Office of the Inspector General

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Review of the Use of State Appropriations for the Parent – School Partnership Program by the South Carolina Autism Society

Case# 2021-5331-PI

December, 2021

I. Executive Summary

The South Carolina Office of the State Inspector General (SIG) initiated a review of the South Carolina Autism Society (SCAS) at the request of the state Senate Education Committee based on concerns of mismanagement of state appropriations intended for use in the Parent-School Partnership (PSP) program that resulted in a decline in services to families in need. The review focused on (1) determining the amount of state funding distributed to the PSP program, (2) whether the use of state funds by SCAS conformed to the law and legislative intent, (3) determining the reasons for the lack of funding to provide PSP program support services, and (4) determining discrepancies identified in SCAS' IRS Form 990[1] filings related to lobbying expenditures.

SCAS received $500,000 in annual Education Improvement Act state appropriations for the PSP program through Proviso 1A.46 in quarterly installments transferred by the Education Oversight Committee (EOC). Because of a 2012 SIG investigation related to SCAS fiscal mismanagement, the state legislature required the submission of a quarterly accounting report to the chairs of the Senate Finance Committee, House Ways and Means Committee, and the EOC that began on 10/10/2015. (See: *"Fraudulent Activity at a Non-Profit Organization Involving State Funds & Lessons Learned to Improve Statewide Contract and Grant Monitoring."*)

The SIG review determined multiple factors contributed to a SCAS cash flow problem that affected revenue and expenses, which in turn contributed to a decline in services to families involved with the PSP program for the period of 2017 – 2020.

The majority of SCAS services to the autism community centered on its case management (CM) program funded through the South Carolina Department of Disabilities and Special Needs (DDSN) and the PSP program. The SCAS CM program accounted for approximately 51% of total revenue. The CM program received funding from DDSN through a reimbursable billing process based on specific services provided to SCAS clients by its case managers. The PSP program provided 31% of total revenue to SCAS. The PSP program received direct appropriations from the state legislature to provide services to families with autistic children by SCAS parent mentors who worked through the schools to provide these services. SCAS administered the PSP program through the funds received.

Between 2014 and 2017, SCAS's total revenue grew by 76%, with the CM program accounting for 57% of this amount. During the same period, the state legislature increased the PSP program funding from $262,500 in 2013 to $500,000 in 2017. Also during the same period, SCAS's expenses increased 75%, of which personnel costs accounted for 67% of the increase in expenses.

Beginning in 2014, the South Carolina Department of Health and Human Services received approval from the federal government to change its Medicaid payment process to a retrospective, "fee-for-service" model. This new payment process required performance and accountability from the case managers for the services provided by them. Previously, the prospective billing by the number of cases accounted for 75% of CM program revenue. A decline in fundraising and case managers not properly recording and reporting billable hours for reimbursement led to SCAS incurring deficits in 2016 and 2017.

During the three-year period of 2018 – 2020, SCAS reduced expenses by $574,815. The majority of the reductions occurred in personnel and travel expenses. These reductions, along with the SCAS Board of Directors' (Board) elimination of four case manager positions and the closure of two offices in the low country in 2018, affected the level of services delivered to the autism community.

[1] The Internal Revenue Service (IRS) Form 990 is the *Return of Organization Exempt from Income Tax*.

The SIG determined from SCAS's external auditors that SCAS failed to properly allocate its expenses between the CM and PSP programs. The Financial Accounting Standards Board (FASB) previously issued Update 2016-14 in August 2016 on the proper method of reporting expenses by not-for-profit entities. The SCAS auditors raised this issue with SCAS management during the 2018 audit. SCAS management was further cautioned about the accumulation of unspent funds in the PSP program.

In 2018 and 2019, SCAS wrongly allocated CM program expenses to the PSP program through an allocation method that resulted in charges to the PSP program for the same services that DDSN had already reimbursed SCAS. The SIG determined SCAS, in an attempt to mitigate losses in its CM program and/or reduced restricted net assets of its PSP program, used an improper basis for allocating CM program expenses to the PSP program. By letter dated 3/23/20, the SCAS auditors notified the SCAS Board of a significant deficiency in the audit of SCAS's 2018 financial statements regarding the allocation of expenses to the PSP program and the absence of supporting documentation regarding the percentage basis for the allocation used by SCAS.

