



State of South Carolina Office of the Inspector General

July 13, 2015

Case # 2014-809-I

Commission Chairman William O. Danielson
Department of Disabilities and Special Needs
3440 Harden Street Extension
Columbia, South Carolina 29203

RE: Allegation of Improper Application and Accounting of Housing Assistance Payments (HAP) by Service Providers Under Contract with the Department of Disability and Special Needs (DDSN)

The purpose of this letter is to provide the results of the State Inspector General's (SIG) review of an allegation of improper application and accounting of HAP by service providers under contract with the DDSN. The SIG initiated this review in August 2014 predicated on a credible allegation that disabled and special needs consumers were not being properly credited for their HAP benefits in violation of U.S. Department of Housing and Urban Affairs (HUD) regulation, CFR Title 24 § 982.451.

The DDSN was first made aware of this HAP benefit issue in April 2014. In an effort to understand this issue, DDSN commenced an audit that same month at three different service providers. This preliminary audit confirmed the misapplication of the HAP benefits, with one provider estimated at misapplying \$300,000 over the previous 22 month period. As a result, DDSN issued a memo on May 29, 2014 to all the service providers, which are primarily County DSN Boards, detailing the policy and procedures to properly apply the HAP to consumers' "room and board" monthly expenses. The preliminary core issue appeared to be the HAP benefits being inappropriately averaged with all HAP beneficiaries at the service provider, rather than individually applied as required by HUD regulations. This resulted in some consumers receiving HAP benefits greater than entitled, while others were reciprocally receiving less than required by law.

The DDSN met with HUD representatives in June and August, 2014, to discuss the misapplication of HAP benefits by the service providers; concerns about how some providers were charging for additional costs within the "room and board" amounts; and the handling of HUD rental subsidy payments for individual consumers in HUD housing operated by these providers. HUD expressed concern that consumers residing in HUD housing may be paying additional expenses without being given proper full credit for the HAP subsidy. At that time, HUD recommended DDSN take all appropriate steps to correct the current actions of the local providers, and, going forward, perform

a thorough audit to determine if policy changes are necessary and/or reimbursements to consumers are warranted.

The SIG assumed the role of providing stakeholders assurance that the methodology to calculate the liabilities and repay consumers, if needed, would be fair and transparent. DDSN, with consultation of all parties involved, developed a plan to use a certified public accounting firm (CPA) to add audit resources, as well as provide another level of independence and objectivity in addressing this sensitive issue and further investigating the potential liabilities.

On October 1, 2014, DDSN contracted with the CPA firm of Burkett, Burkett & Burkett (BBB) to evaluate the service providers' application of the HAP subsidies in calculating the consumers' room and board charges for a two year period. BBB would use applicable HUD rules and regulations to determine any reimbursements that may be due to consumers. The two year period selected for review was the DDSN's fiscal year (FY) 2013 (7/1/2012 – 6/30/2013) and FY 2014 (7/1/2013 – 6/30/2014). The audit engagement began in November 2014; and was conducted in two phases - Phase I and Phase II.

DDSN published a revised Directive 250-09-DD on December 3, 2014, which provided more clarity and specificity of DDSN's HAP application policy and procedures. It specifically instructed service providers to cease any other method of calculating the "room and board" amounts.

Phase I

A review of DDSN records for FYs 2013 and 2014 identified 657 individual consumers that received HUD subsidies. These consumers were served by 18 service providers. BBB selected a small sample of consumers, generally two to four consumers, from each of the 18 service providers. Ultimately, 46 consumers (7%) were sampled, which identified \$66,783 in overcharges. Extrapolating these \$66,783 of overcharges in the sample to the entire population of consumers resulted in an estimated overcharge of \$952,384 for the two year period. Of the 18 service providers tested, BBB identified the ten providers with significant misapplication of the HAP funds (55%).

