shelter, Inc.	1/1/99-12/31/01	DPH	6/30/03
2004-4365-3C	The Vietnam Veterans Workshop, Inc. d/b/a New England Shelter for Homeless Veterans	7/1/02-12/31/03	DVS	3/1/04
2005-4365-7C	The Vietnam Veterans Workshop, Inc. d/b/a New England Shelter For Homeless Veterans	1/1/04-12/31/04	DVS	2/28/05
2002-4452-3C	Thorndike Street School, Inc.	7/1/00-6/30/01	EEC	12/12/02
2000-4396-3	Toward Independent Living and Learning, Inc.	7/1/97-12/31/00	DMR	1/7/02
2001-4429-3	Turning Point, Inc.	7/1/99-6/30/01	DMR	12/12/02

APPENDIX II

Audit Resolution Policy for Human and Social Services (Updated 1/1/98)

The Division of Purchased Services (DPS) Audit Resolution Policy provides policy and procedures for use by Departments and Contractors to address the findings and recommendations in independent auditor's reports issued in accordance with Generally Accepted Government Auditing Standards (GAGAS), and where follow-up is necessary. This policy is issued pursuant to 808 CMR 1.04(10), which requires DPS to maintain an audit resolution policy for audits of Contractors delivering human and social services and Contractors operating M.G.L. c.71B programs. For both Contractors and Departments, these audits serve as an important feedback mechanism on the management and financial operation of government funded programs. Audit resolution thus becomes a vital management tool to strengthen not only individual programs and agencies, but also the entire Purchase-of-Service (POS) system. Departments are expected to assign a high priority to the resolution of audit recommendations and to corrective action related to findings contained in GAGAS independent auditor's reports. OMB Circular A-133 audits must be resolved in accordance with the additional provisions of OMB Circular A-133, as amended.

AUDIT RESOLUTION SYSTEM

The system that Departments establish for audit resolution and corrective action must meet the standards listed below:

Department Audit Resolution System

1. Manager: A senior level official of the purchasing Department must be appointed to manage the system established for audit resolution and corrective actions.
2. Management Decisions: Department management decisions must entail an evaluation of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary.
3. Lead Agency: Resolution and corrective action on recommendations involving more than one purchasing Department must be resolved and coordinated by the principal purchasing agency (PPA) as designated by the applicable Secretariat.

4. **Communication:** Purchasing Departments or principal purchasing agencies, as applicable, must provide a copy of the administrative agreement containing the corrective action plan and management decisions to DPS and the appropriate Secretariat.
5. **Referrals:** The Department is responsible for referring audit findings not subject to Department oversight responsibility to appropriate oversight entities.

Corrective Action Plan (CAP) Requirements

1. **Written Plan:** At the completion of the Uniform Financial Statements and Independent Auditor's Report (UFR) and/or the OMB Circular A-133 audit, the Contractor shall prepare a written corrective action plan to be submitted together with the audit. Written corrective action plans must be prepared and submitted by the Contractor after it receives a final audit report issued by the Office of the State Auditor (OSA), or by a Department contracted auditor.
2. **Content:** The corrective action plans must address all audit findings included in each of the independent auditor's reports issued by the Office of the State Auditor or issued in accordance with OMB Circular A-133. For non A-133 UFRs and Department contracted audits, DPS recommends that the corrective action plan address all audit findings as well; however, it is mandatory only for material non-compliance findings and reportable condition internal control findings (which includes material weaknesses). Immaterial non-compliance findings and non-reportable internal control findings are normally disclosed in a management letter, but may also or instead be reported in GAGAS independent auditor's reports. When such findings are included in the auditor's report, they must be included in the CAP for A-133 or SAO audits and are encouraged to be included for non-A-133 audits. See Chart for details.

