Some information has been redacted from this audit report. The redaction is indicated by magic marker highlight. If you want to request an unredacted copy of this audit report, you should submit a written Right to Know Law (RTKL) request to DHS's RTKL Office. The request should identify the audit report and ask for an unredacted copy. The RTKL Office will consider your request and respond in accordance with the RTKL (65P.S. §§ 67.101 et seq.) The DHS RTKL Office can be contacted by email at: ra-dpwrtkl@pa.gov.

pennsylvania
DEPARTMENT OF HUMAN SERVICES
BUREAU OF FINANCIAL OPERATIONS

April 25, 2016

Mr. Kevin Bagatta, President and CEO
Real Alternatives
7810 Allentown Blvd, Suite 304
Harrisburg, Pennsylvania 17112

Dear Mr. Bagatta:

I am enclosing for your review the final audit report of Real Alternatives (RA) as prepared by the Division of Audit and Review (DAR). Your response has been incorporated into the final report and labeled as an Appendix. The report covers the period from July 1, 2012 to June 30, 2015.

I would like to express my appreciation for all of your courtesy extended to my staff during the course of the fieldwork. I understand that your staff was especially helpful to Barbara Miller in completing the audit process.

The final report will be forwarded to the Office of Social Programs (OSP) to begin the Department's resolution process concerning the report's contents. The staff from OSP will be in contact with you to follow-up on the actions taken to comply with the report's recommendations.

If you have any questions concerning this matter, please contact David Bryan, Audit Resolution Section at [redacted].

Sincerely,

Tina L Long

Tina Long, CPA
Director

Enclosure

c: Mr. Jay Bausch
Ms. Karen Herrling

pennsylvania
DEPARTMENT OF HUMAN SERVICES
BUREAU OF FINANCIAL OPERATIONS

April 25, 2016

Mr. Brendan Harris, Executive Deputy Secretary
Department of Human Services
Health & Welfare Building, Room 334
Harrisburg, Pennsylvania 17120

Dear Deputy Secretary Harris:

The Bureau of Financial Operations (BFO) conducted an audit of Real Alternatives (RA). The audit was designed to investigate, analyze, and make recommendations regarding RA's compliance with the Department of Human Services' (DHS) Grant Agreement and RA's oversight and monitoring of its service providers. Our audit covered the period from July 1, 2012, to June 30, 2015 (Audit Period). RA imposed a limitation on the BFO's audit scope as described in Appendix A of this report.

This report is currently in final form and therefore contains RA's views on the reported findings, conclusions and recommendations. RA's response to the draft audit report is included as Appendix C.

Executive Summary

RA administers the delivery of alternatives to abortion services through contracts with 29 service providers who operate 93 sites throughout Pennsylvania (PA). The providers deliver direct services such as counseling, adoption referral, temporary housing and other services.

Federal and state funding is furnished through DHS to RA who in turn reimburses the providers based on their submission of service claims.

The BFO found RA to be generally in compliance with the grant requirements. The findings and recommendations for corrective action summarized below identify areas where RA and DHS could improve their processes:

FINDING	SUMMARY
Finding No. 1 - Inappropriate Billings Were Identified at Service Providers	The BFO tested statistically valid random samples (SVRSs) of paid claims at five service providers. The errors identified related to incomplete claims documentation and submitting claims for incorrect procedures. Total questioned costs are $485,660; all but $951 of the questioned costs were from one service provider.

Real Alternatives
July 1, 2012 to June 30, 2015

HIGHLIGHTS OF RECOMMENDATIONS
The DHS Office of Social Programs (OSP) should: • Recover $485,660 from RA related to claims that were inappropriately billed by the service providers and reimbursed by RA.[1] RA should: • Recover $485,660 from the service providers. • Continue to work with its service providers to ensure that claims are properly documented and accurately billed.

FINDING	SUMMARY
Finding No. 2 - Internal Control Weaknesses	Internal control weaknesses relating to documentation requirements and claims processing were identified.

HIGHLIGHTS OF RECOMMENDATIONS
RA should: • Require service providers to document the start and end times of counseling sessions and retain this documentation as support for the number of minutes of service that were billed. • Enhance the consumer sign-in form to include the service received and the start and end times of that service, develop sign-in sheets to document classes, identify couples to ensure correct billing, and require claims to be reviewed prior to being submitted for reimbursement. • Enhance its data processing system to capture more demographic information on the consumers to be able to more accurately analyze and identify any unusual billings. RA should follow up on unusual billings to ensure they are correct and, if billings are not correct, take appropriate action. • Perform on-site monitoring of all of its service providers in lieu of monitoring some of the service providers remotely.

FINDING	SUMMARY
Finding No. 3 – Three Percent Fee	RA assesses its service providers a three percent fee on their total claims. RA collects the fee by reducing the service providers' claim reimbursements; however, the total provider service claim amounts are invoiced to DHS as direct services.

[1] At the Exit Conference, RA management stated that the $951 from the two service providers had already been recovered.

HIGHLIGHTS OF RECOMMENDATIONS
OSP should: • Determine whether such a fee is appropriate: o If it is determined to be appropriate, OSP should redefine the expense categorization and specify the potential uses of the fee in the Grant Agreement. o If it is determined to be inappropriate, OSP should either recover the funds from RA or require RA to refund the fees to the service providers, and revise the Grant Agreement to prohibit such fees. If OSP wishes to consider the fees for the years prior to our audit scope, the BFO is available to assist in determining that amount.

See Appendix A for the Background, Objective, Scope and Methodology and Conclusion on the Objectives.

Results of Fieldwork

The BFO determined that RA was generally in compliance with the DHS grant requirements. Additionally, the BFO did not note any non-compliance with the [redacted] Guidelines at any of the five service providers we visited.

Finding No. 1 – Inappropriate Billings Were Identified at Service Providers

The BFO tested SVRSs of paid claims for five RA service providers. Errors that were identified at one service provider included: missing signatures on the consumer sign-in form;, billing individual counseling time for two people when providing service simultaneously to a couple; billing for individual counseling sessions when classes were attended; and a counselor providing services to her spouse and other family members. Extrapolation of the errors over the population of claims for this service provider results in questioned costs totaling $484,709 with a variance of +/- $126,700.

RA was originally notified of the incorrect billings through a tip. After receiving the tip, RA management initiated an investigation and promptly notified DHS management.

Errors that were identified at two other service providers were due to missing signatures on the consumer sign-in form and resulted in total questioned costs of $951. Extrapolation was not used to determine the amount of questioned costs.

Recommendations:

The BFO recommends that the OSP recover $485,660 from RA related to claims that were inappropriately billed by the service providers and reimbursed by RA[2].

The BFO also recommends that RA recover $485,660 from the service providers.

Finally, the BFO recommends that RA continue to work with its service providers to ensure that claims are properly documented and accurately billed.

[2] To date RA has withheld $109,568 for improperly billed claims from one service provider.

Finding No. 2 – Internal Control Weaknesses

Internal control weaknesses relating to documentation requirements and claims were identified:

- RA does not require service providers to document the start and end times of a counseling session. When submitting a claim, the counselors are only required to state the total number of minutes spent with a consumer; as such, the time that is billed cannot be verified.
- RA requires the consumer to sign a form to verify that services were delivered. However, the form does not indicate what service was delivered or the duration of that service.
- Classes are not verified by using a consumer sign-in sheet that indicates the name and date of the class, the instructor, the length of the class, and the signature of each individual in attendance.
- RA's claims processing system does not identify couples, which may have contributed to incorrect billings as identified in Finding No. 1.
- There is no supervisory review of claims data prior to their submission for payment. Counselors submit their service claims directly to RA. A supervisory review should occur before claims are submitted to RA.
- RA's claims processing system does not capture sufficient data to perform critical edit checks. For instance, the claims processing system only captures the first four letters of the consumer's last name. This limits RA's ability to conduct analyses to identify inappropriate or duplicate services.
- A portion of RA's annual monitoring is conducted remotely with the assistance of the service provider's personnel. The service provider's management performs aspects of the monitoring and then mails the verification documents to RA for analysis. The effectiveness of the monitoring is diminished through this process.[3]

Recommendations:

The BFO recommends that RA require service providers to document the start and end times of counseling sessions and retain this documentation as support for the number of minutes of service that were billed.