It is important to understand the misapplied HAP funds at eight of these ten service providers primarily pertained to using an averaging methodology to apply the HAP rather than individually applying the HAP as required by HUD. Because individual HAP varied based on each consumer's financial need, consumers with an individually higher HAP suffered a financial loss because they were credited with the average HAP amount, which was always lower. Reciprocally, consumers with an individually lower HAP actually financially benefited because they were credited with the average HAP, which was always higher. These eight service providers did not financially benefit. One service provider had minimal overcharges due to minor calculation errors. However, there was one service provider that did not apply the HAP subsidy to any consumer and the HAP was absorbed into its general fund totaling \$350,000.

Phase II

The ten providers identified in Phase I misapplying the HAP subsidy were required to properly recalculate room and board charges for all their affected consumers, which totaled 329 consumers. To assist them in that effort, the SIG and BBB coordinated the development of an Excel worksheet template to capture the consumers' data and calculate the "room and board" amounts based on the proper application of the HAP subsidy. At a training session with the ten service providers, written instructions were provided to complete the worksheet template, as well as how to provide supporting documentation necessary for BBB to test each service provider's recalculations.

After all ten service providers completed the Excel worksheets recalculating consumers' "room and board" amounts, BBB sample tested 94 consumers' recalculations (28%) without noting a substantial error. The recalculations of the entire population of the 329 impacted consumers resulted in actual overcharges of \$1,264,245 during the two year period reviewed.

Next Steps

The review to date has confirmed the initial allegation; identified consumers financially harmed (329); and definitively calculated the dollars required to repay consumers during the two year period reviewed to remedy the misapplication (\$1,264,245). However, additional steps are still needed:

1. DDSN should require the ten service providers to conform with policy directive 250-09-DD pertaining to applying HAP. The review revealed that none of the ten were currently conforming to the calculation methodology despite being instructed twice in 2014 (May 29, 2014 and December 3, 2014), continued to misapply the HAP throughout FY 2015 (7/1/2014 – 6/30/2015). In mitigation, DDSN indicated that many of the providers were waiting on DDSN to approve revised room and board rates in order to complete the FY 2015 required room and board calculation.
2. DDSN should require the ten service providers to recalculate their consumers' room and board amounts for those receiving HAP during FY 2015 and provide this data to DDSN on a date certain in the near-term. This is estimated at \$600,000 in additional overcharges, which will bring the estimated overcharges for the three fiscal years (FY 2013; FY 2014; and FY 2015) to approximately \$1.8 million.
3. DDSN should meet with each of the ten service providers to assess DDSN's liability, if any, and other considerations, and then make a determination if DDSN funds should be involved in repayment plans to the consumers.
4. DDSN should require, as well as approve, the ten service providers to develop a repayment plan to the consumers that will not affect their Medicaid eligibility.

5. DDSN should develop a communication plan for consumers with HAP who, by no fault of their own, benefitted from the averaging of HAP. These consumers' costs will now be higher.
6. The DDSN should have its Internal Audit Department design an audit program to verify the repayments to the consumers and the service providers are properly complying with the revised policy directive 250-09-DD.
7. The SIG will conduct a follow-up review in the next 6-12 months to provide assurance the consumer repayment plans are being effectively executed, along with assessing that the service providers are properly complying with the revised policy directive 250-09-DD.
8. The DDSN should forward a copy of the BBB audit report and this letter to the Board Chairman and Director of the service providers with a consumer repayment liability. This will ensure these service providers' executive leadership have full situational awareness of the facts underpinning this new liability to consumers with HAP.

The SIG commends DDSN leadership for its thorough, fair, and transparent approach to addressing this sensitive issue. The SIG also commends the service providers for their active involvement in identifying the overcharges and professionalism in working through issues in this review. Despite some early apprehensiveness by some stakeholders, the SIG observed virtually everyone involved conscientiously having the best interest of the consumer in mind during this review.

If you have any questions or require clarifications, do not hesitate to call me at any time.

Sincerely,



P. J. Maley
State Inspector General

PM/BW

CC: Dr. Beverly A.H. Buscemi, DDSN State Director

Administrative Note: DDSN's written feedback and comments (two pages) can be found at link: