COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
3rd Floor Bertolino Building
Harrisburg, Pennsylvania 17105-2675

FEB 15 2007

JOHN H. BUNGO, CGFM, CFS
DIRECTOR

TELEPHONE NUMBER
(717) 787-9200
FAX NUMBER
(717) 705-6334

Mr. Kenneth Gibat, Chief Executive Officer
Person Directed Supports, Inc.
1050 Schadt Avenue
Whitehall, Pennsylvania 18052

Dear Mr. Gibat:

I am enclosing the final audit report of your Agency, as prepared by the Division of Audit and Review. This report contains the issues discussed with you and your staff during the course of audit fieldwork and at the exit conference. Your response has been incorporated into the final report and labeled Appendix B.

The final report will be forwarded to the Department's Office of Mental Retardation to begin the Department's resolution process concerning the report contents. The staff from that office may be in contact with you to follow-up on the corrective actions 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 fieldwork.

If you have any questions concerning this matter, please contact Mr. Rich Polek of the Audit Resolution Section at (717) 787-8890.

Sincerely,

John H. Bungo

John H. Bungo, CGFM, CFS

Enclosure

cc: Ms. McCool/Mr. Witt
Ms. Wnoroski/Mr. Lynn
Mr. Church

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.

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
Central field Office

POST OFFICE BOX 2675
BERTOLINOBUILDING, THIRD FLOOR
HARRISBURG, PA 17105

TELEPHONE NUMBER
(717) 787-0869

FEB 15 2007

Mr. Philip Keating, Administrator
Columbia/Montour/Snyder/Union Counties
P.O. Box 219
Terrance Building
Danville State Hospital
Danville, Pennsylvania 17821

Dear Mr. Keating:

I am enclosing the final audit report of Shared Supports Concepts, Inc. and its successor, Person Directed Supports, Inc., as prepared by the Division of Audit and Review. You are receiving this report because your county/joinder either currently contracts with or previously contracted with the agency. Please review this report and be aware of the issues and recommendations contained in it.

The Department's Office of Mental Retardation is in the process of dealing with the report's findings and recommendations.

If you have any questions concerning this matter, please contact Alex Matolyak of the Division of Audit and Review's Central Field Office at (717) 783-7786.

Sincerely,

John H. Bungo

John H. Bungo, CGFM, CFS

Enclosure

cc: Mr. Gibat

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
Central field Office

FEB 1 5 2007

POST OFFICE BOX 2675
BERTOLINOBUILDING, THIRD FLOOR
HARRISBURG, PA 17105

TELEPHONE NUMBER
(717) 787-0869

Mr. Penn Ketchum, Administrator
Lancaster County
50 North Duke Street
P.O. Box 83480
Lancaster, Pennsylvania 17608

Dear Mr. Ketchum:

I am enclosing the final audit report of Shared Supports Concepts, Inc. and its successor, Person Directed Supports, Inc., as prepared by the Division of Audit and Review. You are receiving this report because your county/joinder either currently contracts with or previously contracted with the agency. Please review this report and be aware of the issues and recommendations contained in it.

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If you have any questions concerning this matter, please contact Alex Matolyak of the Division of Audit and Review's Central Field Office at (717) 783-7786.

Sincerely,

John H. Bungo

John H. Bungo, CGFM, CFS

Enclosure

cc: Mr. Gibat

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
Central field Office

FEB 1 5 2007

POST OFFICE BOX 2675
BERTOLINOBUILDING, THIRD FLOOR
HARRISBURG, PA 17105

TELEPHONE NUMBER
(717) 787-0869

Ms. Judith Davis, Administrator
Northumberland County
370 Market Street
Sunbury, Pennsylvania 17801

Dear Ms. Davis:

I am enclosing the final audit report of Shared Supports Concepts, Inc. and its successor, Person Directed Supports, Inc., as prepared by the Division of Audit and Review. You are receiving this report because your county/joinder either currently contracts with or previously contracted with the agency. Please review this report and be aware of the issues and recommendations contained in it.

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If you have any questions concerning this matter, please contact Alex Matolyak of the Division of Audit and Review's Central Field Office at (717) 783-7786.

Sincerely,

John H. Bungo

John H. Bungo, CGFM, CFS

Enclosure

cc: Mr. Gibat

COMMONWEALTH OF PENNSYLVANIA
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BUREAU OF FINANCIAL OPERATIONS
Central field Office

POST OFFICE BOX 2675
BERTOLINOBUILDING, THIRD FLOOR
HARRISBURG, PA 17105

TELEPHONE NUMBER
(717) 787-0869

FEB 15 2007

Ms. M. Elizabeth Miosi, Administrator
Lehigh County
Lehigh County Government Center
17 South Seventh Street
Allentown, Pennsylvania 18101

Dear Ms. Miosi:

I am enclosing the final audit report of Shared Supports Concepts, Inc. and its successor, Person Directed Supports, Inc., as prepared by the Division of Audit and Review. You are receiving this report because your county/joinder either currently contracts with or previously contracted with the agency. Please review this report and be aware of the issues and recommendations contained in it.

The Department's Office of Mental Retardation is in the process of dealing with the report's findings and recommendations.

If you have any questions concerning this matter, please contact Alex Matolyak of the Division of Audit and Review's Central Field Office at (717) 783-7786.

Sincerely,

John H. Bungo

John H. Bungo, CGFM, CFS

Enclosure

cc: Mr. Gibat

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
Central field Office

FEB 15 2007

POST OFFICE BOX 2675
BERTOLINOBUILDING, THIRD FLOOR
HARRISBURG, PA 17105

TELEPHONE NUMBER
(717) 787-0869

Ms. Kathleen Kelly, Administrator
Northampton County
520 East Broad Street, Second Floor
Bethlehem, Pennsylvania 18018-6395

Dear Ms. Kelly:

I am enclosing the final audit report of Shared Supports Concepts, Inc. and its successor, Person Directed Supports, Inc., as prepared by the Division of Audit and Review. You are receiving this report because your county/joinder either currently contracts with or previously contracted with the agency. Please review this report and be aware of the issues and recommendations contained in it.

The Department's Office of Mental Retardation is in the process of dealing with the report's findings and recommendations.

If you have any questions concerning this matter, please contact Alex Matolyak of the Division of Audit and Review's Central Field Office at (717) 783-7786.

Sincerely,

John H. Bungo

John H. Bungo, CGFM, CFS

Enclosure

cc: Mr. Gibat

COMMONWEALTH OF PENNSYLVANIA
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Central field Office

FEB 15 2007

POST OFFICE BOX 2675
BERTOLINOBUILDING, THIRD FLOOR
HARRISBURG, PA 17105

TELEPHONE NUMBER
(717) 787-0869

Ms. Kelly Goshen, Administrator
Franklin/Fulton Counties
425 Franklin Farm Lane
Chambersburg, Pennsylvania 17201

Dear Ms. Goshen:

I am enclosing the final audit report of Shared Supports Concepts, Inc. and its successor, Person Directed Supports, Inc., as prepared by the Division of Audit and Review. You are receiving this report because your county/joinder either currently contracts with or previously contracted with the agency. Please review this report and be aware of the issues and recommendations contained in it.

The Department's Office of Mental Retardation is in the process of dealing with the report's findings and recommendations.

If you have any questions concerning this matter, please contact Alex Matolyak of the Division of Audit and Review's Central Field Office at (717) 783-7786.

Sincerely,

John H. Bungo

John H. Bungo, CGFM, CFS

Enclosure

cc: Mr. Gibat

COMMONWEALTH OF PENNSYLVANIA
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BUREAU OF FINANCIAL OPERATIONS
3rd Floor Bertolino Building
Harrisburg, Pennsylvania 17105-2675

FEB 15 2007

JOHN H. BUNGO, CGFM, CFS
DIRECTOR

TELEPHONE NUMBER
(717) 787-9200
FAX NUMBER
(717) 705-6334

Mr. Kevin T. Casey
Deputy Secretary for Mental Retardation
512 Health & Welfare Building
P.O. Box 2675
Harrisburg, Pennsylvania 17105-2675

Dear Mr. Casey:

The Bureau of Financial Operations (BFO) recently completed an audit of Shared Supports Concepts, Inc.'s operations, management of consumer funds, and the split of the corporation. The audit was included in the Department of Public Welfare's (DPW) Fiscal Year 2005-06 Annual Agency Audit Plan.

The mission of the BFO, accomplished through its audit and review activities, is to assist the DPW's management to administer human service programs of the highest quality at the lowest cost with integrity.