The BFO also recommends that RA enhance the consumer sign in form to include the service received and the start and end times of that service, develop sign-in sheets to document classes, identify couples to ensure correct billing, and require claims to be reviewed prior to being submitted for reimbursement.

The BFO further recommends that RA enhance its data processing system to capture more demographic information on the consumers to be able to more accurately analyze and identify any unusual billings. RA should follow up on unusual billings to ensure they are correct and if not take appropriate action.

Finally, the BFO recommends that RA perform on-site monitoring of all of its service providers in lieu of monitoring some of the service providers remotely.

[3] RA management stated that DHS personnel had previously suggested this process to RA in an effort to reduce the number of site monitoring visits that they are required to complete.

Finding No. 3 – Three Percent Fee

RA assesses its service providers a three percent fee on their total reimbursed claims. RA collects the fee by reducing the service providers' claim reimbursements. For example, a $100 claim would result in $97 being paid to the service provider and $3 being retained by RA. However, the total amount of the service provider's claim is invoiced to DHS as direct services ($100 in the example above). Service providers are reimbursed by RA for services provided to eligible clients at specific rates set forth in the Grant Agreement.

RA management stated that the fee is voluntary and was agreed to via a separate contractual agreement with all of the Pennsylvania service providers. RA management also asserted that the arrangement was approved by prior OSP management, but could not provide documentation to support that assertion.

The BFO questions the collection and use of the fee for the following reasons:

- There is no language in the contract between RA and the service providers that suggests the fee is voluntary. Two of three service providers that the BFO interviewed did not agree that the fee was voluntary and assumed that the fee was a cost of doing business with RA.
- The fee is automatically deducted from RA's reimbursements to the service providers.
- RA invoices DHS for the total claim amounts as a direct service. As such, RA overstates the amount they paid for direct services.
- RA refused to allow the BFO to audit the expenses funded by the fee (see Scope Limitation paragraph in Appendix A and letter from the Governor's Office of General Counsel in Appendix B). Instead, RA presented an excerpt from an outdated service provider contract which indicated that RA would assess the service provider a percentage of their reimbursements each month. RA asserted that the service provider contract was approved by DHS but could not provide documentation to support that claim.
- RA management stated that the fee is used to fund expenses that are not permitted under the Grant Agreement, such as travel and other expenses to support advancement of the program in other states. Since the BFO was denied an opportunity to audit the expenses funded by the fee, we could not determine the amount of revenues collected from the Pennsylvania (PA) service providers that were used to benefit the PA program.
- If the fee was used to fund PA administrative expenses, RA may have exceeded the approved grant administrative budget.

The BFO's analysis of RA's financial statements showed that $497,368[4] has been collected via the three percent fee since July 1, 2012; however, only a portion of the amount collected has been expended.

[4] As of the close of fieldwork, RA's audited financial statements for the fiscal year ended June 30, 2015 had not been issued; as a result, the total fee collected for the fiscal year ended June 30, 2015 was based on an estimate of three percent of the total service provider reimbursements.

Recommendation:

The BFO recommends that OSP determine whether the collection and use of the three percent fee is appropriate:

- If it is determined to be appropriate, OSP should redefine the expense categorization and specify the potential uses of the fee in the Grant Agreement.
- If it is determined to be inappropriate, OSP should either recover the funds from RA or require RA to refund the fees to the service providers, and revise the Grant Agreement to prohibit such fees. If OSP wishes to consider the fees for the years prior to our audit scope, the BFO is available to assist in determining that amount.

Exit Conference / Auditor's Commentary:

At the request of RA's management, an Exit conference was held on April 11, 2016 at RA's administrative office. Based on discussions at the Exit Conference, some minor wording changes have been made to the draft audit report. RA's response to the draft report is attached as Appendix C.

RA's response to the draft audit report contains suggested changes to the BFO's reported findings and recommendations. RA's suggested changes omitted substantial details in the findings and do not provide adequate coverage of the issues. Accordingly, the BFO did not make further changes to the audit report.

Additionally, RA's response asserts that the BFO incorrectly calculated the questioned costs in Finding No. 1. RA's management had stated that their disagreement is due to the BFO's use of an SVRS and extrapolation. The BFO disagrees with RA's assertion. The use of an SVRS and extrapolation is a common and accepted practice in auditing to calculate questioned costs.

In accordance with our established procedures, an audit response matrix will be provided to OSP. Once received, OSP should complete the matrix within 60 days and email the Excel file to the DHS Audit Resolution Section at:

[redacted]

The response to each recommendation should indicate OSP's concurrence or non-concurrence, the corrective actions to be taken, the staff responsible for the corrective actions, the expected date that the corrective actions will be completed and any related comments.

Sincerely,

Tina L Long

Tina L. Long, CPA
Director

REAL ALTERNATIVES
APPENDIX A

APPENDIX A

Background

RA is a 501(c) (3) non-profit organization. RA is the statewide administrator of the Pennsylvania Alternatives to Abortion (PATA) program, and has recently expanded its services into three other states with the goal of becoming a national organization. RA administers the delivery of alternatives to abortion services through contracts with 29 service providers who operate 93 sites throughout PA. The providers deliver direct services such as, counseling, adoption referral, temporary housing and other services.

The DHS funds RA using federal Temporary Assistance to Needy Families (TANF) and State General Fund monies and RA in turn funds the service providers. OSP manages the grant agreement between DHS and RA.

All individuals receiving services must be PA residents. Additionally, individuals receiving services funded by TANF must meet the TANF income guidelines. Individuals receiving services funded by the State General Fund are served without regard to income.

Scope Limitation

RA collects a fee of three percent of gross reimbursements for each of its service providers. Management stated that the fee is voluntary. The BFO asked to analyze the expenses paid from the fee but RA declined and stated that the fees collected were corporate money and was not subject to the BFO audit. For the fiscal periods ended June 30, 2013 through June 30, 2015 RA had collected a total of $497,368 and expended $235,421.[1]

Objective/Scope/Methodology

The audit objectives, developed in concurrence with OSP were:

- To determine if RA's expenditures are in accordance with the grant agreement and applicable regulations.
- To determine if RA is in compliance with the grant agreement and applicable laws and regulations.
- To determine if RA performs adequate monitoring of its sub-grantees.

[1] As of the close of fieldwork, RA's audited financial statements for the fiscal year ended June 30, 2015 had not been issued; as a result, the fee retained for the fiscal year ended June 30, 2015 was based on an estimate of three percent of the total service provider reimbursements. The expense amount for the fiscal year ended June 30, 2015 is unknown.

The criteria used to ascertain compliance and the adequacy of supporting documentation was RA's grant agreement with DHS, consumer sign-in forms and claim documentation forms showing the services that were reimbursed.

In pursuing our objectives, the BFO interviewed OSP personnel, RA management and service providers' staff. We also analyzed books, payroll records, consumer sign-in forms and claim documentation forms showing the services that were reimbursed, billing data, and other pertinent data necessary to pursue the audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient 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.

Government auditing standards require that we obtain an understanding of management controls that are relevant to the audit objectives described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of the effectiveness of those controls. Based on our understanding of the controls, there were deficiencies in certain management controls. Areas where we noted an opportunity for improvement in management controls are addressed in the findings of this report.

The BFO's fieldwork was conducted intermittently from August 4, 2015 to November 19, 2015 and was performed in accordance with GAGAS. This report is available for public inspection.

Conclusion on the Objectives

In conclusion, RA was generally in compliance with applicable statutes, regulations and the grant agreement. However, RA's internal control procedures can be enhanced. The BFO identified $485,660 in questioned costs, the majority of which was due to one service provider that submitted inappropriate claims. Additionally, the BFO questions if retaining a three percent fee is appropriate.

LETTER FROM THE GOVERNOR'S OFFICE OF GENERAL COUNSEL REGARDING [redacted]

REAL ALTERNATIVES

APPENDIX B

COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE OF GENERAL COUNSEL

February 8, 2016

Mr. Kevin Bagatta, President and CEO
Real Alternatives
[redacted]

Re: Real Alternatives, [redacted]

Dear Mr. Bagatta:

As you are aware, the Department of Human Services ("DHS"), Bureau of Financial Operations ("BFO") has conducted a recent Audit of your entity, Real Alternatives ("RA"). During the course of that audit, BFO auditors became aware that RA assesses its service providers a three percent [redacted] by retaining that amount from the grant monies paid by DHS. It is my understanding that RA has asserted that the [redacted] are not subject to review by DHS auditors because they are "corporate monies."

RA's assertion is unsupportable for several reasons. Pursuant to the Grant Agreement ("GA"), RA agreed to pay exact Service Provider Reimbursement costs to benefit the Pennsylvania program: e.g., "$1.05 for each minute of counseling and referral; $10.50 for each pregnancy test kit per client visit; $20 for each Food, Clothing or Furniture Pantry visit." (*See* GA, p. 7 of 19). RA invoices DHS for the total amount of the service provider's claim as a direct service (not reflecting a three percent reduction). The Grant Agreement does not authorize RA to retain any percentage of the amounts paid by DHS from the amounts RA pays to service providers. In addition, the funds paid to RA under the GA are by the terms of the GA intended for benefit of the Pennsylvania program.

For the above reasons, DHS is not only authorized but required to conduct an audit of the [redacted] monies to determine whether the payment amounts to RA are being expended in accordance with the terms of the GA. Please notify me on or before

February 12, 2016, to arrange for BFO to complete its audit, including the [redacted] monies. If you have any questions please contact me at [redacted].

Sincerely,

W. Scott Foster, Senior Counsel

c: Mr. Alexander Matolyak

REAL ALTERNATIVES

RESPONSE TO THE DRAFT REPORT

APPENDIX C

Real Alternatives
Empowering Women for Life
FREE PREGNANCY SUPPORT SERVICES

April 18, 2016

Mr. Daniel Higgins, Audit Manager
Division of Audit and Review
Bureau of Financial Operations
Department of Human Services
[redacted]

Re: Response to Draft Performance Audit Report of February 11, 2016

Dear Mr. Higgins:

Please accept this letter as Real Alternatives' (RA) response to the draft of the proposed audit report of the Pennsylvania Department of Human Services (DHS), Bureau of Financial Operations (BFO).

Background

The "Pennsylvania Pregnancy and Parenting Support Services Program," (Program) as it is now known, was conceived and came into being during the administration of former Democratic Governor Robert P. Casey. Initially known as "Project Women In Need," this first in the nation Program was created in response to the Commonwealth of Pennsylvania recognizing that countless women in the state were left without any assistance from their own government when they found themselves facing an unexpected pregnancy, often while alone, jobless, threatened by others, or just unsure where to turn to get help so that they can be the mother to their child that they want to be.

Although the Program was initially started by another entity in 1995, RA was created and began administering the Program for the state in 1996. Throughout the creation of the Program and during its early years, all aspects of the Program were developed by RA, but had to receive the approval of the DHS (formerly Department of Public Welfare) Program Office. That included all forms, policies, procedures, reimbursement requirements, internal controls, etc. The Program, as it has successfully existed for the past 20+ years, is the product of a positive, consistent, working relationship between DHS and RA for the direct benefit of women and babies in our state. As RA is apolitical, non-activist, and not a lobbying group, RA and the Program have not merely existed, but have thrived, grown, and evolved throughout all administrations since 1996. This is a testament to RA's mission to simply help women who

are in need of critical government-funded services for themselves and their babies.

RA is rightfully proud of its hard work, good stewardship, and dedication to properly administering the Program in Pennsylvania for over 20 years. RA's reputation for operating a fiscally responsible Program is evident by the 13 other states RA has been contacted to assist with various forms of their own pregnancy and parenting support programs in their own states.