SCAS abandoned the use of that allocation basis for its 2020 financial statements. The SCAS expense allocation methodology was not consistent with FASB Update 2016-14 or DDSN Directive (No. 2021-147) in that expenses that can be directly and solely identifiable with a program should be charged to the specific program. Further, the SCAS basis for allocating indirect expenses was arbitrary and not based on the benefit received by the program.

The SIG determined SCAS overstated lobbying expenditures on IRS Form 990 for calendar years 2017 – 2019 by not distinguishing the difference between the lobbying and consulting expenses when SCAS recorded the expenses to the general ledger.

SCAS failed to fully utilize PSP program funds in a manner that conformed to the proviso and legislative intent during the period of 2013 – 2017, which resulted in a surplus of PSP program net assets that totaled $436,417. While DDSN and SCDHHS implemented a reimbursement change for case managers who provided services for Medicaid recipients as early as 2014 it was not the sole factor that resulted in revenue decreases and cash flow problems for SCAS. Failure to record billable hours in a timely fashion by the case managers contributed to these issues.

The SIG determined that SCAS lacked in-house financial expertise and relied instead on contracted accounting services, which led to a failure to understand its financial footing that resulted in a series of poor management decisions and decreased services to autistic children. Furthermore, the lack of in-house financial expertise led SCAS to provide inaccurate and inconsistent quarterly accounting reports to the state legislature for calendar years 2017, 2018, 2019, and 2020.

The decline in services for the PSP program recipients resulted from a series of seemingly small decisions. These decisions included:

- Lack of an in-house financial expert;
- Closure of two satellite offices in 2018;
- Termination of four case managers and the elimination of their positions followed two months later by the creation of five case manager vacancies;
- Shifting PSP program funds to the cover CM program expenses; and
- Payments on a factoring contract with an effective interest rate of 82%.

The SIG extends its appreciation to the staff of SCAS for the courtesies extended to the SIG during this review.

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II. Background

A. Predicate

The South Carolina Office of the State Inspector General (SIG) initiated a review of the South Carolina Autism Society (SCAS) at the request of the state Senate Education Committee based on concerns of mismanagement of state appropriations intended for use in the Parent-School Partnership (PSP) program that resulted in a decline in services to families in need.

B. Scope and Objectives

The scope and objectives of this review were to determine the following:

- the amount of state funding distributed to SCAS for the PSP program;
- whether the use of state funds by SCAS conformed to the law and legislative intent;
- reasons for the lack of funding to provide PSP program support services; and
- discrepancies in IRS Form 990[2] filings related to lobbying expenditures.

C. Methodology

The SIG conducted interviews of current and former SCAS staff, external auditors from The Hobbs Group, and a lobbyist/consultant contracted by SCAS. In addition, the SIG reviewed documents provided by SCAS, The Hobbs Group, McGuireWoods Consulting (MWC), and the South Carolina Department of Disabilities and Special Needs (DDSN).

The SIG employed the preponderance of the evidence standard. Reviews conducted by the SIG conform to the professional standards set forth by the Association of Inspectors General in its *Principles and Standards for Offices of Inspector General*, often referred to as the "Green Book."

D. South Carolina Autism Society, Inc.

The South Carolina Autism Society, Inc. (SCAS) is a 501(c)(3) non-profit organization, governed by a Board of Directors (Board). The SCAS was founded by parents of children with autism seeking information and support in raising their children. A review of the SCAS website determined that SCAS provided case management; educational mentoring and planning; information, referral and resources; outreach; and training for persons and professionals affected by an autism spectrum disorder.[3]

The website further reflected SCAS's purpose was to assist children in achieving their maximum potential, which included providing mentors to collaborate with parents and school personnel in the development of individual education plans through its PSP program. In addition, DDSN contracted with SCAS to provide funding for case management and Family Support-Respite (IFS-R) services.

In 2012, the SIG conducted an investigation of the SCAS entitled, *"Fraudulent Activity at a Non-Profit Organization Involving State Funds & Lessons Learned to Improve Statewide Contract and Grant Monitoring."* The investigation identified fraudulent credit card use by an employee and false grant reimbursement requests

[2] Ibid.

