



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
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HARRISBURG, PENNSYLVANIA 17105-2675

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KEVIN M. FRIEL
DIRECTOR

October 31, 2008

Mr. Ryan Smith
Chief Executive Officer
Supportive Concepts for Families, Inc.
200 Penn Street – 3rd Floor
Reading, Pennsylvania 19602

Dear Mr. Smith:

Enclosed is the final report of your program completed by this office. Due to the volume, the report is on the enclosed disc. Your response has been incorporated into the final report and labeled Appendix A. The Berks County MH-MR Program's response has also been incorporated into the final report and labeled Appendix B. Appendix C is a copy of the October 22, 2008 letter that was sent to your organization announcing the plan to have Berks County oversee appraisals of all property leased by your organization that is reimbursed by the Department of Public Welfare.

The final report will be forwarded to the Department of Public Welfare's (DPW) Office of Developmental Programs begin the DPW's resolution process concerning the report contents. The staff of the Office of Developmental Programs may be in contact with you to follow-up on the corrective action actually taken to comply with the report's recommendations.

I would like to express my appreciation for the courtesy and cooperation extended to my staff during the course of the fieldwork.

Please contact Alex Matolyak of the Audit Resolution Section at (717) 783-7786 if you have any questions concerning this matter.

Sincerely,

A handwritten signature in cursive script that reads "Kevin M. Friel".

Kevin Friel

Enclosure

cc: Mr. Kevin T. Casey
Ms. Joan Erney

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 DPW'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 (65 P.S. §§ 67.101 et seq.). The DPW RTKL Office can be contacted by email at: ra-dpwtkl@pa.gov.

The auditee's response is not included in this file because of its size and format. To request a copy please contact the DPW Right to Know Law Office.



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KEVIN M. FRIEL
DIRECTOR

October 31, 2008

Mr. Kevin T. Casey
Deputy Secretary for Developmental Programs
Room 512 Health & Welfare Building
Harrisburg, Pennsylvania 17105-2675

Ms. Joan L. Erney
Deputy Secretary for Mental Health
and Substance Abuse Services
DGS Annex, Building 11, Room 211
Harrisburg, Pennsylvania 17110-3593

Dear Mr. Casey and Ms. Erney:

In response to a request from the Office of Developmental Programs (ODP), Northeast Regional Office, the Bureau of Financial Operations (BFO) has completed a performance audit of Supportive Concepts for Families, Inc. (SCFF). The request for the audit originated from concerns related to the high cost structure of the Program especially rental properties and general adherence to the 55 Pa. Code Chapter 4300 Fiscal Regulations. The audit was primarily directed to determine if SCFF has a system to allow accurate submission of residential budgets and if actual expenditures are reasonable and in accordance with 55 PA. Code Chapter 4300 regulations.

The audit identified that Counties were overcharged \$912,889 for depreciation expense costs associated with a number of leased properties appear to be high and/or exceeded fair market rental value, instances of non-compliance with 55 Pa. Code Chapter 4300 regulations regarding competitive bidding, cost allocation issues, cost shifting and the personal use of vehicles. Additionally, the auditors addressed concerns over the absence of consumer staffing requirements in the Individual Support Plans and the absence of day programming, outside of the site, for certain consumers.

Supportive Concepts for Families, Inc.
Executive Summary

SCFF is a 501(c)(3) not-for-profit corporation headquartered in Reading, Berks County, Pennsylvania. SCFF is subject to the Title 55 Pa. Code Chapter 4300 MH-MR fiscal regulations. SCFF provides support services to people with mental retardation and mental health issues. Services provided by SCFF include residential, respite, CHIPP,

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home based supports, day program, life sharing, independent supported living and crisis services.

Residential services are provided to 178 consumers. Although SCFF is headquartered in Berks County, it also serves consumers from Blair, Bradford, Lancaster, Lebanon, Lycoming, Schuylkill, Philadelphia, Montgomery, Tioga, Huntingdon, Mifflin and Juniata Counties. Revenues for Fiscal Year 2006-07 were approximately \$26.7 million. Berks County contracts represent 45 percent of total revenue. ODP funded programs represent \$23.4 million or 88 percent of revenues with the balance representing OMHSAS funded programs.

<i>Finding No. 1 – Use of Accelerated Depreciation for Leasehold Improvements Resulted in a \$912,889 Over Charge to the Counties</i>	SCFF made \$1,615,963 in leasehold improvements over the past five years which were not depreciated in accordance with the regulations. The improvements were depreciated over periods ranging from three to five years while the regulations require residential and commercial property to be depreciated over 27.5 and 39 years respectively. The abbreviated depreciation periods resulted in a \$912,889 overcharge to the Counties. The \$912,889 is comprised of \$807,132 for ODP programs and \$105,757 for OMHSAS programs.
SCFF should: <ul style="list-style-type: none">• Reclassify all leasehold improvements to IRS guidelines to comply with Chapter 4300.105.• Comply with 4300 regulations in claiming reimbursement for improvements. ODP should: <ul style="list-style-type: none">• Recover \$807,132 from SCFF representing the depreciation overcharge to the County Programs.• Recommend County Programs obtain SCFF depreciation schedules for use in review of depreciation expense included in SCFF budgets and audits.• Obtain and use the revised allowable costs for depreciation in the service rates computed for SCFF sites.	
OMHSAS should: <ul style="list-style-type: none">• Recover \$105,757 from SCFF representing the depreciation overcharge to the County Programs.	

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<p><i>Finding No. 2 – The Cost of Residential Properties Needs to Be Reevaluated and Reduced as Appropriate</i></p>	<p>Costs associated with the leasing of residential and an administrative site appear high. SCFF leases 55 of its 69 residential sites from a group of five landlords who purchase or build the homes with the specific intent to lease them to SCFF. Real estate appraisals obtained to support the reasonableness of the lease charges primarily limit “comparable properties” to sites leased by SCFF and do not include properties leased or available to the general public. Appraisals for two properties, that did not restrict the “comparables”, indicate that the annual lease payments for these two properties exceed fair market value by \$39,228. A sample of 14 properties indicates that the need for taxpayer subsidy would have been reduced by \$191,100 a year if SCFF had purchased the properties in the sample. See Exhibit D.</p>
<p>SCFF should:</p> <ul style="list-style-type: none">• Evaluate purchase vs. lease option on acquisition of future residential properties. <p>Counties should:</p> <ul style="list-style-type: none">• Contract with their own appraiser to determine FMRV.• Not fund rental costs in excess of FMRV.	
<p><i>Finding No. 3 – Absence of Competitive Bidding Does Not Ensure Vehicles and Services Were Obtained at the Lowest Practicable Cost</i></p>	<p>SCFF does not always comply with competitive bidding requirements for purchases and contracted services. Forty-three (43) vehicles with an average monthly payment of \$452 costing \$903,418 were leased exclusively from one dealer and \$47,438 was expended for two vehicles that were purchased from family members without the benefit of competitive bidding. We also noted that competitive bidding is not regularly occurring for contractor services and furniture purchases. 55 Pa. Code Section 4300.145 requires that supplies and services be obtained at the lowest possible cost and that a system of competitive bidding or written estimates as required by the applicable County Code be implemented.</p>

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<p>SCFF should:</p> <ul style="list-style-type: none"> • Obtain competitive bids for all major purchases and acquisitions. <p>ODP should:</p> <ul style="list-style-type: none"> • Develop a policy on a maximum participation amount for vehicles, unless vehicle is purchased through COSTARS. • Determine the allowability of the \$903,418 cost of leased vehicles not bid and the \$47,438 charged for two vehicles purchased from SCFF family members. <p>Counties should:</p> <ul style="list-style-type: none"> • Not reimburse SCFF for purchases and services not competitively bid.
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<p><i>Finding No. 4 – The Cost of Personal Use of Vehicles is Charged to the Counties</i></p>	<p>SCFF has four vehicles assigned to managers who are allowed to use the vehicles for personal use. The total cost to operate these vehicles was \$49,224 for Fiscal Year 2005-06 and \$62,633 for Fiscal Year 2006-07. A total of \$11,622 and \$16,749 is being questioned for the fiscal years ending June 30, 2006 and 2007 respectively. The amounts represent personal use of vehicles which was not repaid by the employees in accordance with 55 Pa. Code Section 4300.104(b)(3).</p>
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<p>SCFF should:</p> <ul style="list-style-type: none"> • Develop a policy for reimbursement of personal use of agency vehicles. <p>ODP should:</p> <ul style="list-style-type: none"> • Evaluate options in Findings to determine appropriate recovery amount. • Monitor SCFF to ensure payback procedures are implemented.
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<p><i>Finding No. 5 – Year End Cost Shifting Misrepresents True Cost of Care</i></p>	<p>Adjusting entries are prepared at year end to shift costs among Berks County consumers in an attempt to match expenses and revenues. This process distorts the actual cost of care at each site. The actual cost of care is further distorted by a cost allocation plan that uses funding rather than expenses as a major driver to allocate indirect/administrative costs in the County budgets.</p>
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SCFF should:

- Discontinue practice of cost shifting once the Berks County budgets are adjusted to reflect actual costs.
- Revise written Cost Allocation Plan to eliminate funding as a major factor in allocation and document the method used to allocate indirect/administrative costs.

Berks County should:

- Work with the ODP and SCFF to identify the residential budgets affected by the cost shifts and adjust Fiscal Year 2008-09 budgets to reflect actual costs and rates.

ODP should:

- Ensure the Fiscal Year 2008-09 rates are based on actual costs and were developed in accordance with the rate setting bulletin.