The foregoing has been proven time and time again throughout RA's 20 consecutive annual CPA audits, 7 "Yellow Book" audits, 13 Federal audits, 3 DPW multi-year contract compliance audits; and 2 PA Comptroller multi-year contract compliance audits, all of which have been perfect with no findings.

It is further imperative to note that in 2004, having undergone an almost year-long extensive and intensive analysis of all of its policies, procedures, accounting controls, internal controls, manuals, documents, contracts, etc., RA was the first of four nonprofit organizations in PA to be certified with the "Seal of Excellence" by the Pennsylvania Association of Nonprofit Organizations (PANO). That highly sought-after and difficult to obtain Seal of Excellence accreditation has been bestowed 2 more times.

RA has diligently worked very hard at developing a very good reputation over the past 20+ years, which is presently recognized throughout Pennsylvania, Michigan, Indiana, and in the countless other states that have benefitted from RA's expertise.

RA has been told by former DHS program managers and past Secretaries of DHS that they "wished all of their programs were run like RA operates their Program." RA's solid reputation for fiscal responsibility and top-notch program management, has been recognized, among many other examples too numerous to list, as follows:

(1) *"Real Alternatives has developed a system of thorough and extensive administrative and service provider monitoring practices to ensure program compliance and has yearly exceeded performance requirements."*

"Auditing, including site visits, ending in 2004 by the Commonwealth's Office of the Budget for contract years 2000-2003 resulted in findings that showed complete compliance with all contract requirements. Auditors had no recommendations."

"Real Alternatives success is due in no small measure to its enthusiasm and dedication to the mission . . . to provide assistance statewide to those women in need of pregnancy support services in Pennsylvania."

[redacted], **former Secretary of PA Department of Public Welfare**
(Appointed by former Democratic Gov. Ed Rendell)
November 9, 2005 letter to Texas Health and Human Services

A Non-Compliant Service Provider

The audit that is the subject of this BFO's Audit Report was precipitated by RA uncovering in the course of its regular and ongoing evaluation of service provider activity, contract breaches by a service provider ("SP") allegedly due to significant, purposeful noncompliance by the

service provider with Program billing rules and requirements. Following an internal investigation, RA immediately suspended the contract with the SP, withheld any further reimbursements to the SP, and advised DHS of what RA had found as of that point in time. RA analyzed the SP's billings for the then current fiscal year to attempt to determine, the discernable amount of money owed back to DHS by the SP.

RA had kept DHS apprised of all that was going on regarding the SP matter as it progressed, and in January of 2015 provided DHS with a comprehensive summary of what RA had learned. RA requested DHS' guidance and instructions on how to proceed, and suggested again that an appropriate investigatory agency or department of the Commonwealth be requested to conduct a formal investigation of the SP.

The BFO Audit Process

At the Opening Conference, BFO made two very significant representations to RA. RA was advised that there were two distinct components of BFO's audit: (1) BFO was to audit RA to determine whether it was complying with the Grant Agreement with DHS, and (2) BFO was to explore the allegations that had been made against the SP concerning improper billing practices.

With regard to the scope of the audit concerning RA's compliance with the Grant Agreement with DHS, BFO visited the RA office on multiple occasions over several months. During those visits, RA and its employees cooperated fully, and answered all of the questions posed to them. RA described its entire DHS-approved Program, accounting procedures, internal controls, service provider monitoring procedures, and other pertinent matters. In addition, BFO visited the multiple sites of an additional four (4) service providers of RA (who are "vendors" and not "subrecipients"), to determine whether the service provider vendors were complying with their agreements with RA.

RA agrees with the following conclusions reached by BFO in its Draft Audit Report concerning RA and the multiple sites of the four (4) service provider vendor organizations visited by BFO:

> Page 1 – "The BFO found RA to be generally in compliance with the grant requirements."
>
> Page 3 – "The BFO determined that RA was generally in compliance with the DHS grant requirements. Additionally, the BFO did not note any non-compliance with the Spiritual Counseling Guidelines at any of the five service providers we visited."
>
> Appendix A, Page 2 of 2 – "RA was generally in compliance with applicable statues, regulations and the grant agreement and performs adequate monitoring of its sub-grantees (sic)." [The service providers are legally "vendors" and not "sub-grantees."]

There is clearly a sum of money that is likely owed back to DHS, and BFO learned substantial, convincing facts during its audit to very clearly indicate in its Audit Report that those funds are owed by the noncompliant SP, the responsible party.

Although RA responses to BFO Findings are attached hereto, since RA was not provided with BFO's Final Audit Report prior to the deadline for having to provide this response, RA

reserves the right to further respond as it may deem necessary, on RA's website at: www.RealAlternatives.org/BFOAudit, at a reasonable time after BFO's Final Report is issued.

Sincerely,

[redacted]

Real Alternatives Response

Finding:

- Inappropriate Billings Were Identified at Service Providers

Summary:

Real Alternatives discovered that one of its 29 vendor service providers had substantial incorrect billings allegedly due to purposeful noncompliance of program rules and its contractual agreement with Real Alternatives. After an extensive investigation of this breach of contract, Real Alternatives provided the BFO auditors with its investigation results including the amount the service provider needs to remit back to DHS through Real Alternatives.

The BFO auditors incorrectly estimated the amount owed to Real Alternatives and DHS by the vendor service provider described above allegedly due to purposeful noncompliance of program rules and contractual agreement.

The BFO auditors tested five service providers in total that are under contractual agreement to Real Alternatives as Vendor Service Providers. Four other vendor service providers had errors of $951 due to accidental omission of client signatures necessary for valid billing, which amount has been recovered by Real Alternatives.

To accurately reflect the circumstance, Real Alternatives believes the Finding should be written as follows:

Finding:

Substantial questioned costs owed by one service provider

Summary:

BFO tested statistically valid random sample of claims forms at five vendor service providers. Substantial questioned costs owed by one vendor service provider allegedly due to purposeful noncompliance with program rules and contract agreement were identified.

Highlight of Recommendations:

The DHS Office of Social Programs (OSP) should:

- Recover from that one service provider, through Real Alternatives, the amount related to claims that were inappropriately billed allegedly due to purposeful noncompliance with the program rules and contractual agreement.

Results of Field Work

BFO determined that RA was generally in compliance with DHS grant requirements, and that RA performs adequate monitoring of the Program service provider vendors. Additionally, BFO did not note any non-compliance with the [redacted] Guidelines at any of the five vendor service providers.

Finding – Substantial questioned costs at one vendor service provider allegedly due to purposeful noncompliance with program rules and contract agreement.

BFO tested paid claims forms for five vendor service providers. Errors that were identified at one vendor service provider included missing or noncompliant required signatures; billing individual counseling time for two people when providing services simultaneously to a couple; billing for individual counseling sessions when classes should have been billed; and other billing practices that were allegedly and purposefully noncompliant with program rules.

Errors that were identified at the other four vendor service providers were due to missing signatures that resulted in total questioned costs of $951. Real Alternatives has recovered that amount from the four vendor service providers.

Recommendations

BFO recommends that the OSP recover from the one service provider, through Real Alternatives, related claims that allegedly were purposefully inappropriately billed and paid allegedly due to purposeful noncompliance with the program rules and contractual agreement.

Since RA was not provided with BFO's Final Audit Report prior to the deadline for having to provide this response, RA reserves the right to further respond as it may deem necessary, on RA's website at: www.RealAlternatives.org/BFOAudit, at a reasonable time after BFO's Final Report is issued.

Real Alternatives Response

Finding:

- Program Quality Improvements

Summary:

Real Alternatives developed its award winning statewide program administration system 20 years ago. DHS approved the entire "first-of-its-kind method" used by Real Alternatives in regards to billing procedures, claims processing, internal controls, financial controls, and allowable program reimbursement. That method has been extensively audited 4 different times, which resulted in perfect audits.

Real Alternatives, through its DHS-approved administration system discovered that one of its 29 vendor service providers had substantial incorrect billings due to alleged purposeful noncompliance of program rules and its contractual agreement with Real Alternatives. After an extensive investigation of this alleged breach of contract, Real Alternatives provided the BFO auditors with its investigation results including the amount the now former vendor service provider needs to remit back to DHS through Real Alternatives.

The BFO auditors incorrectly state that their suggested additional rules would have prevented the alleged purposeful noncompliance of program rules and contractual agreement. Individuals who allegedly purposely did not follow the established program rules they swore they did in an affidavit-type billing claim to Real Alternatives, will not be prevented from doing so with the proposed additional rules. The Real Alternatives administration system is set up to catch this type of error, as it did.

To clear up misleading and mischaracterization of the facts, Real Alternatives believes the Finding should be written as follows:

Finding:

During its audit process, BFO developed various suggestions for Program quality improvement, which were not the cause of any inappropriate billings.

Summary:

During the course of its audit, BFO developed various suggestions of ways to possibly further improve the quality and effectiveness of the Program as a whole. These quality improvement suggestions were not found to be the cause of any funds owed to DHS.

Highlight of Recommendations:

The "quality improvement suggestions" developed by BFO have been shared with the DHS Office of Social Programs (OSP) which should:

- Consider whether it will recommend to RA that one or more of them be implemented in the Program, if they will be effective and economically feasible.

Results of Field Work

Unrelated to the cause of funds potentially being owed to DHS, BFO considered and developed various "quality improvement suggestions" for the Program as it moves forward.

Finding – During its audit process, BFO developed various suggestions for Program quality improvement, which were not the cause of any inappropriate billings.

During the course of its audit, BFO developed various suggestions of ways to possibly further improve the quality and effectiveness of the Program as a whole. These quality improvement suggestions were not found to be the cause of any funds owed to DHS.

Recommendations

BFO recommends that the OSP consider the "quality improvement suggestions" developed by BFO that have been shared with OSP, for a determination along with RA as to whether one or more of them can and should be implemented in the Program, based upon considerations of likely effectiveness and economically feasibility.

Since RA was not provided with BFO's Final Audit Report prior to the deadline for having to provide this response, RA reserves the right to further respond as it may deem necessary, on RA's website at: www.RealAlternatives.org/BFOAudit, at a reasonable time after BFO's Final Report is issued.

Real Alternatives Response

Finding:

- Real Alternatives' additional contract with its service providers

Summary:

In addition to the service provider program agreement for service under the DHS funded agreement, Real Alternatives and its 29 vendor service providers have an additional private contract with each other for the development and advancement of its programs and mission.

Before implementing this additional agreement between RA and its service providers, in discussions with the DHS Program Manager in May of 1997, RA was informed that administrators of other DHS programs have done the same thing, and that "it is none of the department's [DHS's] business what other contracts you have with your service providers. What they do with their money after they earned it under the DHS Agreement is not our business."

DHS approved RA documents with the additional agreement language in them for FY 1997-1999 and FY 1999-2000.

Commonwealth auditors have viewed the additional agreement language and its payment by service providers four times over the years and found no issues. Due to the understanding that funds generated by the additional agreement language were Real Alternatives' own funds, auditors never asked to audit the funds during these extensive audits.

Over the past 20 years, DHS and Commonwealth auditors understood that due to the fee-for-service legal relationship between Real Alternatives and its vendor Service Providers, once funds are earned by service providers, it is their money to use and dispose of, and is no longer the Commonwealth's money. From a purely legal perspective, this fee-for-service payment is no different than services provided to Real Alternatives by its employees, consultants, phone company, electric company, or other vendors, etc. This clearly explains why DHS had no issue when Real Alternatives informed them of the additional agreement language before Real Alternatives implemented it.

As such, the Commonwealth and BFO today, still do not have authority to access and audit accounts or other agreements outside the DHS contract with Real Alternatives. These funds are audited annually, however, by an outside CPA firm, which provides an audit report to the RA Board of Directors. That CPA audit is forwarded to the DHS and the BFO annually.

Since RA was not provided with BFO's Final Audit Report prior to the deadline for having to provide this response, RA reserves the right to further respond as it may deem necessary, on RA's website at: www.RealAlternatives.org/BFOAudit.