[3] According to SCAS budget information for 2020 and 2021, the staffing level was 34 full and part-time positions.

to the South Carolina Department of Education and the South Carolina Developmental Disabilities Council. As a result, the General Assembly required SCAS's submission of a quarterly accounting report to the chairs of the Senate Finance Committee, House Ways and Means Committee, and the Education Oversight Committee (EOC) that began on 10/10/2015. In 2013, SCAS settled the final liability resulting from financial wrongdoing uncovered by the SIG's 2012 investigation.

E. State Funding for the Parent-School Partnership Program

Per Proviso 1A.46 of the state's Appropriation Act, SCAS received $500,000 in annual Education Improvement Act state appropriations for the PSP program. The EOC transferred the funds to SCAS in quarterly installments. In addition, DDSN provided funding to SCAS for case management and IFS-R services under contract numbers 2021-3901 and 2021-147.

III. SCAS Financial Overview

The majority of SCAS services to the autism community centered on (1) its case management (CM) program funded through the DDSN and (2) the PSP program. In 2020[4], SCAS's CM program provided approximately $819,878[5], or 51% of total revenue, and the PSP program provided 31% of total revenue, with the balance coming from contributions and other governmental funding.

A. Financial Growth Period

From 2014 through 2017, SCAS's total revenue grew by $854,665[6] (76%) with the majority ($485,109) of the new revenue coming from its CM program. During the same period, the PSP program funding increased from $262,500 in 2013 to $500,000 in 2017. The growth in the CM revenue resulted from an increase in the number of individuals served. The 1/27/18 SCAS Board meeting minutes reflected 2,036 individuals received services in the last quarter of 2017. Also during the same period, expenses increased $893,491 (75%), of which $596,546 was an increase in personnel costs. Former SCAS staff advised there were at least eight positions added during this period, of which six were case managers.

After back-to-back surpluses in 2014 and 2015, SCAS incurred deficits in both 2016 and 2017. The 2/4/17 SCAS Board meeting minutes included the statement, "On the books SCAS has a negative balance," which the former chief executive officer (CEO) and Board treasurer stated was unexpected. Several reasons were noted for the negative balance including fundraising revenue being down and certain case managers not properly recording and reporting billable hours. They further noted the outside accountant had not been "properly responsive," which left the former CEO and Board treasurer without current financial information.

In 2014, the South Carolina Department of Health and Human Services (SCDHHS) obtained approval from the Centers for Medicare and Medicaid Services to initiate a change in Medicaid funding to a retrospective, fee-for-service basis. Up to that point, all CM program services were funded based on a prospective monthly payment per case, regardless of the level of service provided during the month. Under the fee-for-service model, providers were compensated based on service notes entered by case managers into a DDSN system. The service notes included documentation of the services provided and the time involved. The time, expressed in

[4] SCAS has adopted a calendar year as it annual accounting period. All the following references to years in relation to SCAS refer to calendar years.

[5] This amount was obtained from a report from the South Carolina Enterprise Information System (SCEIS) of CM payments to SCAS by the DDSN for 2020.

[6] All amounts for years 2013 through 2019 included in this analysis were derived from SCAS's audited financial statements.

15-minute units, became the basis for the fee-for-service billing. This new payment process implemented an accountability and performance framework of the case managers' delivery of services.

At the time in 2014, the SCDHHS partially implemented the change and created a new billing type, which the DDSN also implemented in May 2014. The DDSN recognized the change from a prospective payment to a retrospective payment created an initial cash flow shortfall to providers. As a result, DDSN provided advance payments to all service providers with the understanding the advance payment would be deducted from future CM program payments. The recoupment of the advance payment to SCAS, which totaled $65,684, was deducted from its CM program billings in 2018 and 2019. This was one factor that contributed to a CM program revenue decrease during that period. The SIG determined SCAS mischaracterized the DDSN advance payment as a duplicate payment error in the notes to its financial statements in the 2018 and 2019 audit reports.