***Finding No. 6 –
Food Distribution and
Landscaping Costs of
\$105,984 are not Eligible
for Waiver Eligible
Funding***

Food distribution costs of \$45,529 were charged as waiver eligible costs. While these costs are associated with staff with the job title of cook, the cooks are not on-site and do not interact with consumers on food preparation. The costs are a function of room and board and should be charged as waiver ineligible. Landscaping costs of \$50,705 for the fiscal year ended 2006 and \$9,750 for the fiscal year ended 2007 were charged to waiver eligible funding and should have been treated as waiver ineligible for reimbursement purposes.

SCFF should:

- Ensure waiver eligible funds are not utilized for waiver ineligible costs.

ODP should:

- Determine if \$45,529 of waiver ineligible costs representing the food distribution costs charged to a waiver eligible funding stream.
- Determine if \$60,455 of waiver ineligible costs representing the landscaping costs over allocated to a waiver eligible funding stream.

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***Finding No. 7 –
SCFF Over Reported Year-End
Accrued Operating Expenses by
\$92,865***

SCFF reported and was reimbursed for \$92,865 of accrued residential expenses in Fiscal Year 2004-05 which were not incurred until Fiscal Year 2005-06. The over reporting of Fiscal Year 2004-05 expenses is not in compliance with regulations 55 PA. Code sections 4300.146(b) and 4300.149(a).

ODP and OMHSAS should:

- Consider preparing appropriate carryover adjustments for the Counties funding SCFF during Fiscal Year 2004-05 to recover the \$92,865 inappropriately expensed.

***Finding No. 8 –
Individual Support Plans
Lack Adequate Staffing
Information***

The Individual Support Plans (ISP's) lack critical information on approved staffing and funding that could be used in a comparison to what was approved to what is expended. This could result in higher costs to ODP and Counties. We also noted a number of Berks County ISP's were not up to date.

ODP should:

- Ensure the ISP's are specific regarding the approved staffing ratios for both residential and day programs.
- Ensure Berks County updates all ISP's.

Consumers Are Not Attending Day Programs

We visited a limited number of sites as part of our fieldwork. We observed many of the consumers were not attending day programs but were home during the hours of 9:00 AM to 3:00PM. The absence of appropriate day programming affects the services provided to the consumers, increases costs and often results in the diminished capacity of staff who are working excessive hours.

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Background

SCFF's internal financial statements for Fiscal Year 2006-07 identify revenue of \$26,749,205. Berks County contracts represent 45 percent of total revenue. This is a reduction from the 55 percent in Fiscal Year 2005-06. Contracts from Lehigh, Huntingdon, Mifflin, Juniata, and Lebanon account for 44 percent of total revenue. SCFF has seen significant growth over the past seven years. In 2000, SCFF's gross revenue was \$5.5 million and its revenues are projected to reach \$32 million for Fiscal Year 2007-08.

Although revenue growth has been significant, the growth in assets has been minimal. SCFF does not purchase property, but rather leases all Community Living Arrangements (CLA), family living homes, and its headquarters building from five major investors.

Objective, Scope and Methodology

The audit objectives, developed in concurrence with ODP were:

- To determine if SCFF has a system to allow accurate and timely submission of residential budgets/rate schedules to the County Programs, and if actual expenditures are reasonable and in accordance with the approved budgets and 55 Pa. Code Chapter 4300 regulations.
- To determine if the cost for SCFF's residential sites are accurately recorded and reported to the individual Counties.
- To determine if SCFF has a cost allocation plan (CAP) used to allocate indirect and/or general and administrative costs to its various services and residential sites and if these costs are reasonable and in compliance with 55 Pa. Code Chapter 4300 regulations.

In pursuing these objectives, the BFO interviewed staff members from SCFF. We also reviewed accounting records, budgets, financial records, leases, timesheets, and other pertinent data necessary to complete our objectives.

Government auditing standards require 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, no significant deficiencies came to our attention other than those described in the findings included in this report.

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The audit fieldwork was conducted intermittently between October 18, 2007 and December 11, 2007. During January and February 2008, audit activities primarily consisted of attending meetings and analyzing supplemental data provided by SCFF. The fieldwork was performed in accordance with generally accepted government auditing standards. Closing conferences were conducted on February 5 and February 28, 2008 with SCFF's management. The report, when presented in its final form, is available for public inspection.

Results of Fieldwork

Finding No. 1 – Use of Accelerated Depreciation for Leasehold Improvements Resulted In a \$912,889 Overcharge to the Counties

The Counties funding SCFF were overcharged a total of \$912,889 for leasehold improvements made to the residential and the administrative rentals. SCFF used accelerated depreciation to obtain reimbursement for \$1,360,364 in leasehold improvements that were made over the five year period ended February 2008. When computing the depreciation SCFF used the term of the loan associated with each improvement, usually three to five years, and not the "useful life" as required by the 55 Pa. Code Chapter 4300 regulations. SCFF also expensed \$255,599 in leasehold improvements that should have been depreciated. In total, \$1,615,963 of improvements were made over the five year period. (See Exhibit A).

In accordance with the requirements of the 55 Pa. Code Chapter 4300 regulations allowable depreciation for these improvements is \$118,173. A comparison to the amount actually charged of \$1,031,062, results in an overstatement of \$912,889.

Depreciation Charges are Subject to 55 Pa. Code Section 4300.105(1)

55 Pa Code Section 4300.105(1) requires providers to follow guidelines published by the Internal Revenue Service (IRS) or the Uniform Chart of Accounts and Definitions for Hospitals published by the American Hospital Association. The IRS guidelines require the cost of an addition or improvement made by the lessee or lessor to real property be depreciated under MACRS in the same manner as the MACRS deduction for real property would be calculated. Improvements for SCFF's residential properties should be depreciated over 27.5 years with improvements made to SCFF's corporate office depreciated over 39 years. Additionally, 55 Pa. Code Section 4300.105(3) requires the method and procedures, including useful lives, for computing depreciation shall be applied from year to year on a consistent basis and may not be changed.

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Alternative Practices for Reporting Improvement Costs Do Not Comply with 4300 Regulations and Resulted in Inaccurate Charges to the Counties

In addition to accelerated depreciation, SCFF used other practices to claim reimbursement for improvement costs which did not comply with 55 Pa. Code Section 4300 regulations.

- Improvement costs of \$98,430 incurred in Fiscal Year 2005-06 were rolled into Fiscal Year 2006-07. This violates 55 Pa. Code Section 4300.146(b) which requires reporting of expenses in the year incurred, and 55 Pa. Code Section 4300.147(b) which prevents DPW funds allocated in the current year to pay for a prior year deficit. As an example, improvements of \$39,052 were made at the Sunrise property during Fiscal Year 2005-06. The \$39,052 was reported as an asset on SCFF's June 30, 2006 financial statements with \$33,098 of the total being depreciated beginning in March 2006 per financial statements. However, the \$39,052 less four months depreciation expensed in Fiscal Year 2005-06 was subsequently rolled into Fiscal Year 2006-07 and expensed. Depreciation of \$98,430 in assets from the year of inception over the useful life results in a \$90,177 overcharge to the Counties. The \$90,177 is included in the \$912,889.
- One June 10, 2006 a loan was taken to finance \$114,061 of improvements at Mount Penn Road for a Schuylkill County Consumer. Although the \$114,061 was identified as an asset on SCFF's June 30, 2006 financial statements, none of the costs were reported in Fiscal Year 2005-06. The entire amount was rolled forward and expensed in Fiscal Year 2006-07. A review of the Fiscal Year 2006-07 charges indicates that Schuylkill was overcharged \$93,021 and Lehigh County was inappropriately charged \$16,422 for improvements that did not benefit any of their consumers. The total overcharge of \$109,433 overcharge is included in the \$912,889 identified above.
- Improvement costs of \$43,107 were made at Schoffers Road during Fiscal Year 2005-06. The SCFF began depreciating the asset in July 2006 with 12 months depreciation booked through June 2007. However, since the 2005-06 audit was not completed/issued until July 2007, the Fiscal Year 2005-06 books remained opened for an additional 12 months. This allowed a reversal of 12 months depreciation with the \$43,107 retroactively expensed to Fiscal Year 2005-06. The election to depreciate this item should have continued over 27 years as required per 4300.105. This resulted in a \$40,163 overcharge to the Counties. A review of the Counties charged for this improvement made to the four person site identified 100 percent was charged to Berks County, yet two consumers from Lehigh and one consumer from Tioga also benefited from the improvement. This results in Berks County being overcharged \$42,421 with Lehigh and Tioga Counties undercharged \$1,372 and \$686 respectively. The \$40,163 overcharge is included in the \$912,889 total.

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Recommendations

The BFO recommends that SCFF reclassify all assets to their respective asset class life. This will ensure compliance with 55 Pa. Code Chapter 4300 regulations. All future leasehold improvements should follow IRS guidelines for depreciation.

The BFO also recommends SCFF comply with 55 Pa. Code Chapter 4300 regulations which do not allow roll forward of expenses into a subsequent year, or to reverse an election to depreciate an asset through retroactive expensing to a prior fiscal year.

The BFO further recommends ODP recover \$807,132 and OMHSAS recover \$105,757 from SCFF applicable to the County Programs. This represents the amount SCFF has overcharged depreciation and/or inappropriately expensed improvements to the individual consumers of the various Counties that SCFF serves. The Counties should obtain SCFF depreciation schedules for their use in reviewing SCFF audits and budget submissions.

The BFO finally recommends ODP require SCFF to reduce historical costs and rates of the individual sites affected by the overstated depreciation. This will ensure that when individual rates become standard on July 1, 2009, ODP and the respective Counties will have historical rates based on compliance with the 4300 regulations.

Finding No. 2 - The Cost of Residential Leases Needs to Be Reevaluated and Reduced as Appropriate

SCCF leases 55 of its 69 residential sites from five investors who either buy or build the homes to meet a specific need identified by SCFF. While the "investors" are not considered as related parties for accounting purposes we believe the unique business relationship warrants our recognition. This is especially significant as our review of the SCFF lease payments leads us to the conclusion that the many of the rental payments exceed the amounts that a reasonable buyer in the marketplace would incur.

To ensure that lease commitments for residential and administrative sites are reasonable and taxpayer funds are not inappropriately expended 55 Pa. Code section 4300.87(b)(2) requires that "the cost of rent for any facility may not exceed the rental charge published for the general public for similar space in that geographical area". Comparable rental rates are not always readily available and in many cases it may be necessary to turn to real estate professionals and obtain appraisals. While appraisals are not specifically required to support the reasonableness of the amounts paid they have frequently been required as the basis to support a provider's compliance with the regulations.

A review of the lease files indicates that SCFF initially utilized the services of a board member to verify the reasonableness of the lease rates. The board member who was a

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licensed real estate broker was not licensed to do appraisals. The documents that he prepared in support the lease amounts were titled "Investigations". We conferred with the Pennsylvania Department of State who informed us that investigations are not the same as appraisals and should not be relied upon. In Fiscal Year 2007-08, SCFF contracted with three certified appraisers to prepare appraisals on the properties. The appraisals prepared primarily used other SCFF leased homes as "comparables" for the determination of fair market rental value (FMRV). Considering that 83 percent of the SCFF sites are leased from a small group of five landlords it was not surprising that the FMRV were similar to the rates charged.

The appraisals prepared for two sites located in Lehigh County identified comparable properties outside of the universe of sites leased exclusively by SCFF. These properties were Fish Hatchery Road with a current rent of \$3,144 per month and Spruce Street where the rent was \$3,750. The appraisal for Fish Hatchery stated fair rental was \$1,825 and the appraisal for Spruce Street stated fair rental was \$1,800. These appraisals exceeded monthly lease payments by \$1,319 and \$1,950 respectively. As a result the annual lease payments exceed FMRV by \$39,228.

In an attempt to complete our own comparison we obtained lease amounts from the next three largest residential service providers located in Berks County and compared them to the SCFF leases. The average monthly lease for residential properties of the three providers was \$1,148. The average monthly lease of SCFF properties is \$2,426 or 111 percent higher. We did not visit the non-SCFF properties nor did we compare all the details of each property as would be required by an appraisal. We do note that all of the sites are licensed by ODP using the same guidelines.

Cost to Purchase vs. Lease Needs to Be Considered

As a further analysis of the reasonableness of the lease amounts, we compared the current rentals to the cost to purchase the property. The SCFF leases require SCFF to pay all utilities, garbage fees, snow removal and maintenance fees with most improvements the responsibility of SCFF. SCFF could have recognized significant savings as well as increased holdings in assets if it had purchased the properties compared to leasing. For example, Adamstown Road (Exhibit B), a CLA site, was purchased by an investor at a cost of \$175,000. SCFF leases this property for \$3,200. If a 15 year mortgage was taken at 7.5 percent interest with taxes, PMI, and insurance included, the payment would be approximately \$1,968 a month. SCFF and the Counties would realize an annual savings of \$14,784 and SCFF would attain ownership and equity for its balance sheet.

A second example is SCFF's corporate headquarters (Exhibit C). The purchase price by an investor was \$800,000. SCFF leases this property at \$15,656 per month. If a 15 year mortgage was taken at 7.5 percent interest with taxes, PMI and insurance included, payment would be \$8,997 per month. SCFF and the Counties would receive annual savings of \$79,908 and SCFF would increase its equity.

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In each example SCFF could have realized significant savings by purchase of the property. Attached to the report is Exhibit D which identifies the purchase vs. lease comparison for an additional 12 sampled properties. The cumulative annual savings of these 12 sampled properties is \$96,408, with the properties 100 percent owned in 15 years.

Recommendations

The BFO recommends the Counties contract with its own independent appraiser to obtain fair market rental value for all SCFF property leases. The Counties should not reimburse SCFF for more than FMRV. Any excess rent paid should be from the provider's funds.

The BFO also recommends SCFF evaluate purchase versus lease option. Over the last five years, \$2.3 million in leasehold improvements have been made to properties not owned by SCFF. Landlords are not obligated to renew the leases and the cost of improvements could be lost.

Finding No. 3 - Absence of Competitive Bidding Does Not Ensure Vehicles and Services Were Obtained at the Lowest Practicable Cost

SCFF did not adhere to 55 Pa. Code Chapter 4300.145 with respect to bidding and procurement practices. We noted certain vehicles and contractor services were not competitively bid. SCFF has 121 vehicles within its fleet of which 43 vehicles are leased through American Honda Finance. The average lease cost of the 43 vehicles is \$452 per month. These vehicles were all obtained from one dealer and a competitive process was not employed. According to management, SCFF chose these vehicles due to Honda's and Acura's ability to supply corporate vehicles without a personal guarantor. The cumulative lease cost of the 43 no bid vehicles is \$903,418. (See Exhibit E)

Lease payments vary depending on the type of vehicle. Examples include an Acura RL, Acura MDX, Honda Ridgeline (pick-up), Honda Pilot and Honda Civic at monthly payments of \$835, \$690, \$656, \$557 and \$478 respectively. In our opinion the monthly payments are high and we could not identify any additional benefits to the consumers that would warrant expenditures at this level. The 121 vehicles are assigned to specific residential sites, managers and various departments, such as maintenance. A review of the 48 month \$835 Acura lease identified the vehicle was acquired for and used by the CEO for two years. The vehicle was subsequently transferred to a residential site prior to the expiration of the Acura lease at which time a lease of a \$690 Honda Ridgeline was entered into for the CEO.

SCFF is a member of COSTARS, a cooperative program offered through the Commonwealth of Pennsylvania General Services Department. One example of

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vehicles offered through COSTARS is a Chevrolet Impala which is the type of vehicle used by staff of the Pennsylvania Governor's Office. The price to purchase an Impala through COSTARS is \$15,241. At this price, SCFF could have purchased four Chevrolet Impalas to one Acura RL based on a comparison of total lease payments and buyout option at the end of the Acura's lease.

SCFF Purchased Two Vehicles from Families of SCFF Employees Without Competitive Bidding

SCFF purchased two used vehicles through SCFF management employees and/or their families which were not competitively bid as required by 55 Pa. Code Section 4300.143. A 2005 Acura TSX was purchased for \$25,000 for use at a residential site, and a 2001 Dodge Caravan was purchased at a cost of \$22,438. SCFF used prices obtained through websites for vehicles located in the states of Virginia, Maryland and Washington as documentation that competitive bidding procedures were employed. 55 Pa. Code Section 4300.143 does not allow the purchase of goods and services from individuals who exercise management or operational control unless competitive bidding procedures are used. The BFO cannot agree that the information obtained from the national web sites meets the requirements of competitive bidding.

Contractor Services

The BFO obtained documents related to renovation and/or maintenance costs of residential sites. In many instances, three bids were not received as required by both 55 Pa. Code Section 4300.145 and the Berks County contract. In lieu of bids, SCFF frequently used a written memo that stated "(Facilities Manager) has determined the following job had to be performed by (contractor) who was the only contractor that could do the job in a timely manner."

Competitive bidding was also not used for landscaping/cleaning costs and fencing/deck costs. For example, the contract with the landscaper for Fiscal Year 2005-06 did not include rates, locations, and services to be provided. Payments to the landscaper for Fiscal Year 2005-06 were approximately \$234,000. The 2004-05 and 2005-06 fiscal year contracts total \$399,670.

For furniture purchases, a local furniture dealer is awarded the majority of purchases without competitive bidding. This practice does not provide the required assurance that the furniture is received at the lowest practicable cost.

Recommendations

The BFO recommends SCFF obtain competitive bids for all purchases and acquisitions. The absence of competitive bids limits any assurance that the items were purchased at the lowest practicable cost. ODP and the Counties should not reimburse SCFF for vehicles and contractor services without competitive bidding. The \$903,418 cost of the

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43 vehicles not competitively bid should be reviewed by ODP to determine if these costs are eligible for reimbursement. Additionally, the allowability of the \$47,438 charged for two vehicles purchased from managing employees and/or their families should also be reviewed by ODP, and a decision rendered as to their eligibility for reimbursement.

The BFO also recommends SCFF consider purchasing all vehicles through COSTARS. These vehicles are offered at pre-negotiated rates and are not subject to the bidding requirements.

The BFO further recommends ODP develop a statewide policy on reimbursement of vehicles. The policy should establish a maximum amount that DPW will participate in. Costs exceeding the maximum must be funded by the provider. The purchase of vehicles from COSTARS would be exempt from this policy.

Finding No. 4 - The Cost of Personal Use of Vehicles is Charged to the Counties

The cost of personal use of agency vehicles is being charged to the County Programs. SCFF does not comply with 55 Pa. Code Section 4300.104(b)(3), which requires a procedure for reimbursement by the employee to the program for personal use of the vehicle.

We determined the cost of personal use charged to the Counties was \$11,622 for Fiscal Year 2005-06 and \$16,749 for Fiscal Year 2006-07. The cost was calculated using logs developed by SCFF for the purpose of IRS regulations. The logs identify 100 percent of commute mileage as personal mileage even if the employee does not go directly from home to their office. This may overstate personal mileage.

SCFF has four agency vehicles assigned to staff who are allowed to use the vehicle for personal use. According to SCFF policy, provision of a company vehicle is based on the position held within the agency and job requirements. SCFF requires mileage logs be maintained by the employee to comply with IRS regulations. These logs track business and personal mileage used to determine the amount of income to be included on the employee's W-2.

The cost to operate the four vehicles was \$49,224 for Fiscal Year 2005-06 and \$62,633 for Fiscal Year 2006-07. The County Programs reimbursed SCFF for the full cost of the vehicles including personal use. We calculated the percentage of personal use by fiscal year for each employee based on the percentage of personal miles to business miles reported on the logs based on the IRS mileage. We also developed overcharges for personal use based on two additional scenarios:

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- Assigning 100 percent of commute miles as business would reduce the total overcharge for both years from \$28,371 to \$10,634.
- Assigning a \$3.00 charge per commute day, as used by state employees assigned a state vehicle, plus consideration of personal use would result in a \$28,371 overcharge reduced to \$15,890.

Recommendations

The BFO recommends ODP recover the cost of personal use of agency vehicles charged to the Counties from fiscal year 2005-06 through 2007-08.

The BFO also recommends SCFF develop a policy for payback of the cost of personal use of agency vehicles. The basis of cost should be actual costs incurred based on the percentage of personal to business use. This cost would include lease/loan payments, gas, insurance, and maintenance costs. Additionally, the policy needs to define what is considered personal miles.

The BFO further recommends ODP follow-up to ensure SCFF implements a policy to reimburse personal use of vehicles. This will ensure that SCFF is not reimbursed for personal use of agency vehicles.

Finding No. 5 - Year-End Cost Shifting Misrepresents True Cost of Care

SCFF prepares year-end entries to shift operating costs among Berks County consumers. The purpose of the cost shift is to match expenses to the revenues received through rates approved by Berks County and billed through the Promise system. The cost shift also impacts the allocation of indirect/administrative costs which are based on the operating expenses/revenues for each site as compared to total operating expenses/revenues. The cost shift and allocation of indirect/administrative costs results in misrepresentation of costs and the profit and loss reported to the Counties through SCFF's independent audit. The audit is used by the County Programs to make final determination of allowable costs, retained revenues and final settlement. Since many of the SCFF residential sites are multi-County funded, the tracking of expenses by individual consumer is required for accurate reporting.

Reason for Cost Shifting

According to SCFF officials, beginning in Fiscal Year 2000-01, residential rates approved by Berks County were not based on actual costs but were developed based on availability of categorical funding. Over time, each year's budget and rates were predicated on inaccurate figures with a widening divergence between the funding and actual costs incurred each year. To highlight the issue, the SCFF budget submission for Fiscal Year 2006-07 to Berks County included an explanation memo identifying the SCFF budgets were based on "overcharging certain individuals to draw in their

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allocations to cover costs for other individuals". As an example, the budgets for the Adamstown Road and Joseph Way sites identify an understatement of waiver eligible costs by \$126,775 and \$117,495 respectively. The understatements were offset by an overstatement of expenses in the budgets of other sites.

Cost Allocation Plan Needs to Be Modified

SCFF's Cost Allocation Plan (CAP) is documented through a written narrative. The narrative identifies funding is one of the methods used to distribute indirect/administrative costs. The use of funding is not an equitable distribution base that Results in distribution of costs in direct proportion to the benefits provided to the service as required by 4300.94(f) and Federal Office of Management and Budget Circular No. A-122. This circular applies to non-profit organizations.

The SCFF has responded the use of funding is limited to allocation of indirect/administrative costs for budget preparation. The CPA audits distribute indirect/administrative costs based on expenses. Our review of distribution of administrative costs to the County Programs reported on the Fiscal Years 2004-05 and 2005-06 CPA audits identified a simplified method was generally followed. However, the BFO could not determine if revenues or expenses were used as the distribution base.

For Fiscal Years 2004-05 and 2005-06, use of expenses as the distribution base results in a understatement to Berks County of \$27,880 and \$14,905 respectively, with a corresponding overstatement to the other eight County Programs. Use of revenues as the distribution base provides relatively similar results.

Recommendations

The BFO recommends SCFF discontinue the practice of cost shifting. The Berks County administrative agency needs to work with SCFF to identify the actual cost of care for each consumer, and adjust budgets accordingly within the constraints of the County allocation. This is especially important due to the upcoming rate structure changes.

The BFO also recommends ODP ensure the Fiscal Year 2008-09 rates are representative of historical actual costs and were developed in accordance with the rate setting procedures bulletin.

The BFO further recommends SCFF revise its written CAP to identify the specific method used to allocate indirect/administrative costs. The revised CAP should be provided to the County Programs and use expenses and not funding as the distribution base. This will provide consistency among all financial reports provided to the Counties and will comply with 55 Pa. Code Chapter 4300 Regulations and OMB A-122 Cost Principles.

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Finding No. 6 - Food Distribution Costs of \$45,529 and Landscaping Costs of \$60,455 Are Not Eligible for Waiver Eligible Funding

SCFF uses a food distribution center to control the costs related to food. According to SCFF's CEO, this allows SCFF to purchase food in bulk at a lower cost. Food handlers, titled cooks, order, receive, and sort the food by home. Staff from the homes then come to the centralized storage area to receive food for the week. In addition to lowering the cost of food purchased, this system also frees the direct care staff to focus more on patient care.

A total of \$45,529 for Fiscal Year 2005-06 in costs associated with the "cooks" were charged as waiver eligible. While in some cases the costs associated with teaching consumers to prepare meals might be considered waiver eligible, the costs associated with the "cooks" at SCFF should be treated as waiver ineligible for reimbursement purposes.

A second situation involves the use of an exclusive landscaper to SCFF. Each year, SCFF contracts with this particular landscaper to handle landscaping, lawn care, pest control, snow removal, and until recently office cleaning. The total cost associated with the landscaper was \$234,633 and \$165,670 for the fiscal years ended June 30, 2006 and June 30, 2007 respectively.

We determined the allowable waiver eligible funding for the landscaping costs was \$83,873 for 2005-06 and \$65,878 for 2006-07. The allowable funding was calculated based on the 54 percent of maintenance cost allowed to be charged to waiver eligible per the DPW Rate Schedule Package. The waiver eligible costs charged to and reported to the Counties was \$134,578 and \$75,628 respectively. This resulted in overcharges to waiver eligible funding in the amount of \$50,705 and \$9,750 respectively.

55 Pa. Code Section 4300.84 allows the DPW to participate in the cost of contractors provided certain criteria are met. A written agreement shall state the services to be provided, the rate of compensation with fees determined in accordance with prevailing rates. For Fiscal Year 2005-06 this information was not included in the agreement, and the vendor invoices did not document the location and specific services provided. The absence of this information in the contract jeopardizes the total \$234,633 cost associated with the 2005-06 landscaper contractor.

Recommendations

The BFO recommends ODP determine if \$45,529 of waiver ineligible costs representing food distribution costs charged to waiver eligible funding should be recovered.

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The BFO also recommends ODP review the circumstances of the \$234,663 cost paid for landscaping services for Fiscal Year 2005-06. ODP should determine if \$60,455 of landscaping costs charged to waiver eligible funding should be recovered.

**Finding No. 7 – SCFF Over Reported Year-End Accrued Operating Expenses
By \$92,865**

The BFO determined SCFF expensed and claimed reimbursement for \$92,865 of expenses in Fiscal Year 2004-05 which were not incurred until Fiscal Year 2005-06. The expenses primarily related to improvements, repairs, furniture and equipment for residential properties. The Fiscal Year 2004-05 inflated expenses were identified through testing and review of fixed asset schedules and invoices.

As an example, an \$8,369 improvement made to the Adamstown Road residential site was expensed in Fiscal Year 2004-05. However, the vendor invoice dated November 4, 2005 identified "all work completed between October 1, 2005 and October 31, 2005". This documents the work had not begun until three months after the close of the fiscal year for which the expense was charged.

Attached to the Adamstown Road invoice was a generic notice of sole source procurement letter dated June 29, 2004. The letter did not include an estimate of the cost of the work but identified the job was to be performed by a selected contractor due to it was the only contractor that could do the job in a timely manner. The letter identified a deadline had to be met for a consumer being released from the hospital. The actual work performed, however, did not begin until October 1, 2005, three months after the notice of sole source.

SCFF failed to comply with 55 Pa. Code Sections 4300.149(a) and 4300.146(b) in the reporting of year-end accrued expenses to the County Programs. 55 Pa. Code Section 4300.149(a) prohibits funds being encumbered out of the current fiscal year's allocation for purchases and service in the succeeding year. 55 Pa. Code Section 4300.146(b) requires expenditure reports reflect only expenses, purchases and bills actually incurred. 55 Pa Code Section 4300.4 defines expensing as a payment for an item in full at the time of acquisition or within the fiscal period acquired.

Recommendation

The BFO recommends that ODP and OMHSAS consider preparing appropriate carryover adjustments for the Counties funding SCFF during Fiscal Year 2004-05 to recover the \$92,865 inappropriately expensed.

Finding No. 8 – Individual Support Plans Lack Adequate Staffing Information

Costs associated with staffing account for approximately 72 percent of the funds expended by SCFF. Since most of the staffing costs are associated with direct care services, we selected a sample of the consumer ISP's to identify the recommended/ approved staffing ratios for use in comparison to actual staffing provided. The completed ISP is a requirement of the federal waiver and is to be used to allocate appropriate funding. However, many of the ISP's we reviewed lacked critical information on approved staffing and funding.

We noted a wide range of information on staffing requirements in the ISP's. In certain cases we were able to identify the actual recommended staffing ratio while other ISP's were silent as to the consumers needs in this area. As a result, it was not possible for us to complete our analysis and we cannot offer any assurance on the appropriateness of the staffing levels as provided. We also noted that the ISP's for Berks County consumers were not up-to-date.

Recommendations

The BFO recommends ODP develop a specific section in the ISP that identifies approved staffing ratios. This will provide a tool for Counties and ODP to use in reviewing rates and monitoring services to determine if the provider is providing the appropriate level of care. The ISP should provide a link between the consumers' service plan and budget.

The BFO also recommends ODP follow-up to ensure Berks County has updated all ISP's.

Observation - Consumers Are Not Attending Day Programs

During a licensing sweep of SCFF conducted by ODP in March 2007, SCFF was cited for instances of consumers not attending day programs. We conducted site visits at nine residential sites. Excluding the two sites with consumers having extensive medical needs, we noted six of the remaining seven homes were fully staffed with 21 consumers at the homes during the time day programs are operated. This was further verified through review of staffing schedules and payroll records which identified 24-hour staffing at the residential sites. The sample of payroll at two sites identified four employees had worked 120 hours in one payroll period. The 24-hour staffing is a significant factor in the actual cost of care and limits consumer interaction beyond the home.

SCFF is operating 24 hour residential programs and incurring staff working excessive hours during the day. When employees work excessive hours, it could become a safety concern for the consumer with increased chance of medication errors and gaps in the provision of effective oversight of the consumers. The ODP and Counties should work

**Supportive Concepts for Families, Inc.
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with SCFF in exploring alternatives including expansion of SCFF's day program. This will help in reducing residential costs while providing a social outlet for the consumer.

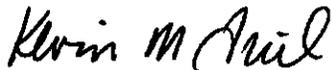
An audit exit conference was held on July 30, 2008 with management staff of SCFF. The Regional Program Managers for ODP and OMHSAS and appropriate staff also attended the conference. At the conference, the findings and recommendations in the draft report and SCFF's written response were discussed. Based on the discussions and the written response, minor changes were made to the draft report. SCFF's written response has been incorporated into the final report and labeled Appendix A.

An audit exit conference was also held on August 14, 2008 with Management staff of the Berks County MH/MR Program. Berks County is the home County and contracts for approximately 45 percent of SCFF total revenues. At the conference, the findings and recommendations in the draft report were discussed. Berks County submitted a written response dated September 10, 2008 which has been incorporated into the report and labeled Appendix B.

In accordance with BFO established procedures, please provide a response within 60 days to the Audit Resolution Section concerning actions to be taken to ensure the report recommendations are implemented.

Please contact Alex Matolyak, Director, Division of Financial Policy and Operations at (717) 783-7786 if you have any questions concerning the audit or if we can be of any further assistance.

Sincerely,



Kevin M. Friel

Enclosures

cc: Mr. Joseph Church
Mr. Philip Mader
Mr. Robert Conklin
Ms. Patricia McCool
Ms. Julie Barley
Mr. Michael Orr
Mr. Edward Michalik, Psy.D.
Mr. Daniel McGrory
Ms. Patricia Serra
Mr. Kevin Schrum
Mr. David Wall

EXHIBITS

**SUPPORTIVE CONCEPTS FOR FAMILIES
DEPRECIATION SCHEDULE**

Site	Improvement Value	Monthly Depreciation	Months	Total	Charged	Variance
Adamstown Road	23,000.00	69.7	64	4,460.61	23,000.00	-18,539.39
Brannon Lane	32,797.05	99.39	18	1,788.93	12,298.88	-10,509.95
Club Drive	29,475.22	89.32	25	2,232.97	15,351.70	-13,118.73
Club Drive	4,400.00	13.33	21	280	1,924.96	-1,644.96
E Main St	39,000.31	118.18	8	945.46	7,312.52	-6,367.06
Hampden Blvd	38,052.23	115.31	58	6,687.97	38,052.23	-31,364.26
Highland Hills	19,305.05	58.5	58	3,393.01	19,305.05	-15,912.04
Highland Hills	24,436.77	74.05	45	3,332.29	24,436.77	-21,104.48
Kelly Lane	13,092.53	39.67	9	357.07	2,454.84	-2,097.77
Lebannon Office	16,608.05	35.49	12	425.85	4,152.00	-3,726.15
Lebannon Office	72,826.70	155.61	12	1,867.35	18,206.66	-16,339.31
Lenox Ave	6,856.94	20.78	21	436.35	2,999.90	-2,563.55
Liggett Ave	35,000.00	106.06	43	4,560.61	35,000.00	-30,439.39
Liggett Ave	24,277.40	73.57	36	2,648.44	24,227.40	-21,578.96
McVeytown 2	15,790.00	47.85	18	861.27	5,592.30	-4,731.03
McVeytown 2	7,855.30	23.8	9	214.24	1,472.91	-1,258.67
N 11th Avenue	45,000.00	136.36	9	1,227.27	8,437.50	-7,210.23
New Castle	26,116.07	79.14	21	1,661.93	11,475.81	-9,813.88
Nicol Drive	14,715.67	44.59	18	802.67	5,518.34	-4,715.67
Nicol Drive	53,882.43	163.28	9	1,469.52	10,102.95	-8,633.43
North 26th Street	32,512.21	98.52	9	886.7	6,096.05	-5,209.35
Oley Turnpike	10,500.00	31.82	58	1,845.45	10,005.00	-8,159.55
Oley Turnpike	12,500.00	37.88	55	2,083.33	11,458.31	-9,374.98
Oley Turnpike	4,495.00	13.62	58	790.03	4,495.00	-3,704.97
Reading Office	16,099.55	34.4	36	1,238.43	16,099.55	-14,861.12
Reading Office	207,372.86	443.1	27	11,963.82	116,647.25	-104,683.43
Reading Office	91,127.32	194.72	21	4,089.05	39,868.22	-35,779.17
Reading Office	43,735.90	93.45	58	5,420.26	43,735.90	-38,315.64
Reading Office	95,000.00	202.99	54	10,961.54	95,000.00	-84,038.46
Reading Office	39,100.00	83.55	14	1,169.66	15,204.00	-14,034.34
West 3rd Street	30,734.16	93.13	25	2,328.35	16,007.40	-13,679.05
West Madison	89,854.71	272.29	36	9,802.33	67,391.02	-57,588.69
Woodcock	66,219.60	200.67	36	7,223.96	49,664.73	-42,440.77
Highland Hills	54,568.56	165.36	2	330.72	6,821.07	-6,490.35
Koffee Lane	3,350.00	10.15	2	20.3	418.75	-398.45
Lebannon Office	7,995.79	17.09	2	34.17	999.47	-965.3
Lenox Ave	4,360.00	13.21	2	26.42	545	-518.58
Oaklyn	4,256.00	12.9	2	25.79	532	-506.21
ATF Painting	4,095.00	12.41	2	24.82	511.88	-487.06
Subtotal	1,360,364.38			99,918.93	772,823.32	-672,904.39
Sunrise	33,097.60	100.3	25	2,507.39	33,097.60	-30,590.21
Hampden 2	15,542.18	47.1	36	1,695.51	15,542.18	-13,846.67
Rill Road	19,391.82	58.76	36	2,115.47	19,391.81	-17,276.34
Sunrise	5,953.85	18.04	21	378.88	5,953.85	-5,574.97
Fish hatchery Road	9,856.83	29.87	21	627.25	9,856.83	-9,229.58
Fergusson	8,145.79	24.68	21	518.37	8,145.79	-7,627.42
Oneida	6,441.98	19.52	21	409.94	6,441.98	-6,032.04
Subtotal	98,430.05			8,252.82	98,430.04	-90,177.22
Total	1,458,794.43			108,171.76	871,253.36	-763,081.60
Mt Penn Road-Steven	114,061.27	345.64	21	7,258.44		
Leigh					16,422.26	-16,422.26
Schuykill				7,258.44	100,279.43	-93,020.99
Schoffer's Up	43,106.81	130.63	21	2,743.16		
Berks				685.79	43,106.81	-42,421.02
Tioga				685.79	-	685.79
Lehigh				1,371.58	-	1,371.58
Totals	1,615,962.51			118,173.36	1,031,061.86	-912,888.50
					Total MR	-807,132.10
					Total MH	-105,756.40

EXHIBIT A

**SUPPORTIVE CONCEPTS FOR FAMILIES
ADAMSTOWN ROAD
ADAMSTOWN ROAD, REINHOLDS, PA**



Purchase Price - \$175,000

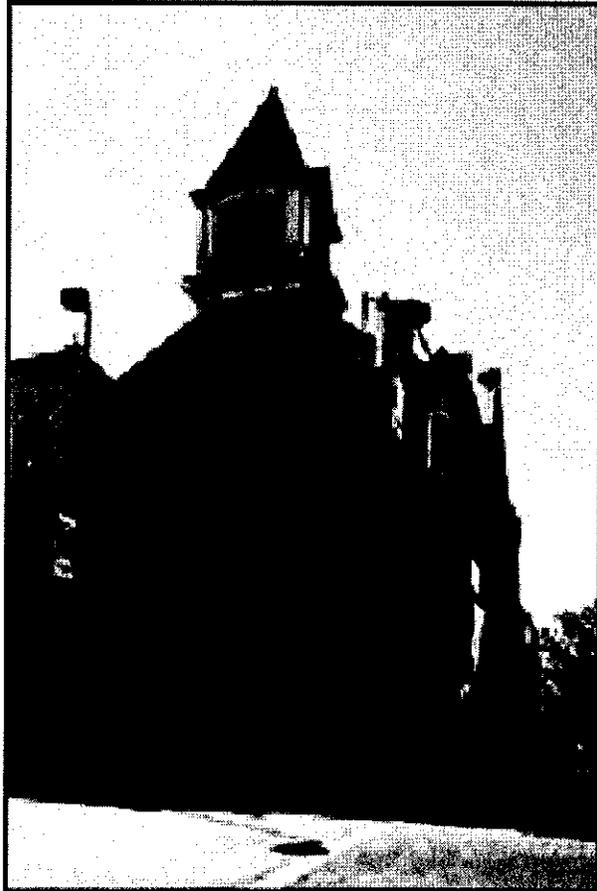
DPW Funded Leasehold Improvements - \$92,358

Annual Rent - \$38,400

Annual Savings if Purchased - \$14,784

EXHIBIT B

**SUPPORTIVE CONCEPTS FOR FAMILIES
READING OFFICE BUILDING
[REDACTED] READING PA**



Purchase Price - \$800,000

DPW Funded Leasehold Improvements - \$560,949

Annual Rent - \$187,872

Annual Savings if Purchased - \$79,908

EXHIBIT C

**SUPPORTIVE CONCEPTS FOR FAMILIES
COMPARISON OF LEASE TO PURCHASE
ANNUAL SAVINGS ANALYSIS**

Property	Sales Price	Current Rent	15 Year Mortgage Payment	Annual Savings
Adamstown	\$ 175,000	\$ 3,200	\$ 1,968	\$ 14,784
Main Office	800,000	15,656	8,997	<u>79,908</u>
Subtotal				\$ 94,692
Club Drive	228,000	2,888	2,564	3,888
Country Club Run	151,205	2,004	1,700	3,648
East Main Street	185,000	2,550	2,081	5,628
Fish Hatchery	229,900	3,145	2,586	6,708
Gibraltar Road	142,000	2,200	1,597	7,236
Joseph's Way	220,000	3,324	2,474	10,200
Mt. Penn Road	305,000	3,500	3,430	840
Sagebrook	280,000	4,350	3,149	14,412
Spruce Street	269,000	3,750	3,025	8,700
Sunrise Road	193,000	3,350	2,170	14,160
West Madison	275,000	3,800	3,093	8,484
WoodCock Court	183,000	3,100	2,058	<u>12,504</u>
Subtotal 12 Properties				96,408
Grand Total 14 Properties				<u><u>\$ 191,100</u></u>

EXHIBIT D

**SUPPORTIVE CONCEPTS FOR FAMILIES
COST OF LEASES FOR VEHICLES NOT COMPETITIVELY BID**

Year	Vehicle	Model	Lease	Months	Total
2003	Honda	Pilot	\$ 440.80	72	\$ 31,737.60
2003	Honda	Odyssey EX	362.37	72	26,090.64
2003	Honda	Odyssey EX	376.38	60	22,582.80
2003	Honda	Odyssey EX	331.20	60	19,872.00
2003	Acura	MDX	537.35	60	32,241.00
2003	Acura	MDX	582.72	72	41,955.84
2004	Honda	Odyssey	353.92	60	21,235.20
2004	Honda	Pilot	434.74	60	26,084.40
2004	Honda	Odyssey	345.85	60	20,751.00
2004	Honda	Odyssey	436.36	48	20,945.28
2004	Honda	Odyssey	550.48	48	26,423.04
2004	Honda	CR-V	395.31	48	18,974.88
2004	Honda	Pilot	453.62	48	21,773.76
2004	Honda	Pilot	473.63	48	22,734.24
2005	Honda	Accord	409.21	48	19,642.08
2005	Honda	Pilot	444.11	48	21,317.28
2005	Honda	Pilot	478.68	48	22,976.64
2005	Acura	RL	835.13	48	40,086.24
2006	Honda	Ridgeline	656.21	48	31,498.08
2005	Honda	Civic	279.91	36	10,076.76
2005	Honda	Pilot	440.30	36	15,850.80
2005	Honda	Accord	398.94	36	14,361.84
2005	Honda	Accord	398.94	36	14,361.84
2006	Honda	Civic	342.17	42	14,371.14
2006	Honda	Pilot	475.59	42	19,974.78
2006	Honda	Pilot	475.59	42	19,974.78
2006	Acura	MDX	689.79	36	24,832.44
2006	Acura	MDX	689.79	36	24,832.44
2006	Honda	Civic	478.15	36	17,213.40
2006	Honda	Pilot	557.44	36	20,067.84
2006	Honda	Odyssey	457.92	36	16,485.12
2006	Honda	Odyssey	502.01	36	18,072.36
2006	Honda	Odyssey	550.00	36	19,800.00
2006	Honda	Accord	481.12	36	17,320.32
2007	Honda	Accord	348.02	48	16,704.96
2007	Honda	Accord	348.02	48	16,704.96
2007	Honda	Odyssey	450.42	48	21,620.16
2007	Honda	Ridgeline	691.96	48	33,214.08
2007	Honda	Odyssey	454.00	48	21,792.00
2007	Honda	Civic	256.00	36	9,216.00
2007	Honda	Civic	256.00	36	9,216.00
2007	Honda	Civic	256.00	36	9,216.00
2007	Honda	Civic	256.00	36	9,216.00
		Total	\$ 19,432.15		\$ 903,418.02

EXHIBIT E

APPENDIX A

**SUPPORTIVE CONCEPTS FOR FAMILIES, INC
RESPONSE TO DRAFT REPORT**

SEE ENCLOSED DISC

APPENDIX B

**BERKS COUNTY MH/MR
RESPONSE TO DRAFT REPORT**



COUNTY OF BERKS, PENNSYLVANIA
Mental Health/Mental Retardation Program

Services Center, 15th Floor
633 Court Street
Reading, PA 19601-4301

Phone: 610.478.3271
Fax: 610.478.4980
E-mail: mhmr@countyofberks.com

Mark C. Scott, Commissioner Chair
Kevin S. Barnhardt, Commissioner
Christian Y. Leinbach, Commissioner

Edward B. Michalik, Psy.D., Administrator

September 10, 2008

Jack Hoover
Audit Manager
Bureau of Financial Operations
Division of Audit and Review
Room 325
Scranton State Office Building
100 Lackawanna Avenue
Scranton, PA 18503-1972

Dear Mr. ^{JACK}Hoover:

In response to the Bureau of Financial Operations' (BFO) audit of Supportive Concepts for Families (SCFF), please find two documents addressing the points outlined in your report. The first document responds to the findings by BFO. The second enclosed document responds to some of the points made by SCFF in their direct response to your office. Although we do not consider the second document to be part of the official response, you may choose to include it as such at your discretion.

Please do not hesitate to call us if you have any questions regarding our feedback. We do appreciate your report and your findings that give us more insight into the internal workings at SCFF. In fact, Berks County MH/MR will be able to employ a number of items mentioned in the audit as we continue our fiscal oversight of providers.

Again, we appreciate your assistance as well as the level of cooperation between our respective systems.

Dedicated to public service with integrity, virtue & excellence

www.co.berks.pa.us

Sincerely,



Edward B. Michalik, Psy.D.
MH/MR Administrator

Cc: Robert Conklin, Regional Community Program Manager, DPW, ODP
Nan Haver, VP/COO, SAM, Inc.
Michele Ruano-Weber, MH/MR Deputy Administrator
Wolf Hrabyk, MH/MR Deputy Administrator
Sally Bonilla, MH/MR Fiscal Officer
William E. Dennis, County Administrator
Board of Commissioners

**Berks County MH/MR Program
Response to BFO Audit Report
Supportive Concepts For Families, Inc.
July 1, 2005 through June 30, 2007**

Berks County has carefully reviewed all of the findings identified in the BFO Division of Audit and Review draft audit report dated August 25, 2008.

Berks County has prepared the following responses for your review.

Finding No. 1: Use of Accelerated Depreciation for Leasehold Improvements Resulted in a \$912,889 Over-Charge to Counties

Recommendation: Counties should obtain SCFF depreciation schedules for their use in reviewing SCFF audits and budget submissions.

Response: Berks County will request the SCFF depreciation schedule for Fiscal Year 2007-2008 and annually thereafter for use in reviewing audits and budget submission for mental health services.

We will seek approval from ODP to request and use this schedule in the rate setting process and as part of the Administrative Entity Desk Review of SCFF's Cost Settlement Reports.

Finding No. 2: The Cost of Residential Leases Needs to Be Reevaluated and Reduced as Appropriate

Recommendation: Counties should contract with their own appraiser to determine Fair Market Rental Value and not fund rental costs in excess of the Fair Market Rental Value.

Response: Berks County will contract with an independent appraiser to determine Fair Market Rental Value of SCFF's community homes and administrative offices. Berks County will review budget and audit submissions to ensure that the county will not fund rental costs in excess of the Fair Market Rental Values obtained by the County.

We will seek approval from ODP to use this information as part of the rate setting process.

Finding No. 3: Absence of Competitive Bidding Does Not Ensure Vehicles and Services Were Obtained at the Lowest Practicable Cost

Recommendation: Counties should not reimburse SCFF for purchases and services not competitively bid.

Response: Berks County will obtain a policy from SCFF regarding competitive bidding for purchases and services compliant to 4300.145. Berks County will request documentation from SCFF which demonstrates compliance with 4300.145.

The County will not reimburse SCFF for purchases and services not meeting the above requirements with Mental Health funding.

We will seek direction from ODP on how this recommendation should be implemented in the Mental Retardation system, especially in light of the provider cost settlement report process.

Finding No. 5: Year End Cost Shifting Misrepresents the True Cost of Care

Recommendation: Berks County should work with the Office of Developmental Programs (ODP) and SCFF to identify the residential budgets affected by the cost shifts and adjust Fiscal Year 2008-09 budgets to reflect actual costs and rates.

Response: Berks County will work with ODP and SCFF to realign residential budgets to ensure cost are assigned to the appropriate individual. We will begin the process by reviewing with ODP the impact of SCFF's proposal to reverse the historical cost shifting. It is anticipated that this realignment would be budget neutral to Berks County and we will immediately implement any directive we receive from ODP to adjust Fiscal Year 2008-2009 rates.

Finding No. 8: Individual Support Plans Lack Adequate Staffing Information

Recommendation: ODP should follow-up to ensure Berks County has updated all ISP's

Response: Berks County will ensure that the Supports Coordination Organization (SAM, Inc.) implements any changes that ODP makes in the ISP document. In addition, the County will monitor the following activities that will improve the timeliness of ISP's.

- ❖ SAM, Inc. will assign one management staff to coordinate the receipt of provider information required to complete the ISP.

Follow up with provider management staff when required information is missing. Obtain a date and time that we can expect to have the information. If we do not receive the information, forward the concern to Provider Senior Management, SAM, Inc. Senior Management and MH/MR for Direction.

- ❖ MR Director will provide more intensive oversight to supervisor tracking of ISP's in process to determine if additional assistance is needed to submit ISP prior to due date.
- ❖ Perform Abbreviated ISP's on all new individuals to SAM, Inc. freeing up SC's time to complete waiver ISP's.
- ❖ Supervisors will review ISP's in HCSIS instead of on paper and will make grammatical changes to the actual ISP for the SC, reducing the time that corrections are made to the ISP. The supervisor will not make changes related to content or add information that is missing.
- ❖ SAM, Inc. management will work with provider staff to determine if provider information can be forwarded electronically so SC's can copy and paste required information instead of retyping from the provider format.
- ❖ SAM, Inc. will return to the state standards for Waiver Monitoring which will free up SC time to complete ISP. (SAM, Inc. has exceeded these standards in previous years because we have had the caseload sizes to provide better oversight over health and safety. Unfortunately, due to the increased demands placed on the SC role over the past 18 months, we can no longer exceed those standards but will return to those listed in the AE Entity agreement.)

Observation: Consumers Are Not Attending Day Programs

Recommendation: ODP and Counties should work with SCFF in exploring alternatives including expansion of SCFF's day program.

Response: During 2007, we reviewed each of the individuals being served by SCFF who did not have day services. Individuals who desire a day service or employment have been referred.

Supports Coordination continues to work with individuals and teams to explore appropriate day services for individuals. If individuals are reluctant, the teams continue to discuss the issue at each meeting and even schedule visits to various programs.

Berks County has contracts with approximately 10 providers of day services. When individuals have funding and express an interest in attending a day service, they need to be afforded the opportunity to see all available options and then make their choice of which they want to attend. If individuals choose to attend the SCFF program, it would be their option to increase in size if need be to accept that individual. We do not believe the size of SCFF's program is related to the fact that individuals are not attending day services, but rather an issue of personal choice.

**Berks County MH/MR Program
Comments Regarding
Supportive Concepts For Families, Inc.
Response
BFO Audit Report
July 1, 2005 through June 30, 2007**

Berks County has carefully reviewed Supportive Concepts For Families, Inc. (SCFF) response to the BFO Division of Audit and Review draft audit report dated August 25, 2008.

Berks County has prepared the following comments to offer clarification to statements made in the SCFF response. We are unable to speak about any practices of the other Counties or Administrative Entities (AE) that SCFF may be referring to in their response.

Finding No. 1: Use of Accelerated Depreciation for Leasehold Improvements Resulted in a \$912,889 Over-Charge to Counties

BFO Statement: Additionally, 55Pa. Code Section 4300.105(3) requires the method and procedures, including useful lives, for computing depreciation shall be applied from year to year on a consistent basis and may not be changed.

SCFF Response: The inconsistency that exists is a function of how the AE's allocate, pay, and confirm federal and state awards during the course of a given fiscal year as well as during our annual audit completion; variances in the AE's financial position including such areas as funding categorical, eligibility, base dollars available, and consumer emergencies all directly result in our need to alter our interpretations; we don't randomly make determinations without an action from the AE; their actions result in our need to take action; we have limited control over the entire process and the information exchange during the fiscal year is poor, if nonexistent, and the information frequently changes post June 30.

Berks County Comment: Timeliness of allocations, limited funding and funding categoricals are issues that complicate the operation of the public MH/MR System. However, Berks County operates consistently within the regulations and rules that govern the funding.

The County makes every attempt to communicate with all providers to keep them informed of funding adjustments as soon as they are received from DPW, even when that information is received after June 30th. In fact in Fiscal Year 05/06 the rates and/or funding amounts in SCFF's contract were updated 12 times, and in Fiscal Year 06/07 9 times to insure they were working with the most up to date information available to the County.

BFO Statement: Alternative Practices for Reporting Improvement Costs Do Not Comply with 4300 Regulations and Resulted in Inaccurate Charges to the Counties.

In addition to accelerated depreciation, SCFF used other practices to claim reimbursement for improvement costs which did not comply with 55 Pa. Code Section 4300 regulations.

SCFF Response: The "other practices" that are viewed as non-compliant with regulations are a function of how the AE's allocated, communicated, manipulated, funded, altered, and confirmed payments throughout and at the conclusion of the fiscal year; when all the above issues lack timeliness and accuracy, and decisions are made outside of the providers purview,....

Berks County Comment: Berks County allocates funding and makes funding adjustments in a consistent manner to all providers with which we contract. While we agree that allocation letters are often not received in a timely manner from DPW, we allocate the funding to providers as soon as the information is made available to the County. For Fiscal Year 05/06, the final allocation letter for MR services was dated May 14, 2007. The County was unable to finalize funding commitments to providers until the final allocation letter was received.

BFO Statement: Recommendation, ODP require SCFF to reduce historical costs and rates of the individual sites affected by the overstated depreciation. This will ensure that when individual rates become standard on July 1, 2009, ODP and the respective Counties will have historical rates based on compliance with the 4300 regulations.

SCFF Response: In Berks County where we already have significant budget deficiencies as noted in your finding #5 reducing our rates would impair our ability to operate due to the negative impact to our cash flow and adversely affect our ability to provide the necessary services our consumers require.

Berks County Comment: We do not agree that there are significant budget deficiencies.

Finding No. 2: The Cost of Residential Leases Needs to Be Reevaluated and Reduced as Appropriate

BFO Statement: Costs associated with the leasing of residential and administrative site appear high.

SCFF Response:FMRV's (Fair Market Rental Values) were supplied to all AE's on our receipt of them. SCFFI viewed this information transmittal, as well as the budgeting process/approval and subsequent lack of dialogue regarding the appraisals, as an approval by the "county authority" pursuant to 4300.87(3).

Berks County Comment: SCFF's contract requires that they comply with all aspects of the 4300 regulations which in this case state that Fair Market Rental Appraisals be completed by an independent, licensed appraiser. Berks County assumed that SCFF had complied with these requirements, absent any indication from their independent auditors that they were not in compliance with that section of their contract. We had no knowledge that the person completing what we believed to be Fair Market Rental Appraisals was actually completing "investigations". We were also unaware that this person was not licensed to perform appraisals.

Berks County will contract with an independent appraiser to determine Fair Market Rental Value of SCFF's community homes and administrative offices. Berks County will review budget and audit submissions to ensure that the county will not fund rental costs in excess of the Fair Market Rental Values obtained by the county.

Finding No. 5: Year End Cost Shifting Misrepresents the True Cost of Care

BFO Statement: SCFF prepares year-end entries to shift operating costs among Berks County consumers. The purpose of the cost shift is to match expenses to the revenues received through rates approved by Berks County and billed through the PROMISE System. This process distorts the actual cost of care at each site.

SCFF Response: This is accurate; is also distorts the actual costs on an individual level; Berks County's process for tracking slots and allocations was flawed resulting in our need to make year-end adjustments to cover costs and maximize revenues.

This was necessary in order to support the various programs and also high profile consumers funded by Berks County; Berks County didn't align costs with revenue/rates from year-to-year based on experience and continued to roll forward allocations and rates that didn't accurately reflect our costs; the delay in receipt of the allocation letter also creates issues when individuals funding categoricals are altered, shared or combined without prior knowledge.

Attempted realignment within Berks County has resulted in them taking back where savings have been realized and not aligning funds in total across programs; backfill didn't address under funded programs specific to SCFFI; per Berks County this was at the direction of ODP and seems unfair based on the management oversight through the prior fiscal years that was lacking; our realignment monies are being utilized to backfill other agencies' unmet needs.

Berks County Comment: See Below

BFO Statement: Reason For Cost Shifting: According to SCFF officials, beginning in Fiscal Year 2000-01, residential rates approved by Berks County were not based on actual costs but were developed based on availability of

categorical funding. Over time, each year's budget and rates were predicated on inaccurate figures with a widening divergence between the funding and actual costs incurred each year.

SCFF Response: In FY 98/99 with the RSI PY Categorical, the process began specifically with [REDACTED] it continued with many other State Center placements whereby monies within certain categoricals were allocated as a fixed amount and individuals "shared" the monies in whole to ensure financial solvency with the process of altering the allocations by person to reflect the actual costs; we would align expenses to revenues by categorical in order to maximize our profits/losses and failed to reflect changes based on expenses due to the system that existed in Berks County.

The matter reached a head as the multi-county nature of SCFFI's referral base began to expose the issue. Deaths occurred and vacancies were filled with consumers with varying needs. However, Berks County dismissed the manner in which allocations were made to SCFFI and we moved towards the PROMISE system for billing; the allocations moved away from individual person specific and the tracking of vacancies ceased making it difficult to reconcile the single allocation amounts to individual level amounts; these factors resulted in a funding shortfall beginning in FY 05/06.

Berks County Comment: Berks County does not develop rates on the basis of the availability of categorical funding but rather based on budgets submitted by the service provider. In the past, providers were allocated a funding amount by category and at the end of a fiscal year were allowed to apply the funding to legitimate expenses of individuals eligible for that particular categorical. The County did not require any providers to realign expenses to retain the funding.

In Fiscal Year 2006/2007, as we began the new rate setting processes implemented by ODP, the County recognized the necessity to insure that individual rates were reflective of the actual costs of service. We gave providers the direction to submit their rate requests in a manner that was "budget neutral by provider", which would have allowed providers to submit individual rates that reflected actual costs up to the provider's prior year allocation. The County received a clear directive from ODP that this practice was not allowable and that rates must be set "budget neutral by site". This practice further complicated this issue as ODP directed us to retain any savings realized from one site and indicated that the savings could not be used to fund another site, but rather are to be used for emergencies.

During Fiscal Year 07/08 we began working with SCFF to realign services for individuals in an attempt to reduce costs for individuals in sites where the funding does not support the expenses and we, as a result of ODP's directive were not able to approve an increased rate. This realignment studied ways to encourage individuals to relocate into different roommate/residence partnerships to better utilize existing funds.

Berks County agrees with BFO that these issues must be addressed and will work with ODP and SCFF to realian residential budaets to ensure costs

are assigned to the appropriate individual. We will begin the process by reviewing, with ODP, the impact of SCFF's proposal to reverse the historical cost shifting. It is anticipated that this realignment would be budget neutral to Berks County.

BFO Statement: Highlights of Recommendations: SCFF Should discontinue the practice of cost shifting once the Berks County budgets are adjusted to reflect actual costs. Berks County should work with ODP and SCFF to identify the residential budgets affected by the cost shifts and adjust Fiscal Year 2008-2009 budgets to reflect actual costs and rates.

SCFF Response: SCFFI is attempting to resolve this issue with Berks County on our FY 08/09 budgets but has been informed by SAM, Inc. that the Regional office of ODP provided direction that all reductions be accepted and increases challenge. Therefore our approach to budget neutrality by residential services per county in total has resulted in saving being recouped but no consideration given to higher costs beyond budget neutrality for Berks County. So the recommendation to approve rates to actual costs has been challenging and unsuccessful to this point and if this directive continues SCFFI will continue to be under funded in Berks County and will never be accurately funded for certain sites/individuals.

In attempt to remedy this matter, according to Berks County, ODP issued a directive that the monies where "savings" exist should be utilized for "emergencies" and not allocated back to SCFFI to remedy this matter; this creates a funding shortfall for SCFFI and seems unfair to create a negative financial consequence based on the AE's error; SCFFI is questioning the accuracy of the "directive" given by ODP as it would seem counterproductive to the BFO recommendations.

Berks County Comment: The AE has made no error, and have followed ODP's directive explicitly. We are also certain that we have accurately communicated the ODP "directive" that was provided to the County and to SAM, Inc. after lengthy discussions at a meeting in the Berks County MH/MR Office and documented in a letter submitted to ODP in December 2007.

BFO Statement: Recommendations: The BFO Recommends SCFF discontinue the practice of cost shifting. The Berks County administrative agency needs to work with SCFF to identify the actual cost of care for each consumer.

SCFF Response: Berks County will need to remedy the manner in which the monies are allocated and the budgets/rates are approved; SCFF cannot take this corrective action in a vacuum without cooperation from ODP and the AE; this cooperation as of this time is lacking. SCFF has identified the budget/rates that are affected and as of this time no work has been done with the AE to remedy the matter; Berks County has shared ODP's directive and stated that they will not increase budgets/rates to reflect actual costs but instead utilize the monies for other non-SCFFI "emergencies"

Berks County Comment: The County will continue to allocate funds consistently in accord with ODP directives, and will immediately initiate the process to adjust Fiscal Year 2008-2009 rates when such a directive is received.

Finding No. 7: SCFF Over-Reported Year-End Accrued Operating Expenses by \$92,865

BFO Statement: SCFF reported and was reimbursed for \$92,865 of accrued residential expenses in Fiscal Year 2004-05 which were not incurred until Fiscal Year 2005-06. 55 Pa. Code Section 4300.149(a) prohibits funds being encumbered out of the current fiscal year's allocation for purchases and service in the succeeding year.

SCFF Response: AE allocated and confirmed the funds post June 30; specifically in late August 05 and the work was started based on the securing of the allocation. We are unable to handle matters such as these differently other than request falsification of documentation from the vendor making it appear that the work occurred prior to June 30. Falsification of documentation is not a practice that SCFFI encourages, however if encouraged this finding would not exist; we are dependent upon the AE's timeliness of allocations and our actions are a direct result of their actions; viewing these expenditures as unallowable based on the before mentioned statements is unfair.

When direction from AE is to the contrary based on year end reconciliations, SCFFI adhered to the AE's direction resulting in non-compliance with regulation; SCFFI cannot police the AE's duties and does as is requested. SCFFI cannot adhere to the regulations referenced when we are unsure of the total monies available in the fiscal period; when additional monies are made available and an expectation exists that a return of funds is out of the question.

Berks County Comment: As previously stated, Berks County allocates funding and makes funding adjustments in a consistent manner to all providers with whom we contract. The County was unable to finalize funding commitments to providers until the final allocation letter was received.

Under no circumstances would Berks County ever encourage a provider to be out of compliance with any portion of the 4300 regulations. We have not nor will we ever give "direction" to falsely report expenses that were incurred in another fiscal year.

SCFF's independent auditors did not indicate that SCFF was not in compliance with the 4300 regulations when they completed the audit for Fiscal Year 2004-05. Based on that audit, we believed that the expenses had been incurred during that year.

Finding No. 8: Individual Support Plans Lack Adequate Staffing Information

BFO Statement: We noted a number of Berks County ISP's were not up to date.

SCFF Response: The number of ISP's that are not current has improved over the past (3) three months; frequently SCFFI would be required to send and resend the information necessary for completion of the ISP to the AE's based on the AE's apparent lack of organization and attention to detail.

Berks County Response: ISP development is the responsibility of the Supports Coordination Organization (SCO) not the AE.

The SCO has experienced a high degree of staff turnover in the past 18 months requiring the hiring and training of ten new Supports Coordinators (SC's). During times of high turnover, the SC's who are here, cover what they can while trying to ensure they meet their own requirements. The SC's insure that waiver monitorings are completed as required. ISP meetings do get held but the typing gets delayed as the SC's cover the other caseloads.

The SCO has implemented a performance improvement plan to ensure the timeliness of ISP's.

APPENDIX C

**BERKS COUNTY LETTER TO SUPPORTIVE CONCEPTS FOR FAMILIES
OF OCTOBER 22, 2008**



COUNTY OF BERKS, PENNSYLVANIA
Mental Health/Mental Retardation Program

Services Center, 15th Floor
633 Court Street
Reading, PA 19601-4301

Phone: 610.478.3271
Fax: 610.478.4980
E-mail: mhmr@countyofberks.com

Mark C. Scott, Commissioner Chair
Kevin S. Barnhardt, Commissioner
Christian Y. Leinbach, Commissioner

Edward B. Michalik, Psy.D., Administrator

October 22, 2008

Mr. Ryan D. Smith, CEO
Supportive Concepts for Families, Inc.
200 Penn Street – 3rd Floor
Reading, PA 19602

Dear Ryan:

At the request of the Office of Mental Health and Substance Abuse Services and the Office of Developmental Programs, Berks County has been asked to oversee the performance of appraisals for all leased SCFFI homes whose rental charges are reimbursed by the Department of Public Welfare's aforementioned Offices. This is in response to recommendations put forth by the Bureau of Financial Operations in their report of the audit of Supportive Concepts for Families, Inc. conducted earlier this year.

Consequently, I have directed Service Access & Management, Inc. (SAM, Inc.) to enter into a contract with [REDACTED] Real Estate to conduct fair rental appraisals on all "residential" sites. An appraisal on SCFFI's leased space at [REDACTED] Street will also need to be completed. The appraiser will need to have access to the interior of the homes so I am requesting that you identify one of your staff to accompany [REDACTED] to all of the sites.

Please contact Nan Haver at SAM, Inc., to coordinate the scheduling of the appraisals. She can be reached at 610-236-4606.

As always, should you have any questions, please contact me. Thank you for your anticipated cooperation.

Sincerely,

Edward B. Michalik, Psy.D.
MH/MR Administrator

Dedicated to public service with integrity, virtue & excellence

www.co.berks.pa.us

cc. Wolf Hrabyk, Deputy Administrator for Adults, MH/MR Program
Michele Ruano-Weber, Deputy Administrator for Children, MH/MR Program
Nan Haver, Vice President of Operations, SAM Inc.
Michael Orr, Community Program Manager, OMHSAS
Robert Conklin, Community Program Manager, ODP
✓ Jack Hoover, Audit Manager, BFO