Results In Brief

The report contains the following issues:

- Person Directed Supports, Inc. (PDSI) is in a poor financial condition due to ineffective cash management and bad business decisions. This has called into question PDSI's ability to continue as a financially viable entity.
- Shared Supports Concepts, Inc. (SSCI) and its successor, PDSI, had numerous expenditures that are not in compliance with the 4300 regulations. Questioned costs totaled $250,436 for the 2004/05 fiscal year and $270,990 for the 2005/06 fiscal year, as shown in Exhibits A and C. Exhibit B shows the net questioned costs after consideration of operating losses by county for 2004/05. As of the date of this report, the audited financial statements were not available for the 2005/06 fiscal year therefore we were unable to present a similar schedule for that year.
- PDSI does not have a Chief Financial Officer (CFO) and uses an accounting firm, independent auditor, Chief Executive Officer (CEO) and other management staff and in-house bookkeeping personnel to perform financial duties. However, in-house staff does not have fiscal expertise and contracted professionals are too removed from the company to effectively monitor PDSI's fiscal status. Financial management of the agency could be enhanced with an effective CFO.

Results In Brief (Continued)

- SSCI/PDSI management controls could be improved by enhancing its policies, procedures, and accounting practices. These have allowed transactions that are not in compliance with the 4300 regulations to occur and also helped facilitate poor cash management. PDSI must improve its management controls.

  This report also includes two observations, which are:

- County contracts do not contain certain components as required by 4300.139 and are not performance based. In addition, expenses on the SSCI/PDSI financial statements are not grouped in such a way that meaningful budget-to-actual comparisons can be made.
- SSCI/PDSI generates very little revenue from fundraising, which limits the agency's ability to make purchases outside of those permitted by the 4300 regulations. Also, PDSI needs the cash that could be generated by fundraising to improve its financial condition.

Background

SSCI was incorporated as a domestic nonprofit corporation on February 29, 2000. As such, it operates for the benefit of the general public without shareholders and without a profit motive. However, SSCI/PDSI does not have Federal 501(c)(3) tax-exempt status and thus is not exempt from Federal income tax, State income and sales tax, and other taxes.

SSCI split into PDSI and Shared Supports, Inc. (SSI) effective July 1, 2005. SSCI became PDSI (officially changed its name to PDSI in May 2005, before the split) and uses the same Employer Identification Number. SSI is the new company.

There was a "Dissolution of Association" agreement between Ken Gibat (PDSI) and Christine Martin (SSI) effective June 30, 2005. The agreement specified a payment of $80,931 from PDSI to Ms. Martin consisting of $20,000 on 7/1/05 and 26 equal payments of $2,343.50.

The split occurred due to philosophical differences. The faction that is now PDSI was working more with community homes, while the group that became SSI took a one-person-at-a-time approach. While one-person-at-a-time is essentially conflict free, it is more expensive than community homes.

For 2004/05, SSCI/PDSI operated day programs, residential living, family living respite, crisis, training, habilitation, and vocational programs.

Background (Continued)

SSCI/PDSI uses a concept called "Circles of Support" whereby clients are considered the center of the circle and others (friends, family, etc.) are in various concentric circles (based on how close they are to the client). The idea is that many people help support the client and take an active role in helping the client make decisions instead of the traditional approach where one or a few people help the client make decisions. The circles include members of SSCI/PDSI management. While this may have programmatic benefits, it results in significant travel for management and may affect the time devoted to financial management of the agency.

SSCI operated in Columbia/Snyder/Montour/Union (CMSU), Franklin/Fulton (F/F), Lancaster, Lehigh, Northampton, and Northumberland counties/joinders. PDSI currently contracts with F/F, Lancaster, Lehigh, and Northampton. SSI currently contracts with CMSU, Lancaster, and Northumberland. For the 2004/05 fiscal year, funding was as follows:

Source of Support	Amount	Percentage of Total
County Grants		
CMSU	$143,425	3.80%
Consultant Contract	8,284	0.22%
Crisis-Respite	12,354	0.33%
Franklin/Fulton	1,155,538	30.60%
Lancaster	984,943	26.09%
Lehigh	528,935	14.01%
Northampton	677,934	17.96%
Northumberland	256,947	6.81%
Fundraising	6,976	0.18%
Total	$3,775,336	100.00%

Objectives/Scope/Methodology

Our audit objectives, developed in concurrence with the OMR were:

- To evaluate SSCI's compliance with the 4300 Regulations specific to certain cost categories to ensure costs are applicable to the program and consistent with good financial management.

- To ensure SSCI's administration of client funds is in accordance with applicable regulations and its management provides the necessary safeguards to prevent and detect abuse.

- To determine the reason for the split (SSCI into PDSI and SSI) and the effect it has on the costs of the various programs operated by the companies.

Audit procedures were directed to the activities for the period July 2004 through June 2005. Based on the results of the 2004/05 period, we projected questioned costs for similar categories for the 2005/06 fiscal year. We were unable to obtain supporting documentation for certain expenditures during fieldwork; some of this documentation was provided on August 30, 2006 and some could not be located.

In pursuing our objectives stated above, the BFO reviewed certain general ledger accounts, invoices, lease agreements, insurance documents, policies and procedures, county contracts, allocation methodologies, payroll records, and the independent CPA audit report. We also interviewed county staff, the accounting firm, the independent auditor, and staff at two regional offices of OMR. In addition, we did cash verification and reviewed client ledgers and supporting documentation at certain homes.

We conducted fieldwork at the following Administrative Offices:

- Chambersburg, PA
- Whitehall, PA
- Ephrata, PA

We conducted fieldwork at the following residential homes:

- Golden Key – Kempton, PA
- Fayette St. – Allentown, PA
- Main St. – Allentown, PA
- Lincoln Court – East Petersburg, PA
- Longfellow – Lancaster, PA

Program activities were evaluated for compliance with the 4300 regulations, the 6200 regulations, OMR Bulletin 6000-88-08, and the Commonwealth Travel Policy.

Objectives/Scope/Methodology (Continued)

Our review of client fund activity did not disclose any material issues or instances of noncompliance with applicable regulations.

Fieldwork was conducted from May 22 to June 27, 2006.

The issues in this report were discussed with PDSI management throughout the course of our fieldwork. A meeting was also conducted with OMR Regional staff on July 21, 2006 to discuss the contents of this report.

The BFO audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS).

Government auditing standards require that we obtain an understanding of management controls that are relevant to the audit objectives described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of compliance with generally accepted accounting principles. Based on our understanding of the controls, no significant deficiencies came to our attention other than those described in Issues one through four of this report.

This report, when presented in its final form, is available for public inspection.

Results of Fieldwork

Issue No. 1: PDSI is in Poor Financial Condition

The ability of any organization or entity to meet its required financial obligations is of utmost importance to the continued operation of that organization or entity. Payroll, regular vendor invoices, reserves for upgrading equipment and maintaining building and grounds, etc. must be provided through existing revenue levels. If expenditures exceed revenues over an extended period of time, the entity will eventually fail.

Based on this audit of PDSI's current fiscal activities and the poor financial results of past operations, the BFO questions the agency's ability to continue operations without immediate and significant changes. The following facts and analyses support this contention:

Financial Condition

As part of the audit, the BFO examined the company's financial ratios and conducted a financial analysis. We examined working capital, the current ratio, and the debt to asset ratio.

Results of Fieldwork (Continued)

A. Working capital

A corporation must have sufficient revenue to cover expenses and maintain sufficient assets. Working capital is a measure of a company's ability to pay its bills. Working capital is calculated by subtracting its current liabilities (primarily accounts payable, accrued liabilities such as salaries, income taxes, leases and current portion of long-term debt) from current assets (primarily cash, accounts receivable and prepaid expenses). If working capital is zero, then the company has exactly enough current assets to cover its bills. Working capital is important because it also represents the amount of assets available to deal with emergency situations.

SSCI/PDSI, like many social service agencies, is "cash poor" and has small amounts of working capital. In years 2002- 2004, SSCI's working capital averaged $49,533. As of 6/30/2005, SSCI's working capital declined by 69.5% to $16,201. If an interruption occurs in the collection of its accounts receivable, it is likely that SSCI/PDSI would be unable to meet its obligations. It is likely that even a minor disruption in cash flow would have a devastating effect on the company.