Types of Audits	Audit Findings Which Require Resolution		
	Compliance Report	Internal Control Report	Management Letter
	<i>M = Material Non-compliance</i> <i>IM = Immaterial Non-compliance</i>	<i>R = Reportable Condition</i> <i>MW = Material Weakness</i> <i>NR = Non-reportable Condition</i>	<i>IM = Immaterial Non-compliance</i> <i>NR = Non-reportable conditions</i>
A-133	All	All	None
SAO	All	All	None
UFR and other non A-133	M (IM - recommended)	R and MW (NR - recommended)	None

3. **Format:** Corrective action plans shall identify the findings, deficiencies, uncorrected prior audit findings and reference numbers utilized by the independent auditor to identify the findings. Corrective actions to be taken, along with specified action dates,

must be identified in the corrective action plan and approved by the Contractor's board of directors.

Department Management Decisions

1. **Requirements:** Department management decisions and corrective actions must be consistent with law, regulations, contract terms and conditions, and policies established by the Department, Secretariat, DPS, the federal government, and other oversight entities, as applicable. Written justification supported by sufficient, competent and relevant evidence must account for the legal basis for any decisions not agreeing with the independent auditor's findings and recommendations. Evidence that was not available for review by the independent auditor during the fieldwork stage of the audit and which the auditor indicated might be relevant to the audit findings may be reviewed and utilized for making management decisions. However, evidence that was available but not furnished to the auditor as requested by the auditor during the fieldwork stage of the audit may not be reviewed or considered in making management decisions.
2. **Legal Review:** Management decisions not to collect funds in whole or in part related to non-reimbursable cost overpayments (Questioned Costs) and cost reimbursement contract overpayments must be reviewed by the legal counsel of the purchasing Department, the applicable Secretariat, and DPS's audit and legal staff for appropriateness. Decisions not to collect these funds and to write them off, as Commonwealth bad debts must be authorized by DPS, the applicable Secretariat, Office of the Comptroller and applicable federal cognizant and oversight agencies, and the Office of Management and Budget, as appropriate.
3. **Administrative Agreement:** The corrective action plan and purchasing Department management decisions must be incorporated into an administrative agreement signed by the authorized signatory of the Contractor and the purchasing Department or the principal purchasing agency's representative, as applicable.
4. **Oversight Response:** Federal cognizant and oversight agencies, DPS and the appropriate Secretariat may review written corrective action plans and management decisions and issue additional management decisions that include further actions necessary to correct deficiencies and resolve audit findings.

Timelines

1. **Initiation of audit resolution:** The Department must require prompt resolution and corrective action on audit recommendations. The Department must issue a management decision on audit findings within six months after receipt of the Contractor's audit report and corrective action plan, and ensure that the Contractor takes appropriate and timely corrective action. Corrective action should proceed as rapidly as possible.
2. **Department process:** The purchasing Department must provide a means to ensure timely responses to the independent auditor's reports if Contractor responses have not been incorporated into the independent auditor's reports. The process must provide sufficient time to permit resolution to take place within the six-month period.

3. Corrective Action: Corrective actions should be accomplished within a reasonable period of time and generally prior to the termination of the contract and federal award related to the finding. Departments must take all actions necessary to ensure that corrective actions are accomplished, whenever possible, prior to the termination of all contracts and agreements or federal awards with the Contractor.

Purchasing Departments are expected to place a high priority on audit resolution and to complete the process quickly. Contractors are expected to cooperate with audit resolution efforts to initiate corrective actions. Independent auditors are responsible for follow-up on audit findings and corrective actions. Disagreements between Departments, Contractors and independent auditors are to be resolved by DPS. Questions concerning any aspect of the DPS Audit Resolution policy may be directed to the Bureau of Audit at 617-727-7500.

Audit Resolution Standards

- a. Non-Performance: Non-performance under contracts means services were not delivered or the services that were delivered did not meet standards established by the purchasing Department in the contract. In the event of non-performance, recovery of funds is appropriate. Depending on the circumstances and severity of the problem, Departments may also need to consider reduction or termination of contracts, debarment or other legal remedies. Once a determination of non-performance is made, the focus should be on the manner of resolution which is most appropriate under the circumstances and, if not already determined, the value of services which were not rendered.
- b. Fraudulent Billing: All reimbursements to a Contractor which have been determined to be supported by fraudulent documentation will be disallowed. Funds fraudulently acquired must be promptly recovered in full and returned to the Commonwealth. All such cases will be referred to the offices of the State Auditor, the Attorney General, and the Inspector General and, if federal funds are involved, to the appropriate federal Inspector General and U.S. Attorney.
- c. Undocumented Reimbursement: Under all contracts (regardless of the reimbursement mechanism), Contractors must maintain appropriate documentation of actual reimbursable operating costs, revenues, service provision and performance attained in accordance with the requirements established by federal and state regulations and laws, terms of the contract, Division of Health Care Finance and Policy regulations (if applicable), and the policies of the purchasing Department. When there is a determination that there was a failure to maintain adequate and appropriate documentation, depending upon the circumstances, resolution may occur through recovery of funds or a rate adjustment. For instance, undocumented costs are considered non-reimbursable costs pursuant to 808 CMR 1.05 (26), Undocumented Expenses, and they are normally subject to recoupment unless alternative evidence is produced to substantiate that the costs were actually incurred. In the case of non cost reimbursement contracts, other evidence, in the form of credible and convincing alternative documentation, that the services in question were actually provided and the type and amount of costs were actually incurred during the contract period, will be considered. In such cases, however, in order to prevent re-occurrence of recordkeeping deficiencies in subsequent

years, a satisfactory, written resolution of all such audit determinations must have been reached.

- d. Non-Reimbursable Expenses: Under all contracts, reimbursement to Contractors is permitted only for actual reimbursable operating costs incurred (as defined in 808 CMR 1.02) for the contract, based on terms of the contract, Division of Health Care Finance and Policy requirements, and/or purchasing Department requirements. Non-reimbursable costs (as defined in 808 CMR 1.05) that are defrayed using Commonwealth funds and offsetting revenue (intended for use in defraying reimbursable costs), as designated in the contract or as required by 808 CMR 1.00 or OMB Circular A-110 (program income as applicable), are subject to recovery through recoupment, delivery of in-kind services or rate adjustment, in accordance with 808 CMR 1.05. In-kind services furnished by the Contractor in lieu of recoupment or rate adjustment must result in the Contractor incurring additional program costs equal to the value of the non-reimbursable costs. In addition, in-kind service costs must be defrayed with funds other than Commonwealth funds and offsetting revenue, as designated in the contract or as required by 808 CMR 1.00 or OMB Circular A-110 (program income as applicable). In-kind services may only be delivered to eligible clients of the Department.
- e. Billing Errors: Errors in invoices submitted to the Commonwealth for reimbursement, which do not constitute fraud, will be referred to the purchasing Department to be rectified in the most appropriate manner possible under the circumstances.
- f. Under-utilization of Staffing Resources: This provision is intended to be utilized when there are indications that staffing may not have been provided as agreed upon in the original contract or amendment documents as needed to carry out the program of services. For purposes of this section, emphasis should be placed upon the review of staff credentials and full-time equivalents (FTEs) provided. Review of the cost of staffing shall take into consideration payroll, the cost of relief staff and consultants, compensated overtime performed by existing staff, related taxes, related benefits, and the like. For purposes of resolving audit findings concerning reimbursement, a determination that any program or cost category for staff related spending was below 90 percent of the funds budgeted or allocated for staffing in the relevant contract, shall be referred to the purchasing Department for review of actual service delivery and quality levels. Purchasing Departments are responsible for resolving the deficiency by determining if service delivery requirements, performance standards and/or minimum staffing or program standards have been met or need to be revised.
- g. Over-billing in Cost Reimbursement Contracts: The provisions of MGL c.29, s. 22 and other state finance laws limit payments from the Commonwealth in the year funds were appropriated to the amount necessary to meet expenses incurred in that year. Accordingly, all cost reimbursement contract payments from the Commonwealth that exceed expenses incurred by the Contractor in the year appropriated must be recovered. Current state finance law limits methods of recovering surplus funds in cost reimbursement contracts to the establishment of a reasonable schedule of Contractor repayments to the Commonwealth. In addition, when expenses are undocumented in cost reimbursement contracts, other evidence (in the form of alternate documentation) cannot be considered and recovery of funds is appropriate as a basis of resolution.