During this period, the new fee-for-service billing amounted to 25% of SCAS's CM program revenue while the former prospective billing by numbers of cases accounted for 75% of CM revenue. The statement in the 2/4/17 SCAS Board meeting minutes of case managers not recording and reporting billing hours properly applied to the fee-for-service billing and likely was a factor in the "negative balance" reported in those minutes. Another contributing factor was the increase in personnel expense from the addition of six case managers during the period, which may have been more than the CM program revenue supported.

SCAS's audited financial statements demonstrated SCAS did not fully spend its increased PSP program funding between 2013 and 2017. The PSP program restricted net assets, representing the accumulated difference between the amounts received and the amounts spent, grew from $99,451 at the end of 2013 to $436,417 at the end of 2017. Former SCAS staff also noted that none of the new positions added during this period were in the PSP program even though PSP program funding had almost doubled.

B. <u>Financial Decline Period</u>

The amounts included in the SIG's analysis for the period of 2013 – 2019 derived from SCAS's audited financial statements for those years. The 2020 amounts derived from SCAS's "2020 Prelim Unaudited P&Ls" spreadsheet with two exceptions. The SIG identified a substantial difference between DDSN revenue in the 2020 SCAS spreadsheet when compared to reports the SIG obtained directly from the SC Enterprise Information System (SCEIS) that reflected DDSN payments to SCAS during 2020. The SCAS spreadsheet underreported CM program revenue compared to the SCEIS reports by $202,135 and overreported other DDSN revenue by $161,362. The SIG utilized the amounts reported by SCEIS for this analysis of CM program revenue and other DDSN revenue.

From 2018 through 2020, SCAS experienced the opposite of the earlier period with decreased revenue and expenses. In contrast to the earlier period, revenues decreased $367,068 following a drop of $285,256 in case CM program revenue.

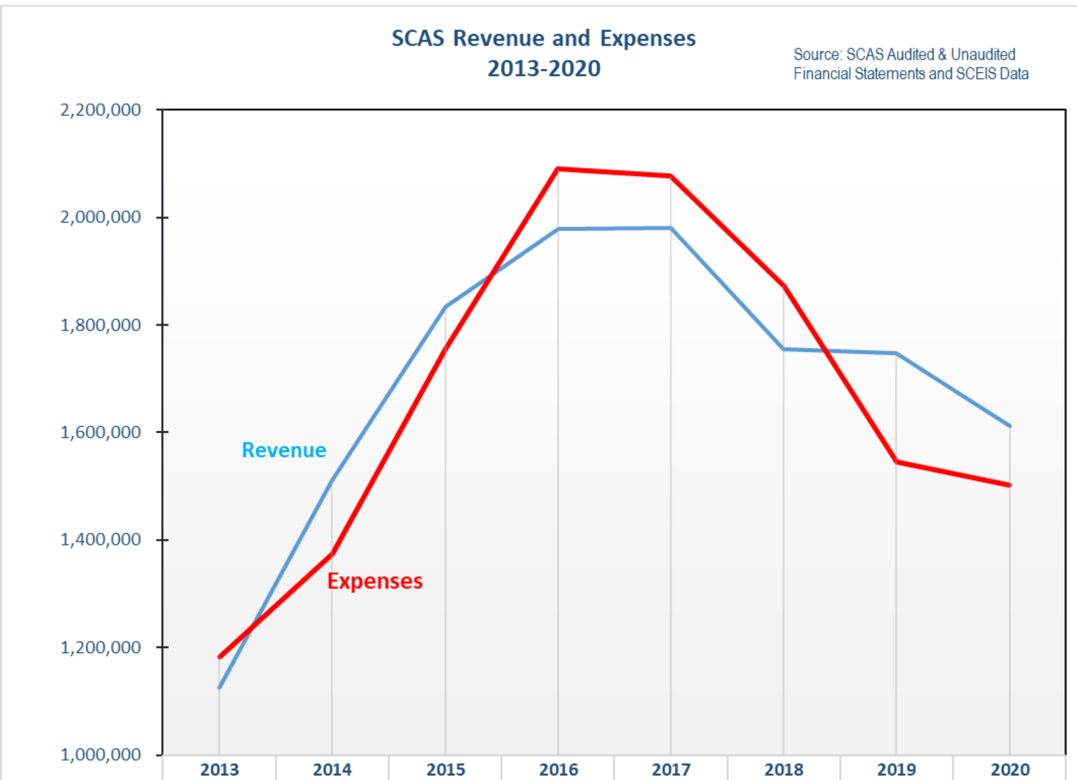
Effective 7/1/19, all Medicaid-funded billing changed to the new payment model and case notes entered by case managers became the basis of all billing. At the same time, DDSN instituted new CM program reporting standards that required case managers to enter case notes within seven days in order to receive compensation.

While these significant changes did not take place until 7/1/19, SCAS's CM program revenue dropped after 2017, with a 16% drop in 2018, followed by a 12% drop in 2019. The reason for the earlier drop may have been the focus of SCAS management on the CM program after the report of a "negative balance" at the 2/4/17 SCAS Board meeting. In addition, the full implementation of the change to a fee-for-service model on 7/1/19 was announced to all providers in early 2018, which further increased scrutiny of case manager performance.

The reported loss in CM program revenue at a May 2018 SCAS Board meeting led to elimination of four case manager positions and closing SCAS's only presence in the lower part of the state two months later. In the 10/26/19 SCAS Board meeting, the Board treasurer advised of a plan to track case managers' billable hours. It was noted that case managers previously billed only 30% of their hours, but that their billing had increased to 47% at that time, with a goal of 50%. A 30% billing rate under the new fee-for-service rates would not have fully covered case managers' personnel expense.

During the three-year period of 2018 – 2020, SCAS reduced expenses by $574,815, a 28% reduction from 2017. The majority of the reduction came in two areas, personnel expense – a $369,633 reduction, and travel expense – a $61,955 reduction. These two expense areas accounted for the majority of the cost of operating both the CM and PSP programs. The cuts are indicative of the impact on the levels of services provided.

The following chart depicts both SCAS's financial growth and decline periods:



	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,125,199	1,511,027	1,833,567	1,977,698	1,979,864	1,754,075	1,747,030	1,612,796
Expense	1,183,568	1,374,508	1,753,985	2,089,691	2,077,059	1,872,900	1,546,011	1,502,244

C. 2017 and 2018 SCAS Board Actions

Even though the number of CM program cases were reported as increasing in SCAS Board minutes throughout 2017 and into 2018, the former CEO reported in the 5/12/18 Board minutes that SCAS lost $54,000 in the prior quarter due to issues with case management. The CEO identified a new DDSN reporting and billing system that "really slowed down our case managers in billing." The CEO also reported a supervisory case manager resigned, the elimination of two additional positions, and the implementation of policies regarding billing percentages by case managers.

The former CEO resigned prior to the 7/14/18 SCAS Board meeting.[7] At that meeting, the Board treasurer recommended, and the Board approved, the closure of two satellite offices and the elimination of four case manager positions. The Board treasurer reported that a "bridge loan" was obtained from the financial institution holding the mortgage on the Columbia SCAS office building.

At the 8/1/18 SCAS Board meeting, the Board treasurer reported that her analysis "will show us which case managers are not turning in service notes." The SIG assessed that the SCAS Board's elimination of four case manager positions and closure of SCAS's presence in the lower part of the state may have been premature.

At this same meeting, the Board treasurer proposed obtaining a line of credit of $50,000 from Financing Solutions, LLC, with which no previous business relationship existed, even though a line of credit already existed with BB&T bank. The Board treasurer advised the terms of the line of credit provided that interest would be paid only on the balance and should not be used unless "we really have to" since the "interest rate is high." The SCAS Board approved obtaining the line of credit; however, the SCAS Board minutes failed to reflect the purpose of the funds and who had authority to initiate a draw against the line of credit.

The SIG's review of the SCAS general ledger identified the receipt of $50,000 from this finance entity in August 2018, less a fee of $2,500. Subsequently, SCAS made weekly payments from September 2018 through February 2019, which were characterized as fees and principle in the contract. The SCAS general ledger reflected the $19,219.27 in fees as interest payments for the six months that principle was outstanding. The SIG identified the arrangement as a factoring contract and estimated **the effective annual percentage rate (APR) was 82%** [SIG emphasis].

Following the termination of the case managers and elimination of their positions due to budget concerns in July 2018, the 9/20/18 SCAS Board meeting minutes reflected five case manager vacancies, and the 9/30/18 meeting minutes noted the interim CEO collected data on the effectiveness of case managers and PSP program parent mentors.

IV. SCAS Audits and Allocations

The Financial Accounting Standards Board (FASB) issued Update 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (FASB Update) in August 2016. The FASB Update was the first significant change in the financial reporting requirements of not-for-profit entities in 23 years. The FASB Update required all not-for-profit entities to provide a functional expense classification in their financial statements with expenses reported by their purpose. Expenses were to be further grouped between program services and supporting services. The FASB Update addressed the allocation of expenses that were not identifiable with a program or programs, and specified allocations were to be made based on benefits received by each program. The expense allocation methodology was required to be disclosed in the financial statements. The FASB Update was effective for fiscal years beginning after 12/15/2017, and applied to the 2018 SCAS financial statements.

A. 2018 SCAS Expense Allocation Model

The SIG determined from SCAS's outside auditors that SCAS had not allocated any expenses between its programs prior to 2018, which they had raised as an issue during the 2018 audit. The auditors advised the SIG they cautioned SCAS management and the SCAS Board at that time about the continuing year-to-year increases in restricted net assets of the PSP program.

[7] An interim CEO was appointed at the 7/29/18 meeting from among the SCAS Board members.

In response to these issues, SCAS performed an expense allocation for 2018 based on a belief some activity of the case managers was a purpose of the PSP program, of which a main function was assisting in the development of Individual Education Plans with parents of autistic children. SCAS initially allocated a portion of case managers' salaries to the PSP program and submitted their books and records to the auditors to begin the audit. However, according to the auditors, SCAS did not provide a basis for their initial allocation.

In an effort to provide the auditors with an allocation basis, SCAS staff reviewed thousands of case notes made by case managers and marked all notes that referenced education. Through this process, SCAS concluded that 13% of case managers' time was devoted to some form of education-related activity. Subsequently, SCAS allocated 13% of case manager salaries ($118,512) for 2018 to the PSP program. SCAS utilized the same 13% basis to allocate all other expenses to the PSP program.

By letter dated 3/23/20, the SCAS auditors notified SCAS and the SCAS Board of a significant deficiency in the audit of SCAS 2018 financial statements. The significant deficiency concerned the allocation of expenses to the PSP program and the absence of supporting documentation regarding the percentage basis for the allocation used by SCAS.

The SIG analyzed a sample of the case notes used for the 13% allocation and determined the case managers' billable time was billed to and paid by DDSN. A DDSN official advised the SIG there was no CM function identified as "education" or "education-related assistance." The DDSN official further advised if time was entered as billable in their system and met all CM requirements, it was reimbursed. The SIG's review of the identified case notes determined the case notes appeared to have been selected simply because the word "school" appeared in the note, regardless of the context. SCAS continued the same expense allocation methodology for 2019 but discontinued its use for 2020.

B. 2020 SCAS Expense Allocation Model

The audit of SCAS's 2020 financial statements was in process at the onset of the SIG review. A review of its expense allocations indicated SCAS booked salary expenses separately to the CM and PSP programs for 2020. All other expenses, including individual program expenses, were allocated to both programs.

SCAS based its allocation of all other expenses on the proportion of budgeted employee hours for each program, minus 6% determined to be "non-programmatic costs." SCAS determined its proportion of budgeted hours to be 32% PSP program, 62% CM program, and 6% "non-programmatic" expenses.

The SIG assessed that SCAS's expense allocation methodology was not consistent with the FASB Update guidance in that expenses identifiable to a program should be charged to the program. Further, expenses that provided some benefit to a program should have been allocated based on the benefit received by the program. An allocation based on budgeted hours may not result in an allocation based on benefit received.

A review of SCAS's contract with DDSN (No. 2021-147) titled, *Individual and Family Support Stipends and Respite State-Funded* (IFS-R contract), required SCAS to comply with audit, financial record keeping, and financial reporting requirements found in DDSN Directive 250-05-DD rev.11/3/2016 (DDSN Directive). Specific requirements of the IFS-R contract included the submission of an annual audit and the submission of "a cost allocation plan prepared in accordance with Medicaid cost principles in accordance with DDSN Directive 250-05-DD."

The SIG found DDSN Directive's guidance on expense allocation to be consistent with the FASB Update and that it provided detailed methods on expense allocations. The DDSN Directive defined direct costs as those that "can be identified specifically" with a program. Indirect costs are expenses incurred for "common or joint objectives and cannot be readily identified" with a particular program. The DDSN Directive further stated the allocation basis "must closely reflect benefits received [by the program]."

The DDSN Directive also provided, "Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other DDSN awards to overcome funding deficiencies or to avoid restrictions imposed by law or by terms of the award."

The SIG determined that SCAS, in an attempt to mitigate losses in its CM program and/or reduced restricted net assets of its PSP program, used an improper basis for allocating CM expenses to the PSP program. **The allocation resulted in expenses that had already been funded by the DDSN being applied to the PSP program** [SIG emphasis]. SCAS abandoned the use of that basis for its 2020 financial statements.

The SIG determined the 2020 SCAS expense allocation methodology was not consistent with the FASB Update or the DDSN Directive in that expenses directly and solely identifiable with a program were not expensed to the specific program. Further, the SCAS basis for allocating indirect expenses was arbitrary and not based on the benefit received by the program.

V. SCAS Inaccurate Reporting to the SC Legislature

Proviso 1A.46 of the state's Appropriations Act required SCAS to provide a quarterly accounting report to the chairs of the Senate Finance Committee, the House Ways and Means Committee, and the EOC. SCAS failed to provide the SIG with copies of the EOC and committee quarterly accounting reports for calendar years 2017, 2018, 2019, and the first two quarters of 2020. A SCAS contract employee stated, "Unfortunately, due to the tremendous amount of transition both in key management personnel as well as who would have prepared these reports. I have no access to information beyond the ones that we helped prepare/estimate during the Fiscal Year." The SIG obtained copies of the outstanding quarterly accounting reports directly from the EOC.

Amounts from SCAS quarterly accounting reports provided to the EOC for calendar years 2017 through 2020[8] are found in Table A along with corresponding SCAS PSP program Profit & Loss (P&L) Statements.

TABLE A

Calendar Year	PSP Expenditures Reported to EOC	PSP Expenditures Per SCAS P&L statements	Variance
2017	$ 356,296.43	$ 424,353.00	$ (68,056.57)
2018	$ 399,950.63	$ 621,360.00	$ (221,409.37)
2019	$ 543,063.86	$ 504,904.42	$ 38,159.44
2020*	$ 343,795.13	$ 454,299.11	$ (110,503.98)
	$ 1,643,106.05	**$ 2,004,916.53**	**$ (361,810.48)**

*2020 PSP expenditures were unaudited during the SIG's investigation.

The SIG determined SCAS provided inaccurate and inconsistent quarterly accounting reports to the EOC for calendar years 2017 through 2020.

[8] The SIG noted SCAS's 2020 audit was still in progress during the course of the SIG's investigation. Therefore, the profit & loss statement provided by SCAS for 2020 was unaudited and subject to change after SCAS's 2020 audit was completed.

VI. Lobbying Expenses Reported

Beginning in 2013, SCAS contracted with McGuireWoods Consulting, LLC (MWC) for lobbying and consulting services. SCAS booked all services rendered by MWC as "Lobbyist Services", as reflected in the SCAS Form 990s for 2017, 2018, and 2019. The amounts reported on the Form 990s were inconsistent with amounts reported by MWC to the South Carolina Ethics Commission (SCEC). Beginning in calendar year 2020, SCAS split MWC services into the two categories detailed in the original engagement letter: lobbying $1,500 per month and consulting $1,500 per month.

The SIG determined the discrepancies between MWC reports to the SCEC and the SCAS Form 990s for 2017, 2018, and 2019, were a result of SCAS not distinguishing the difference between lobbying and consulting expenses when SCAS recorded these in its general ledger.