B. Current Ratio

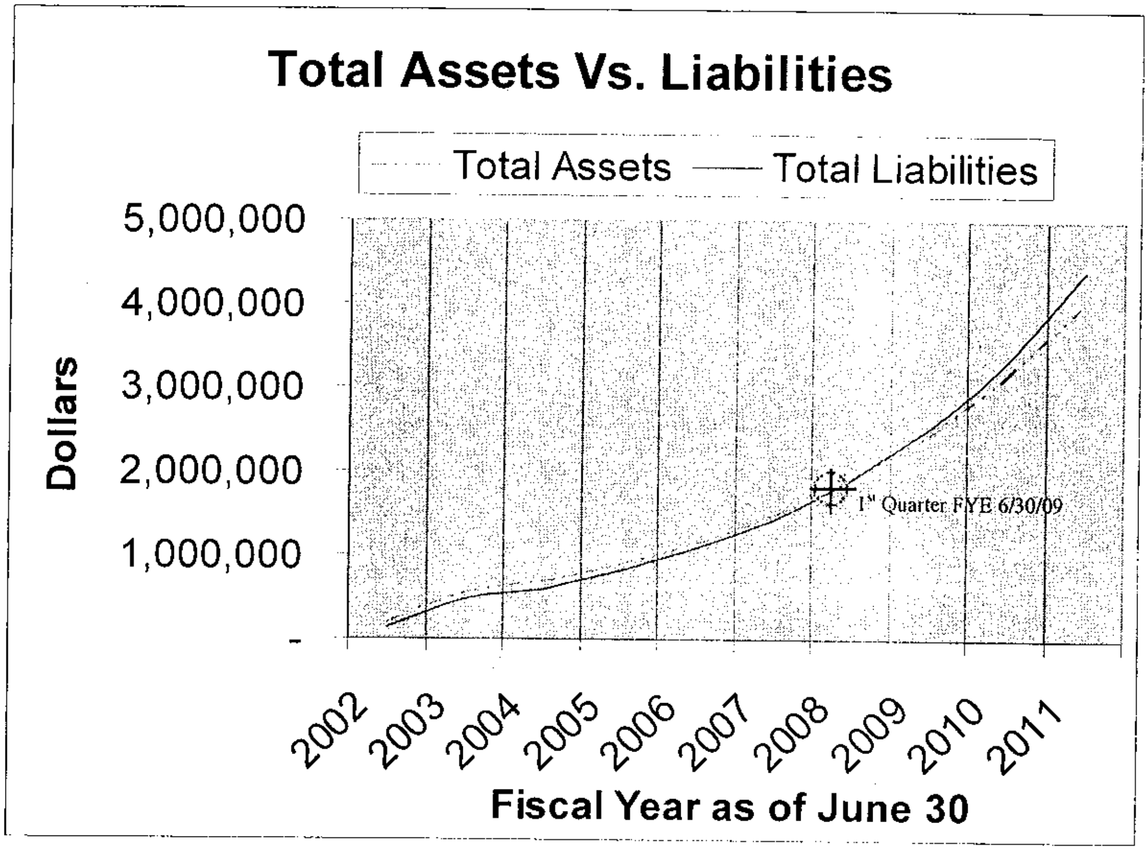
The Current Ratio is another measure of a company's ability to pay its bills. It is useful to consider this ratio because it indicates, over time, whether a company's cash and assets are increasing more quickly than its bills. SSCI/ PDSI's current ratio has declined each year from 1.44 in 2002 to 1.02 in 2005. In other words, SSCI/PDS had available in 2005 only $1.02 to cover each dollar of current liabilities. This is further evidence that PDS is vulnerable to cash shortages.

C. Debt to Asset Ratio

The debt to asset ratio is another way of analyzing a company's financial health. The ratio is calculated by dividing total liabilities by total assets. Most social service agencies have few assets. In a financially healthy agency, a good debt to asset ratio will be steady over time or be slowly decreasing, meaning that their assets are growing faster than debt.

SSCI/PDSI's debt to asset ratio shows the opposite trend - it has been increasing since 2002. At the end of 2004, SSCI had a debt to asset ratio of 0.88. As of 6/30/05, SSCI/PDSI had a debt to asset ratio of 0.93. If assets and liabilities increase at the average rate of the past three years, SSCI/PDSI's liabilities will exceed its assets within the next three years. PDSI must take action now, or the company is likely to have difficulty continuing its future operations. See the graph below.

Results of Fieldwork (Continued)



Profit and Loss History

SSCI/PDSI's profit and loss history provides another indication that the company is in financial distress. The profit and loss history is analyzed based on information found in the financial statements. Although the company is a domestic nonprofit entity, it is important to accumulate assets to aid its cash flow and build reserves for emergencies.

Our study of SSCI/PDSI's balance sheet revealed (over time) signs that the company is trending toward negative financial results. For the year ended June 30, 2005, SSCI/PDSI posted a negative change in net assets (a loss) of $17,725. Although 2005 was the first year the company experienced a loss, the yearly change in net assets has been trending downwards since 2003. See the table below.

Results of Fieldwork (Continued)

Year	Net Assets	Change in Net Assets
2002	$ 32,517	N/A
2003	66,190	$ 33,673
2004	83,792	17,602
2005	66,067	(17,725)

At first glance, the information found on the income statement appears positive. SSCI/PDSI experienced rapid revenue growth, almost exclusively through county contracts, in the last four years. The company's 2005 revenues were 527.70% of the 2002 revenues. However, expenses have also grown rapidly and at a greater rate than income which resulted in the decreasing change in net assets.

If the above mentioned trend continues, it is likely that PDSI could post another loss in 2006. This information, when considered with the decline in working capital and the increasing debt, should raise serious questions about PDSI's ability to continue operations.

SSCI/PDSI's cash flow statement most clearly discloses the company's weaknesses. For the fiscal year ended June 30, 2004, SSCI had $106,068 of positive cash flow from operating activities. In 2005, SSCI had $166,623 of negative cash flow from operating activities. Due to this large swing between the two fiscal years, it is apparent the company's cash flow is unstable. SSCI obtained $209,711 of cash from its line of credit.

Agency Credit

SSCI/PDSI relies excessively on debt to fund its operations. In 2005, SSCI/PDSI used its line of credit to provide operating funds. SSCI/PDSI's line of credit was consistently close to being fully utilized throughout the year. The company may be unable to withdraw sufficient cash from the line of credit in case of emergencies. Furthermore, the instability of its cash flow raises questions about its ability to repay the line of credit.

SSCI/PDSI's reliance on credit endangers the company's long-term prospects. The company paid $16,747 in interest on the line of credit for the 2005 year, further draining its finite supply of cash. SSCI/PDSI's history of late payments and fully extended credit lines make the company a poor credit risk. This could affect future interest rates, further increasing interest expense. In addition, a higher credit risk makes certain purchases (such as car leases) difficult or impossible to obtain.

Results of Fieldwork (Continued)

The BFO feels that PDSI's financial concerns were caused by poor cash management and decision making. Management's approach to cash management and decision making is reactive, rather than proactive, as evidenced by the following:

- The company incurred numerous late fees and threats of disconnection of utilities at homes before payments were made.
- The company failed to utilize incentives offered by its credit providers. The [redacted] credit card Rewards program earns points toward airfare and other benefits to employees, and could be taken as cash back and used as an offset to SSCI/PDSI expenses.
- SSCI/PDSI is incorporated as a Pennsylvania nonprofit, but is not exempt from Federal Income Tax as a 501(c)(3). The company paid an estimated $27,575 in sales tax during the 2004/05 year. The amount of sales tax exceeds the loss for the year by $9,850.
- The company's management incurred excessive travel costs allowed by the travel policies.
- SSCI/PDSI offers paycheck loans and advances to employees, which is a strain on the company's cash flow.
- There were gifts to staff. Specifically, we found gifts in excess of $3,000 to staff in our sample, which projects to $28,390 for the 2004/05 fiscal year.
- SSCI/PDSI paid $50,662 for an accounting firm to provide basic bookkeeping functions and to complete the payroll function. The accounting firm does not provide financial advice to the company without specific inquiry. SSCI/PDSI failed to explore other alternatives.
- Excessive overtime further strained the entity's cash resources.
- Twice during the year, the company's cash balance was close to zero on the last day of the month and the poor cash management caused the CEO to make a short-term loan of $18,500 to the company to make payroll.
- Incurring expenses not in compliance with the 4300 regulations or above contract limits.

