



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

Making government work better

Official Audit Report – Issued December 13, 2016

Human Service Options Inc.

For the period July 1, 2013 through June 30, 2015





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

Making government work better

December 13, 2016

Mr. Martin Jones, President
Human Service Options Inc.
536 Broad Street, #8
Weymouth, MA 02189

Dear Mr. Jones:

I am pleased to provide this performance audit of Human Service Options Inc. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2013 through June 30, 2015. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to Human Service Options Inc. for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
OVERVIEW OF AUDITED ENTITY	2
AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY	3
DETAILED AUDIT FINDINGS WITH AUDITEE’S RESPONSE.....	5
1. Human Service Options Inc. used corporate credit cards to procure items totaling as much as \$211,860. ..	5
a. Human Service Options Inc. purchased items totaling as much as \$203,857 on credit cards instead of using a competitive procurement process.	5
b. HSO inappropriately allowed its staff to purchase personal items totaling \$8,003 on a corporate credit card.	5

EXECUTIVE SUMMARY

Human Service Options Inc. (HSO) was founded in 1984 as a for-profit human-service agency. During the audit period, HSO administered programs that offered a variety of therapeutic, rehabilitative, and support services for developmentally disabled people in the greater metropolitan Boston and southeast Massachusetts area. HSO's total revenue for fiscal year 2014 was \$9,798,997; for fiscal year 2015, it was \$11,524,756. Approximately 47% of revenue for both fiscal years came from contracts with the state's Department of Developmental Services.

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of HSO for the period July 1, 2013 through June 30, 2015. The purpose of this audit was to determine whether HSO complied with applicable regulations and the terms and conditions of its state contracts when spending state contract funds and whether it complied with the reporting requirements of the Commonwealth's Supplier Diversity Program.¹ This audit was conducted as part of OSA's ongoing efforts to audit human-service contract activity by state agencies and to promote accountability, transparency, and cost-effectiveness in state contracting.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1a Page 5	Human Service Options Inc. purchased items totaling as much as \$203,857 on credit cards instead of using a competitive procurement process.
Finding 1b Page 5	HSO inappropriately allowed its staff to purchase personal items totaling \$8,003 on a corporate credit card.
Recommendations Page 6	<ol style="list-style-type: none">1. HSO should amend its procurement policies and procedures so that they require the use of a competitive procurement process for all purchases over a specified dollar amount and prohibit the personal use of corporate credit cards by staff members.2. HSO should implement monitoring controls to ensure that these policies are adhered to.

1. This program was established in 2010 by Executive Order 524 to encourage the use of certain types of contractors, such as minority-owned and woman-owned businesses.

OVERVIEW OF AUDITED ENTITY

Human Service Options Inc. (HSO), located in Weymouth, was incorporated on November 7, 1984, under Chapter 156B of the Massachusetts General Laws, as a for-profit organization. HSO's total revenue for fiscal year 2014 was \$9,798,997; for fiscal year 2015, it was \$11,524,756. During our audit period, HSO provided services for developmentally disabled people, including but not limited to residential living support, counseling, behavioral support, training in daily living and social skills, supervision and behavioral management, and recreational activities.

During the audit period, HSO received revenue from the following sources.

Summary of Revenue

Revenue Source	Fiscal Year 2014	Fiscal Year 2015
Department of Developmental Services	\$8,792,027	\$ 1,176,123
Other Grants	0	9,283,377*
Medicare	0	64,900
Massachusetts Commission for the Blind	94,365	143,970
Client Resources	911,970	811,564
Massachusetts Publicly Sponsored Client Offsets	0	44,688
Investment Revenue	115	134
Other Revenue	520	0
Total	<u>\$9,798,997</u>	<u>\$11,524,756</u>

* According to HSO's chief financial officer, the fiscal year 2015 amount for "Other Grants" was a reporting mistake and should have been reported as revenue from the Department of Developmental Services.

With respect to the activity related to our audit objectives, during our audit period HSO spent \$347,974 through two different credit-card accounts. HSO also reported spending \$161,102 with two vendors under the Supplier Diversity Program.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of Human Service Options Inc. (HSO) for the period July 1, 2013 through June 30, 2015.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Does HSO have formal policies regarding credit-card use, and if so, does it follow those policies?	Yes
2. Are credit-card expenditures reasonable, documented, and allowable?	No; see Finding <u>1</u>
3. Did HSO properly administer its client fund accounts?	Yes
4. Did HSO comply with the Supplier Diversity Program reporting requirements of Executive Order 524, and was the reported information accurate?	Yes

To achieve our objectives, we gained an understanding of the internal controls we deemed significant to our audit objectives and evaluated the design and effectiveness of those controls, which were as follows:

- credit-card expenses
- client funds
- Supplier Diversity Program

In addition, we performed the following procedures:

- We reviewed the annual filing of expenditures under the Supplier Diversity Program to confirm that the expenditures reported were correct and that the vendors were state-certified.
- We tested a statistical sample of 27 credit-card transactions that we did not project, totaling \$6,610, to determine whether amounts were charged to proper accounts and were allowable costs. (Total credit-card activity for the audit period consisted of 1,209 transactions, totaling \$347,975.)
- We reviewed all credit-card transactions to determine whether HSO followed regulations for the competitive procurement of certain items and the personal use of corporate credit cards.
- We tested a nonstatistical, judgmentally selected sample of 16 payments, out of 99 payments totaling \$161,102, to HSO's reported Supplier Diversity Program vendors for adherence to established practices.
- We judgmentally selected a nonstatistical sample of 5 of the 40 clients for whom HSO is the organizational representative payee² and reviewed client files for financial assessment and fund management training plans. We also reviewed client files for documentation to support disbursements, and we determined whether the bank reconciliations of client funds were properly prepared and reviewed and whether they contained any unusual transactions. We did not project the results of the sample to the population.

Because the general-ledger information was not electronic, we performed a review of hardcopy source documentation, interviews of key personnel, and observations at the agency; based on this work, in our professional judgment the data recorded in the general ledger are sufficiently reliable for the purposes of our audit.

At the end of our audit fieldwork, we gave HSO a copy of this report for review and comment. HSO did not provide a written response, but the report does reflect comments that HSO officials made during the audit that were related to our audit findings.

2. According to the Social Security Administration's website, "Some [Social Security beneficiaries] need assistance in managing their benefits. Payments to these individuals are paid through a representative payee who receives the check on behalf of the beneficiary and provides for [the beneficiary's] personal needs."

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. Human Service Options Inc. used corporate credit cards to procure items totaling as much as \$211,860.

a. Human Service Options Inc. purchased items totaling as much as \$203,857 on credit cards instead of using a competitive procurement process.

During our audit period, Human Service Options Inc. (HSO) purchased as much as \$203,857 of furnishings, flooring, and other items, but did not use a competitive procurement process when it was practical. Rather, the agency used a corporate credit card to purchase these items. As a result, HSO cannot be certain that it obtained the best value in the procurements.

Authoritative Guidance

Operational Services Division regulation Section 1.03(8) of Title 808 of the Code of Massachusetts Regulations (CMR) states,

All procurements of furnishings, equipment and other goods and services by or on behalf of a Contractor shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.

Reasons for Not Using a Competitive Procurement Process

Although HSO had established policies and procedures for the procurement of goods and services, these policies and procedures did not require the agency to use a competitive bidding process for purchases over a certain dollar amount, nor did they prohibit the personal use of corporate credit cards by agency staff. They only required staff members to complete a purchase order and obtain supervisory approval before making a purchase.

b. HSO inappropriately allowed its staff to purchase personal items totaling \$8,003 on a corporate credit card.

HSO allowed staff members to use a corporate credit card to purchase \$8,003 of personal items such as airfare for vacations (which, according to senior HSO employees, the staff members later repaid). Allowing staff members to use a corporate credit card places HSO at risk of inappropriately paying for non-business personal expenses.

Authoritative Guidance

Operational Services Division regulation 808 CMR 1.05(12) prohibits human-service providers such as HSO from using state contract funds to pay for non-program expenses, like those purchased by HSO staff as discussed above, on corporate credit cards. Further, allowing staff members to use a corporate credit card is contrary to sound business practices, as it may cause an agency to pay inadvertently for personal items that do not benefit the organization.

Reasons for Noncompliance

HSO officials stated that they sometimes let agency employees charge items on a corporate credit card if the employees did not have sufficient funds to make the purchases themselves. HSO's procurement policies and procedures did not forbid this practice or require competitive procurement.

Recommendations

1. HSO should amend its procurement policies and procedures so that they require the use of a competitive procurement process for all purchases over a specified dollar amount and prohibit the personal use of corporate credit cards by staff members.
2. HSO should implement monitoring controls to ensure that these policies are adhered to.