VII. Way Forward

As evidenced by the preceding analysis, SCAS failed to fully utilize PSP program funds in a manner that conformed to the proviso and legislative intent during the period of 2013 – 2017, which resulted in a surplus of PSP program net assets that totaled $436,417.

Following successive budget deficits in 2016 and 2017, SCAS attempted to mitigate its losses during the period of 2018 – 2019 to its CM program and/or reduced restricted net assets of its PSP program through an allocation methodology that did not comply with the FASB Update 2016-14 and DDSN Directive by CM program expenses to the PSP program. This resulted in a significant deficiency finding in the 2018 audit by SCAS's external auditors. Specifically, the accounting guidance provided in the language of these standards stated that expenses that can be directly and solely identifiable to a program should be expensed directly to that program. Further, the SCAS basis for allocating indirect expenses was arbitrary and not based on the benefit received by the program.

While DDSN and SCDHHS implemented a reimbursement change for case managers who provided services for Medicaid recipients as early as 2014 it was not the sole factor that resulted in revenue decreases and cash flow problems for SCAS. Failure to record billable hours in a timely fashion by the case managers contributed to these issues.

The SIG determined that SCAS lacked in-house financial expertise and relied instead on contracted accounting services, which led to a failure to understand its financial footing that resulted in a series of poor management decisions and decreased services to autistic children. Furthermore, the lack of in-house financial expertise led SCAS to provide inaccurate and inconsistent quarterly accounting reports to the state legislature for calendar years 2017, 2018, 2019, and 2020.

The decline in services for the PSP program recipients resulted from a series of seemingly small decisions. These decisions included:

- Lack of an in-house financial expert;
- Closure of two satellite offices in 2018;
- Termination of four case managers and the elimination of their positions followed two months later by the creation of five case manager vacancies;
- Shifting PSP program funds to the cover CM program expenses; and
- Payments on a factoring contract with an effective interest rate of 82%.

VIII. Findings and Recommendations

Finding #1: The SIG determined SCAS improperly charged the PSP program for a portion of case management salaries during 2018 and 2019 when it already billed the same case management salaries to DDSN. Additionally, the SCAS expense allocation methodology for 2020 was not consistent with FASB Update 2016-14 or DDSN Directive 250-05-DD. SCAS failed to charge expenses to the respective programs where those expenses were clearly attributable to specific programs. Furthermore, SCAS charged only salaries directly to the CM and PSP programs and treated all other expenses as indirect expenses by allocating those expenses on the basis of budgeted employee hours.

Recommendation #1a: The SCAS should adjust its expense allocation methodology to be consistent with FASB Update 2016-14 and DDSN Directive 250-05-DD and correct the description of its expense allocation methodology in its financial statements to accurately portray its actual expense methodology.

Recommendation #1b: The SCAS should provide copies of its audited financial statements to the DDSN and the Education Oversight Committee.

Recommendation #1c: The SCAS should determine the revised cost of the PSP program after allocating expenses consistent with the FASB Update and DDSN Directive 250-05-DD and increase the service level of the PSP program or request a repurpose of the funds from the state legislature if a surplus of funds is identified.

Recommendation #1d: The SCAS should determine the revised cost of the case management program after allocating expenses consistent with FASB Update 2016-14 and DDSN Directive 250-05-DD. After determining the revised cost of the case management program, SCAS should determine its financial status, take appropriate action to ensure the program is financially sound, and increase capacity if there is a service need in the communities.

Finding #2: The SIG determined SCAS provided inaccurate and inconsistent quarterly PSP accounting reports to the state legislature in 2017 through 2020 as provided for in Proviso 1A.46 of the Appropriations Act.

Recommendation #2: The SCAS should provide accurate quarterly accounting reports to the state legislature based upon a proper allocation methodology that is consistent with FASB Update 2016-14 detailing the use of PSP program funds.

Finding #3: The SIG determined SCAS overstated lobbying expenditures on IRS Form 990 for calendar years 2017 – 2019 by not distinguishing the difference between the lobbying and consulting expenses when SCAS recorded the expenses in the general ledger for McGuireWoods Consulting.

Recommendation #3: The SCAS should amend IRS Form 990 to accurately reflect actual lobbying expenses paid for calendar years 2017 – 2019.