Payments from Counties

SSCI/PDSI gets essentially all of its funding from the county MH/MR programs and the counties generally mail checks for regular billings to the provider within two to six weeks. Based on discussions with the counties, delays in payment to most providers usually stem from two main causes: unresolved contract issues and unusual billings (provider errors, budget overages, etc.). Delays typically occur at the beginning of the fiscal year or when a new contract is initiated. Many of the delays in payment may have been avoided if the providers and the counties executed timely contracts or letters of agreement that spelled out payment provisions ensuring a cash flow to the agency. As

Results of Fieldwork (Continued)

delays in payment are inevitable for human services providers, SSCI/PDSI must make more fiscally conservative choices to ensure the company's viability.

Consumers

Potentially, those most seriously affected by PDSI's poor financial condition would be the consumers that receive services from the company. The numerous threats of disconnection of services at the homes, if carried out, would mean consumers would not have electricity for cooking, keeping food refrigerated and air conditioning; gas to heat the homes; phone service to communicate with family members and in case of emergencies; cable TV for entertainment; and various other services that most people take for granted. Notwithstanding the health and safety issues associated with the loss of these services, consumers could be harmed emotionally by the resulting disruption, which is counter to the aim of the company and the DPW.

Recommendations

The BFO recommends that SSCI/PDSI engage in formalized business planning. Management should develop a business plan to address current financial shortfalls, as well as include a risk assessment. Short-term goals directed at their financial condition should include the following:

- Change spending habits to be cost-conscious and prudent.
- Ensure that spending is in compliance with the fiscal requirements (4300 regulations) so that costs are fully reimbursable.
- Pay expenses on time and thus eliminate late charges.
- Meet with county officials to discuss how to eliminate delays in contract adoption and even though prior attempts for advances have been unsuccessful, determine if a letter of agreement or other method is available to expedite payments on new contracts. Management should also discuss invoicing and billing issues and explain the hardship that contract delays are creating and that PDSI incurs more interest charges on its line of credit because of cash shortages.
- Conduct a feasibility assessment when purchasing property or when opening a new program to determine the effect on its cash flows.

PDSI's business plan should also include the following long-term goals:

- File the paperwork to become a 501(c)(3) organization.

Results of Fieldwork (Continued)

- Update the policies and procedures to include the following:
  - Expenditures should be necessary and prudent; and in compliance with the 4300 regulations. See Issue 2.
  - Loans to employees should be limited to extreme emergencies.
  - A policy addressing reward programs on credit cards and other services should specify that any benefits should be exchanged for cash, if possible, and used as offsetting revenue.
  - Adopt a policy of purchasing homes instead of leasing whenever possible. This will build equity, which is needed to secure additional financing for new homes, vehicles, etc.

- Hire a qualified chief financial officer. PDSI could utilize their accounting firm to assist in developing criteria for the position and for interviewing prospective officers.

- Develop long-term financial goals, such as:
  - Obtain a 60-day cash flow and reduce the company's reliance on debt.
  - Receive the 3% retained revenue by 2009.
  - Increasing the company's current ratio to 1.5 within five years.

- Create an effective year-round fundraising program.

Once developed, the plan should be implemented as soon as possible. In addition, the plan should be updated whenever there are changes to PDSI's operations, structure, counties served, and other factors.

Issue No. 2: Expenditures Were Incurred That Are Not in Compliance With the 4300 Regulations.

I. Fiscal Year 2004/05 – Questioned Costs are $250,436. Exhibit A is a summary of these costs by program and by county. The net effect of these costs, taking into consideration expenditures in excess of funding (losses) by county, is shown as Exhibit B.

A. Occupancy

Rented Properties

SSCI/PDSI leases all of it homes except for one, which it purchased. Occupancy costs for these residential sites are eligible for DPW participation to the extent that the rental

Results of Fieldwork (Continued)

costs fall within the guidelines of the Chapter 4300 regulations. These regulations indicate that while the Department will participate in occupancy expense, the provider must take the necessary steps to ensure that the rental agreements entered into are fair and reasonable. Section 4300.87(b)(2) indicates that the amount of rent to be charged for programs should not "exceed the rental charge published for the general public for similar space in that geographical area". To facilitate this requirement, agencies should obtain the fair rental value through an estimate from a licensed real estate appraiser. Appraisals shall be in writing and specify the valuation approach and other components used in the estimation of the fair rental value. With the receipt of fair rental values from a licensed appraiser, the county program and the Department gain reasonable assurance that the rental costs of their programs are fair and not inflated.

Our review of the fair rental appraisals (FRA) disclosed that SSCI/PDSI had them completed for only five homes within the Franklin/Fulton (F/F) program. Further analysis of the existing FRAs disclosed that three rental rates charged exceed the appraised amounts. Accordingly, costs without appraisals and above approved rates do not qualify for DPW participation.

The Franklin/Fulton contract requires providers to obtain fair rental appraisals to support rental costs. The CMSU, Lancaster, Lehigh, Northampton, and Northumberland contracts failed to identify a similar requirement.

The following schedule shows the costs in question:

Homes Where Rent Exceeded FRAs - Franklin/Fulton

Home Site	Monthly Payment	FRA	FRA Adj. For Inflation	Monthly Pmt. Less Adj. FRA	Payments Made During Year	Questioned Costs
[redacted] Stanley Ave., Chambersburg	1,000.00	550.00	580.00	420.00	11*	4,620.00
[redacted] Clinton Ave., Chambersburg	1,000.00	750.00	791.00	209.00	11*	2,299.00
[redacted] Edgar Ave., Chambersburg	1,000.00	700.00	737.00	263.00	11*	2,893.00
						9,812.00

* A review of rent expense disclosed only 11 payments. This amount agrees with the CPA audit.

Results of Fieldwork (Continued)

Counties/Joinders Where FRAs Were Not Completed

Program	Allocation Percentage	Allocation of Rent Charged To Corporate Admin.	Direct Charges	Questioned Costs
CMSU	4.24%	381.60	21,438.00	21,819.60
Consultant Contract	0.22%	19.80	-	19.80
Franklin/Fulton	31.55%	2,839.50	-	2,839.50
Lancaster	26.00%	2,340.00	36,416.68	38,756.68
Lehigh	13.59%	1,223.10	39,890.03	41,113.13
Northampton	17.57%	1,581.30	35,340.47	36,921.77
Northumberland	6.83%	614.70	12,460.00	13,074.70
	100.00%	9,000.00	145,545.18	154,545.18
			Total Questioned Costs	164,357.18

It should be noted that two of the homes in Franklin/Fulton, including [redacted] Stanley Ave., are owned by a member of the Board of Directors (we were advised that he became a Board member after the 2004/05 fiscal year). While such an arrangement could be considered a conflict of interest, costs were not questioned for that reason; costs were questioned because the payments exceeded the FRA for one home and there was no FRA for the other.

Owned Property

The [redacted] home in Lancaster County was purchased by SSCI in March of 2003. SSCI recorded the home on its books and is depreciating it over 27½ years. By doing this, SSCI is charging depreciation and the interest on the mortgage to Lancaster County instead of principal and interest; 4300.87(c)(2)(iv) states that "the Department will participate in the costs of principal and interest related to the amortization of the mortgage." As a result, questioned costs amount to $760 (the difference between depreciation and interest versus principal and interest) for the 2004/05 fiscal year.

It should be noted also that the amount being depreciated is not correct because it ignores the $33,920 down payment from Lancaster County. While this amount is not important for current expenses, it cannot be included in the amount used to calculate the continuing participation allowance (8% of cost) after the mortgage is paid off.

Results of Fieldwork (Continued)

We also want to point out that the home had a pool when purchased and renovations including a fence around the pool were done shortly thereafter. Subsequently, the pool was filled in at a cost of $9,650. While these costs are not questioned, it is an example of poor planning and ineffective cost management.

As a result of the instances above, the total amount of questioned costs under occupancy is $165,117.

B. Travel

The locations of the various PDSI homes and offices span several counties. Considering the "Circles of Support" concept requires the participation of various personnel, including management, in the consumers' decision making, it is understandable that PDSI incurs significant travel costs. Travel costs are allowable but must comply with the 4300 regulations, specifically:

- 4300.90(a) - "The Department will participate in travel expenses for the purpose of conducting official business of programs operated under contract with the county. Allowable expenses include transportation, lodging, and subsistence."
- 4300.90(b) - "Mileage reimbursements for use of personal vehicles and motor vehicle pools may not exceed the Internal Revenue Service allowance for business deductions for mileage."
- 4300.90(d) - "Department participation in subsistence will be at the prevailing county rate not to exceed the rates paid by the Commonwealth for its employees. The Commonwealth rate and limitations will be published periodically."

In addition, costs must be reasonable according to 4300.28(a) which states:

> "The Department will financially participate only in expenditures which are necessary and proper for the operation of the program and the provision of services. Expenditures shall be reasonable to the extent that they are of the same nature as expenditures which would be made by a cost-conscious and prudent buyer in the market place."

Identified Management Noncompliance

SSCI/PDSI has separate general ledger accounts that track management travel and staff travel. Management travel had the greatest frequency and amount of questioned costs and included the following:

Results of Fieldwork (Continued)

- Food and alcohol – there were numerous instances of these purchases, many when there was no evidence of client care or overnight status. For example, there was:
    - A charge for an opulent restaurant in Lancaster for approximately $220, with no documentation of a business purpose or client care.
    - Almost daily small charges by another management employee.
    - Reimbursements for alcohol.
    - Late night charges for employees who were not on overnight status.
- The CEO billed for mileage and also charged other costs to SSCI/PDSI, including 95% of his personal automobile insurance (note that his teenage son was on the policy), oil changes, and vehicle repairs.
- Lack of documentation – certain charges had no reasons given, no copies of the check, and no detail on the receipts.

Summary of Questioned Costs - Management Travel

	CEO	Former COO	[redacted] Card	Former Chief Clinical Officer	Other Management Staff	Total
Corporate Admin	$ 4,559.86	$ 293.83	$ 342.51	$ 2,557.76	$ 821.96	$ 8,575.92
Lancaster Admin	-	-	-	- *	-	-
Direct Charges	-	-	28.99	669.68	-	698.67
	$ 4,559.86	$ 293.83	$ 371.50	$ 3,227.44	$ 821.96	$ 9,274.59

* - The BFO reviewed a charge for $7,888.05 for expenses incurred by the former Chief Clinical Officer in 2003/04 that were paid in 2004/05. This charge was included in accounts payable at June 30, 2004 and charged as an expense to the 2003/04 fiscal year consistent with accrual-basis accounting. It should be noted that $4,632.21 or 58.72% would have been questioned because the costs were not consistent with applicable travel policies or were not documented.

Identified Staff Noncompliance

There were costs in the in the client transportation account that were not documented or were not for the 2004/05 fiscal year. The client transportation account tracks expenses related to transporting the consumers. These costs are typically incurred by direct-care staff. The total questioned costs for Client Transportation is $14,589.

Staff travel had numerous instances of parking tickets in the Allentown area (there were

Results of Fieldwork (Continued)

also a few of these included in management travel, but were much less frequent). As a result, parking tickets incurred by staff totaling $477 are identified as questioned costs.

As a result, total questioned costs for travel are $24,341.

C. Vehicle Costs

SSCI/PDSI uses company vehicles for staff to transport consumers and also for management to conduct SSCI/PDSI business across the various counties. It is the company's policy (albeit unwritten) to purchase vehicles when it has the money and to lease them when it does not.

Audi

An instance when the company did not have the money for a purchase was when the Golden Key home in Kempton was started. During this time period, available cash was tied up to get the home operating and SSCI did not have good credit, and was turned down for purchase or lease of at least one other vehicle (SSCI could provide documentation for only one). SSCI then agreed to assume the lease of a 1999 Audi A4 from the company's Chief Clinical Officer and a formal lease was drafted by the SSCI attorneys and was signed. Payments were made directly to Audi.

Besides being a related party transaction, the Audi lease was not a wise business decision because the vehicle had high mileage and needed major repairs (including a new turbocharger and head gasket costing $3,310, a new headlight washer pump costing $1,478, and new spark plugs and coil pack wires costing $244 for a total of $5,032. These repairs occurred from July 2004 through November 2004 when the car had between 150,000 and 160,000 miles on it). Also, the lease amount was $421 per month which is high for a vehicle the company is not going to own at the end of the lease; the company did pay similar amounts for vehicles they would essentially own at the end of the lease. Total cost of the lease was $5,118 (including some late charges).

It should be noted that during the time the Audi was inoperative (BFO was told it was several months), SSCI paid mileage reimbursements to staff to use their own vehicles to transport consumers. SSCI also continued to pay the Audi lease. It should also be noted that the Golden Key home was serving three consumers, and an Audi A4 is a 4-passenger vehicle. Accordingly, it is too small to hold three consumers, a driver and additional staff.

Based on the circumstances identified above we cannot agree that the decision to assume the lease was appropriate nor was it a prudent expenditure. The BFO also believes that the subject Audi could provide an uninformed observer with an inappropriate perception concerning the expenditure of taxpayer funds.

Results of Fieldwork (Continued)

Additionally, PDSI could not provide the BFO with vehicle logs or other documentation to confirm that the Audi was used for official business of the programs. As such, questioned costs amount to $10,150 ($5,118 lease + $5,032 repair) paid for the vehicle.

Trailblazer

PDSI purchased a Chevy Trailblazer at the end of the 2004/05 fiscal year as part of a spend-down of available funds at year end. PDSI management claims they needed a four-wheel-drive vehicle to deliver medications to the homes in the event of a bad snowstorm or other inclement weather. However, the vehicle contained numerous luxury items such as leather seats, power sunroof, heated seats, satellite radio, OnStar, and others costing $2,438 (net of package discounts). In addition, PDS paid subscriptions to OnStar for $199 and to XM Satellite Radio for $160 in the 2005/06 fiscal year. As a result, these expenses are questioned in the amount of $2,438 because they are excessive items not needed and not consistent with a cost-conscious organization as specified in 4300.28(a). It should be noted that PDSI did obtain three bids on the Trailblazer, but all three were for the same vehicle with essentially the same options.

Analyses of the cost of a lease versus purchasing the vehicle have not been done, as required by 4300.104(b)(5). The regulation states "Cost differentials between leasing and purchase of vehicles shall be explored and the most feasible economic alternative selected. Documentation showing the options that were explored shall be maintained."

D. Staff Development

Staff development costs are allowable under section 4300.86 if they are for training that "is essential for the continuation or improvement of the program". While SSCI/PDSI did have expenditures that meet this definition, it also had expenditures recorded in the Staff Development account that were completely unrelated to training and are unallowable. Also, these expenditures are not consistent with 4300.28(a) as quoted above. They included numerous gift cards to staff, numerous charges for flowers for staff and to contracted professionals working for SSCI/PDSI, and holiday gifts to staff. As a result, gifts to staff totaling $28,390 are identified as questioned costs.

E. Payment to Former Chief Operating Officer (COO)

As mentioned in the background section, there was a dissolution agreement which specified that PDSI was to pay the former COO $20,000 on July 1, 2005 and then 26 equal payments after that. Based on our analysis of payroll records, PDSI paid the $20,000 in the 2004/05 fiscal year instead of on July 1, 2005. The remaining amount ($60,931) was paid during the 2005/06 fiscal year.

Results of Fieldwork (Continued)

The BFO was not provided with evidence showing that any services were performed for the amount stated in the dissolution agreement. In addition, there was no contract or other documentation that specified what services were to be performed by the "consultant". Given that the amount was in connection with a disassociation, it appears to be simply a payout for past services, which is unallowable under the 4300 regulations. Our position is supported by the fact that Ms. Martin was working full-time at Shared Supports Inc., her new company and $80,931 for a part-time consulting is unreasonable. In addition, the former COO/consultant's payments were recorded on the SSCI/PDSI payroll. Consultants are considered to be independent of the company and would not be on the payroll. Instead, their compensation would be reported on an IRS Form 1099.

Regulatory guidance is provided by 4300.84, which states:

> "The Department will participate in the cost of consultants and contracted personnel when justifiable for programmatic or administrative reasons. Consultants and personnel obtained through contracts are considered independent contractors engaged for specified services on a fee-for-service or contractual basis. A written agreement shall state the services to be provided, the rate of compensation and the method of payment. Consultant fees shall be determined in accordance with prevailing rates."

As a result, the $20,000 paid during 2004/05 is included in questioned costs. The remainder is questioned in the 2005/06 section below.

II. <u>Fiscal Year 2005/06</u> - Questioned Costs are $270,990. Exhibit C is a summary of these costs by program and by county. We could not calculate the net effect of these costs by county because the independent auditor's report was not available at the time of this report.

Similar activities continued through the 2005/06 fiscal year as what is described above. Accordingly, to reflect the allowable costs for reimbursement the following questioned costs are identified.

<u>A. Occupancy</u>

Similar to 2004/05, most PDSI homes were leased and only five Franklin/Fulton homes had fair rental appraisals. The questioned costs for these properties are as follows:

Results of Fieldwork (Continued)

Homes Where Rent Exceeded FRAs - Franklin/Fulton

Home Site	Monthly Pmt.	FRA	FRA Adj. for Inflation	Monthly Pmt. Less Adj. FRA	Payments Made During Year	Questioned Costs
[redacted] Stanley Ave, Chambersburg	1,000.00	550.00	606.00	394.00	12 *	4,728.00
[redacted] Clinton Ave, Chambersburg	1,000.00	750.00	827.00	173.00	12 *	2,076.00
[redacted] Edgar Ave, Chambersburg	1,000.00	700.00	770.00	230.00	12 *	2,760.00
						9,564.00

Counties/Joinders Where FRAs Were Not Completed

Program	
Franklin/Fulton	1,558.83
Lancaster	19,107.42
Lehigh	87,087.55
Northampton	61,749.44
	169,503.24
Total Questioned Costs	179,067.24

* Note that the General ledger includes a reversing entry that refelcts 11 payments even though 12 payments were made for the year. This will need to be adjusted by the independent auditor.

In addition to the leased properties, PDSI owned the [redacted] Home in Lancaster County during Fiscal Year 2005/06. PDSI charged interest and depreciation for the fiscal year; however the total did not exceed the principal and interest allowable under 4300.87(c)(2)(iv) so these costs are not questioned.

B. Travel

Staff transportation for 2005/06 is reflective of current management personnel; questioned costs are projected to be $11,672. Questioned costs for client transportation is projected to be $8,243. Parking fines included in staff travel were projected to be $318 for 2005/06. This reflects the office where the majority of the tickets were written was leased for only part of the year. Parking fines are not an allowable cost under Title 55, Chapter 4300 (the 4300 regulations). The total questioned costs for travel for 2005/06 are $20,233.

C. Staff Development

Staff Development costs were projected to be $10,758 for 2005/06; this takes into account that significantly less money was spent for staff development in 2005/06 than in 2004/05.

Results of Fieldwork (Continued)

D. Payment to Former Chief Operating Officer (COO)

As described in the 2004/05 section, PDS made payments to their former COO totaling $60,931 during the 2005/06 fiscal year. Since the amount appears to be compensation for past services, the entire amount is included in questioned costs.

Recommendations

The BFO recommends that OMR evaluate the costs as identified and determine the allowability for DPW participation. This includes both the 2004/05 and 2005/06 fiscal year. Because many of the individuals served are waiver clients, Federal guidelines also need to be considered in this determination.

The BFO also recommends PDSI obtain current FRAs for all properties that do not have them. Then, FRAs should be obtained for new properties and every three to five years for existing ones. All FRAs should be provided to each applicable county MH/MR program to support costs associated with occupancy expense.

The BFO additionally recommends all counties include language in their contracts requiring fair rental appraisals. These appraisals should be used as the basis for allowable costs.

The BFO further recommends that PDSI follow the requirements identified in the 4300 regulations, specifically:

- 4300.28 – Reimbursable Costs
- 4300.86 – Staff Development
- 4300.87 – Occupancy
- 4300.90 – Travel
- 4300.104 – Motor Vehicles

To aid PDSI in their financial viability and because the majority of its revenue is from the DPW, the BFO further recommends that PDSI management change its mindset and recognize that the agency must be operated efficiently and within prudent and practical expenditure levels. Notwithstanding the 4300 implications, items such as expensive meals, expensive hotels, the Audi lease, payments in excess of fair rental value and others are simply bad business decisions and would not be tolerated by a cost conscious company.

The BFO further recommends that PDSI develop a comprehensive set of policies and procedures that address compliance with the 4300 regulations and good business

Results of Fieldwork (Continued)

practices. These should include a policy that only eligible/reimbursable expenses will be incurred.

In addition, as noted in Issue No. 3 of this report the benefits of a CFO knowledgeable of the 4300 regulations would help PDSI recognize transactions that could be contrary to the 4300s before they happen and prevent disallowances. Another option would be to increase other revenue sources, such as fundraising and use those monies to pay for unallowable expenses.

The BFO finally recommends that PDSI maintain sufficient documentation to support expenditures, including the business purpose, amount paid, date, person making the expenditure, and other relevant information. This is necessary to create an audit trail and will help the agency substantiate that appropriate expenditures are eligible for financial participation from the Department.

Issue No. 3: Financial Management of the Agency Could be Enhanced with an Effective CFO.

PDSI is a multi-county diverse service provider with revenue exceeding $3.7 million for the 2004/05 fiscal year. The agency has approximately 90 employees including a CEO, two Chief Operating Officers (COOs), an Operations Director, but no CFO.

A CFO is extremely important to a corporation because of their:

- Fiscal knowledge, expertise, and perspective.
- Participation on management teams.
- Consistent evaluation of the corporate financial status.
- Objective presence when dealing with operating and capital expenditures.
- Corporate conscience.

Without a CFO, PDSI has relied upon an array of in-house and contracted individuals to perform the accounting duties. These include:

- Accounting firm
- Independent auditor
- CEO and other management staff
- In-house bookkeeping staff

Many fiscal activities were performed but we believe there are shortfalls in the effective overall fiscal management of the agency without a qualified CFO. We attribute the shortfalls to the following:

Results of Fieldwork (Continued)

A. Hired professionals are sometimes unaware of the specific requirements of 4300 regulations or perform other needed fiscal duties.
   1. The accounting firm does not review transactions for compliance or business purposes; expenditures are just recorded as coded by SSCI/PDSI staff. In addition, the accounting firm is expensive, and was paid $50,662 to do payroll, record receipts and payments, create and post journal entries, generate financial statements and other reports, and various accounting-related tasks for the 2004/05 fiscal year. Also, PDSI was not receiving financial advice, cost/benefit analyses, and the like from the accounting firm. Finally, the accounting firm is too far removed from the day-to-day activities of PDSI to effectively analyze or evaluate financial options.
   2. The independent auditor did not find or disclose instance of noncompliance with the 4300 regulations when their engagement letter stated they would test compliance.

B. Current management is not focused on the fiscal aspects of the company.
   1. Expenditures are not evaluated for business purpose and whether a less expensive alternative is available.
   2. Many expenditures are inconsistently coded due to a lack of review by management, and as mentioned above the transactions are not reviewed in detail by the accounting firm before they are posted so they are often not corrected.
   3. There were instances where Generally Accepted Accounting Principles (GAAP) treatment was used when an Other Comprehensive Basis of Accounting (OCBOA) should have been used. An example of this is charging interest and depreciation on the Longfellow home when the 4300 regulations specify that principal and interest payments are to be charged (see Issue 2).

   4. Other management is busy with different aspects of the company and effective fiscal management has not been a top priority. For example, the "Circles of Support" process and the distance between the various PDSI offices cause management to do a lot of traveling. Also, PDSI has been growing rapidly and a lot of effort is required to start new homes and programs. This takes management's attention away from the financial aspects of the company.

As a result of not having a CFO, SSCI/PDSI has numerous instances of noncompliance with the 4300 regulations and is facing potential disallowances, has problems with its cash flow, and an uncertain future due to its financial woes.

Results of Fieldwork (Continued)

Recommendations:

The BFO recommends PDSI hire a qualified individual to perform the full-time duties of a CFO. To select the best candidate, a formalized process should be utilized including the following:

1. Develop a job description detailing the specific duties and functions that will be required of the CFO. These should include:
   a. Development and operating the agency's accounting system.
   b. Preparing financial statements and other reports.
   c. Payroll activities.
   d. Individual program budgets and an overall (corporate) budget.
   e. Reviewing contracts to ensure they are fair and equitable and those with the counties have the necessary components as required by 4300.139.
   f. Ongoing financial analysis, to include:
      i. Analyses of the cost of purchasing a vehicle versus leasing 4300.104(b)(5)
      ii. Analyses of the amount of cash necessary to purchase a home instead of lease.
      iii. Monitoring the organization's cash flow status.
      iv. Analyses of the organization's receivables and following up with exception counties.
      v. Helping to formulate the financial portion of the organization's business plan and to provide feedback on the other aspects of the business plan that might be limited by financial constraints.
      vi. Analyses of the cost of overtime versus hiring additional full-time employees (comparing overtime costs to the cost of benefits for new employees) and determining the break-even point to minimize the cost of personnel (PDSI's largest expense).
      vii. Other analyses as needed.
   g. Filing the paperwork for Federal 501(c)(3) status.
   h. Providing general business advice.
   i. Grant writing.
   j. Developing and updating all accounting policies and procedures.

2. Based on the CFO duties and responsibilities, devise an interview questionnaire, educational requirements, experience preferences, and a compensation package.

3. Select the method to obtain qualified candidates to include:
   a. Head hunter.
   b. Employment agency.
   c. Newspaper ads.

Results of Fieldwork (Continued)

d. Word-of-mouth from a reliable source (accountant/auditor).
e. Job fairs.
f. Internet job/resume posting sites (such as Monster, Career Builder, Hot Jobs, Yahoo, etc.)

Another suggestion would be to have the accounting firm or independent auditor involved in the selection process. This could include developing the educational and experience criteria, as well as interviewing candidates. The advantage these companies would have is better fiscal knowledge which would allow them to better evaluate candidates' abilities. The disadvantages would be that they do not understand PDS' operations as well as management and there would be a cost involved with the services.

As an alternative, PDSI could use a temp service with the intention of hiring the temporary employee. This has the advantage of allowing PDSI to try the employee on an interim basis and assess performance; if performance is not satisfactory, PDSI can release the employee without the issues associated a firing (such as unemployment compensation, potential lawsuits, etc.).

Issue No. 4: SSCI/PDSI Management Controls are Ineffective and Must Be Improved

Management controls are the sum of the policies, procedures and practices that management uses to attain the objectives of the company. Management controls include planning, strategy and financial internal control, as well as organizing the company's activities and designating areas of responsibility. Management controls ensure accountability throughout all areas of the organization. For organizations that receive government dollars, management controls must also have a component that deals with compliance issues.

Management controls at SSCI/PDSI must be improved. Certain policies and procedures, such as those related to travel (see Issue 2), are vague and lack detail, which leave them open for interpretation. Other matters are completely omitted from policies and procedures. The BFO found significant management control deficiencies with regards to travel, the Board of Directors, budget preparation, accounting practices, organizational structure, recordkeeping, contracting, insurance, and overtime.

Results of Fieldwork (Continued)

A. Policies and Procedures

1. Travel

The travel policy does not specify costs that are allowable for reimbursement and does not reference the 4300 regulations and the Commonwealth travel policy, and contradicts them in some instances. Consequently, the BFO noted numerous instances of noncompliance with the Commonwealth travel policy. See Issue No. 2 for further discussion.

2. Board of Directors

The policies and procedures do not specifically address the Board of Directors activities. The Board of Directors policy only specifies that there will be a Board President, Secretary, and Treasurer, and the process for filling board positions. The term of the positions is one year, and the Board's responsibility is to review, maintain, and oversight of all Agency functions. The policy/procedure does not address their corporate duties (specific functions and responsibilities) of individual board members, responsibilities/functions that will be left to SSCI management, the nature of the board (advisory or governing), the number of members that constitutes a quorum, qualification of board members if applicable, and other specific information. The existing Board minutes are vague. The policy does not provide guidelines regarding Board minutes. The recorder does not include information about who voted on any particular issue. The minutes also fail to address how any conflicts of interest were addressed.

3. Budget Preparation

The audited financial statements group expenses differently than the budget, which makes it extremely difficult to compare budget to actual on a line item or category level. Accordingly, cost settlements cannot be done easily except for comparing total expenses. This affects both the information available to management and the ability of the Counties to obtain the information needed for effective contract management. The policy and procedure (F119) covering the budgeting process details the steps taken to create, modify, and review budgets. However, the policy and procedure does not specify the criteria to be used in generating the budget, which costs should be paid by SSCI, methods for estimating costs, etc.

Results of Fieldwork (Continued)

4. Accounting/Bookkeeping

There are several policies and procedures covering accounting functions (such as room and board payments, petty cash, inventory, payroll, and bill payment), but they do not provide detailed instruction of how these functions are to be performed, nor do they address all aspects of the accounting function. Additional discussion of the accounting practices is given in the next section.

B. Accounting Practices

Some of the accounting practices are more suited to a small, cash-basis business than for an organization of SSCI/PDSI's size. SSCI/PDSI's system of invoice payment is one such example. Outstanding invoices are placed on a Program Specialist's desk and reviewed daily. The important or well-past-due invoices are paid and the others are not. The system led to many late payments, fees for late payment, threats of disconnection of services, etc. The company's unemployment compensation insurance lapsed due to late payment. SSCI was also close to losing health insurance for its employees due to late payment. Invoices are not marked/defaced as "paid" and a few were paid twice.

SSCI/PDSI's system also fails to provide adequate review and approval of expenditures. It appears little review is done regarding the nature and reasonableness of expenditures; rather managers and supervisors only check for mathematical accuracy. As a result, many expenses that should not have been paid were billed to the counties. Examples include excessive meal and hotel expenditures, parking tickets, insurance on the CEO's personal vehicle and alcohol purchases for staff. See Issue 2 for more detail.

SSCI/PDSI travel reimbursement forms do not provide sufficient information for decision-making and the actual forms differ for direct care staff and management. Travel vouchers do not disclose the purpose of the trip. It is not possible to determine the purpose and locations of travel from the vouchers, and therefore the propriety of such travel cannot be easily verified. The usefulness of management forms is even more limited. Unlike the forms for direct care staff, management's forms do not contain a departure or arrival location so the reviewer cannot assess the reasonableness of mileage reimbursements, meals, and other charges.

SSCI/PDSI lacks procedures to enable consistent coding of invoices. Expenditures are coded by SSCI/PDSI employees and not by the accountant. SSCI/PDSI does not have a coding guide, which leads to inconsistent coding because the employee does not verify the way similar expenditures were coded in the past. The accountant does not appear to review or question how invoices are coded. Also, invoices are not stamped or marked to identify the check number, date paid and account coding.

Results of Fieldwork (Continued)

SSCI/PDSI's accounting system does not provide accurate information on accounts receivable and payable. The hired accountant does not record accounts receivable and accounts payable on a monthly basis, which means the monthly financial statements do not give an accurate picture of the resources and liabilities that exist. Accordingly, management lacks the timely information needed to make informed spending decisions.

Accounts receivable could be easily estimated because SSCI/PDSI would know what the company billed the counties. However, due to lack of organization with regards to invoicing and budget issues, the accounts receivable could be overestimated due to budget overages. Accounts payable would need to be estimated because not all expenses will be known at the end of the month.

C. Structure of the Organization

The organizational structure for PDSI can be divided into two components; they are the Board of Directors and PDSI Management.

1. Board of Directors: The Board of Directors is composed of persons outside of the agency and also members of PDSI's management. Management's function on the Board is unclear. The Board has fiduciary responsibility and in many agencies provides the oversight and general direction while management runs the day-to-day activities. The current arrangement makes the oversight function less effective because members of the management are involved in overseeing themselves. In addition, board meetings tend to focus more on day-to-day activities and less on long-range objectives.

2. PDSI Management: PDSI management provided the BFO with several organizational charts, each one different and showing different lines of authority. While the structure of the organization has changed, it appears that responsibilities and lines of authority are unclear. As such, certain functions were not performed. This was evidenced by the lack of a detailed review of expenditures (vendor invoices, expense reimbursements, etc). In addition, SSCI/PDSI did not have a CFO. The CFO, by the nature of the position provides controls and double checking within the accounting system.

D. Recordkeeping

SSCI/PDSI has ineffective recordkeeping practices. Certain records (such as vendor invoices, vehicle lease rejections, vehicle logs, legal expenses for a client, etc.) were not retained. SSCI/PDSI had many photocopies of invoices at their offices; originals

Results of Fieldwork (Continued)

should be maintained. Certain expenditures had very little documentation. Some travel expenses were filed only with receipts but no description of by whom, why, and where the costs were incurred.

Several rent checks were filed but did not specify which building and month the payment pertained to. There were many other expenses with little or no detail.

SSCI/PDSI also lacks an appropriate filing system. Invoices were filed haphazardly by the date the expense was paid, and not by check number or by vendor, which makes them extremely difficult and time-consuming to locate. Certain invoices were not in the files and PDSI personnel had to search to find them. Other invoices could not be located. The check register contains copies of check stubs for several checking accounts, and it is difficult to determine which account a particular expense was charged against. In addition, the accounts use a similar check numbering sequence which makes it even more difficult to determine the proper account.

E. Contracting

SSCI/PDSI lacks sufficient management controls over contracting. As quoted in Issue No. 2, section 4300.84 states that a written agreement is required for consultants and contracted personnel that specifies the services to be performed and the rate of compensation. Also, good business practices would suggest that these items be present in all contracts and that contracts be used when there is a potential for disputes. The BFO noted the following regarding contracts:

- The contracts for certain family living providers are not current.
- SSCI/PDSI paid for consultants who were not under contract with the company.
- The company also paid for certain professional services, such as the accountant, without a contract.
- SSCI/PDSI did not have a contract with the former Chief Operating Officer (Chris Clee) that specified the consulting services to be provided after the corporate split.
- The company did not have employment contracts for key management.

F. Insurance

SSCI/PDSI does not systematically review its insurance coverage. The company's auto insurance was not adequate for Lancaster County. The Lancaster County contract specifies that auto insurance for a company of 50-99 people (SSCI/PDSI has approximately 90 people) should be $3,000,000 but the policy is only for $1,000,000. The umbrella policy covers another $1,000,000 which leaves SSCI/PDSI with a $1,000,000 deficiency in coverage. Adequate coverage is necessary to fulfill contract

Results of Fieldwork (Continued)

requirements and to protect the agency from lawsuits and losses in the event of an accident, natural disaster, or similar event.

G. Overtime Expenses

Employees worked overtime hours in October 2004 and April 2005 (the two months tested). In October, five employees worked a total of 261.00 hours overtime, or an average of 52.2 overtime hours per staff member for a two week time period. SSCI/PDSI paid $3,821 of overtime, or the equivalent of five fulltime employees' salary (not including benefits). In April, four employees worked 119.65 hours overtime, or an average of 29.9 hours per staff member for a two week period. SSCI/PDSI paid $1,674 of overtime, or the equivalent of two fulltime employees' salary (not including benefits). It is our understanding this amount of overtime occurs regularly. However, overtime increases the costs of social services and should be limited to only necessary times.

It is doubtful that staff could provide the same quality of services to the consumers when working so many hours. The overtime paid to the employees was very expensive to the company. The overtime hours could have paid for many more additional staff. SSCI/PDSI did not track staff overtime. SSCI/PDSI also did not conduct an analysis to determine if hiring new employees would be more cost effective. Excessive overtime could be indicative of poor planning by management.

Recommendations

The BFO recommends that SSCI/PDSI take the following actions to improve their management controls:

A. Policies and Procedures

Develop detailed policies and procedures that focus on compliance with the 4300 regulations and good business practices. These include:

- Travel - A comprehensive set of travel policies and procedures should be developed that also encompasses the Commonwealth travel policy. It is our understanding that PDSI management began developing these during our audit fieldwork.
- Board of Directors – Board policies and procedures should address the corporate duties of each officer on the Board and the responsibilities of the Board in general; the Board member responsible for drafting the minutes and items to be included, such as the Board members present and how they voted; the number of members that constitutes a quorum; qualifications of Board members; and other pertinent information.

Results of Fieldwork (Continued)

- Budget preparation – Policies and procedures should specify the way budgeted amounts are determined, including the methodologies involved, the costs to be paid by PDSI and other relevant information. The policies and procedures should also specify that the financial statements use the same expense groupings as the budget to allow easy budget-to-actual comparisons.
- Accounting/Bookkeeping – A comprehensive set of accounting/bookkeeping policies and procedures is needed to address the way these functions are to be carried out. These should be as specific as possible to prevent misinterpretation.

B. Accounting Practices

- Outstanding invoices should be logged on a control sheet with the "pay by" date included to ensure invoices are paid on time.
- Invoices (especially those that are non-recurring) should be reviewed in detail before they are paid. This review should be performed by an individual separate from the recording function. The review should focus on the business purpose and propriety of the charge and not just the mathematical accuracy. Invoices could be given a stamp that includes a place for approval sign-offs or an approval form could be attached to ensure the invoices are reviewed by appropriate members of management. Without a CFO, the approval to pay should be assigned to a senior management staff.
- Recurring expenditures should be coded based on a chart for consistency.
- Post accounts receivable and accounts payable (estimates) to the General Ledger on a monthly or quarterly basis to allow management to assess the company's financial position at an interim basis for better planning and control of company resources.
- Ongoing budget-to-actual comparisons should be made to evaluate the agency's spending patterns and to ensure funds are available throughout the year. Comparisons are also necessary to evaluate the budgeting process and determine if budgeted amounts are reasonable.
- Management's travel should be evaluated in the same way as direct-care staff, and any improprieties should be investigated. Travel vouchers should disclose the purpose of the trip and the reviewer should evaluate the propriety of the expenditure as well as mathematical accuracy.
- Change the way expenses are grouped for financial statement purposes (including interim financial statements) so that comparisons of budget to actual can be made. This will allow management to see how much of the budget has been spent for each expense category and is essential for effective and efficient management of the contracts. It would also allow management to project the costs for the year based on current spending patterns and make adjustments as necessary before there is a financial crisis.

Results of Fieldwork (Continued)

C. Structure of the Organization

- Delineate the responsibilities of the Board and of management.
- Institute a policy that members of management cannot serve on the Board. Management could still attend Board meetings but only in an advisory role and to present information. This would create the separation between the Board and management that is necessary for good Board oversight.
- Revise the organizational chart to show the lines of authority. This helps establish accountability and identify checks and balances.

D. Recordkeeping

- Invoices should be filed by vendor and arranged in order by the date paid. This would make them much easier to locate and help avoid invoices being lost. Also, originals should be maintained instead of photocopies and they should be marked or defaced when paid.
- All accounting records should be maintained as required by applicable regulations. Section 4300.132(b) requires records to be maintained for 4 years, but to be in compliance with IRS regulations records must be maintained for 7 years.
- Documentation should be maintained for every transaction and formal receipts should be attained whenever possible. In addition, items such as vehicle logs, comparisons of the cost of a purchase or a lease, and similar documentation should be retained.

E. Contracting

- Ensure that contracts or letters of agreement are established for providers of purchased services, professional services, consultants, and other vendors used on a regular basis. These legal documents should contain at a minimum, the services to be performed, effective and termination dates, the rates of compensation, and the method of payment.
- PDSI should consider using employment contracts for its key management staff. These documents should specify the major duties to be performed, rate of compensation, bonuses and how they are earned, performance standards, procedure for termination of employment, and other pertinent information. Employment contracts are useful to protect the company in the event of a dispute or termination and also are helpful for the employee because they define the expectations of performance and duties to be performed. These documents

Results of Fieldwork (Continued)

should be reviewed annually and updated accordingly. They should also be the basis reviewing and authorizing payments. All documentation of this nature should be maintained for audit purposes.

F. **Insurance**

- Maintain appropriate insurance coverage as per county contracts and reassess coverage whenever homes or consumers are added.

G. **Overtime Expenses**

- Track staff overtime and analyze the staffing levels at the various sites and anticipate any changes to the program (new sites, consumers, etc.). Plan staffing levels according to current and anticipated needs and attempt to minimize the use of overtime to only those times when it is necessary.

Observation I: County Contracts and Cost Settlement *County Contracts*

PDSI provides services to county programs as established through annual contracts. While these contracts are not under the control of PDSI, we noted that they do not contain sufficient language on the fiscal requirements (good business practices) and lack some of the components required by 4300.139. The contracts we examined had the following shortcomings:

A. Items required by 4300 regulations:
   1. Only one specified the rates in the contract language.
   2. Only two addressed moving of funds from one cost category to another.
   3. None specified that the Board of Directors be disclosed.

B. Good business practices:
   1. None specified the budget limit for administration (the limits were specified on the budgets).
   2. None had a budget limit for equipment purchases, and only 3 required 3 bids for purchases over a certain dollar amount.
   3. None mentioned provisions for cash advances.
   4. None mentioned an end of year spending policy.
   5. None mentioned requirements for client funds policies and procedures.
   6. Only three had restrictions on the use of retained revenues.
   7. None specified that FRAs are required.

Results of Fieldwork (Continued)

In addition, the contracts were not performance-based. Performance-based contracts have measurable goals and standards related to the work statement and other operational factors. They also contain incentives for very good performance or penalties for inadequate performance.

By means of this report, all contracting counties will receive notice that they should examine their contracts and make enhancements where appropriate. In addition, during meeting with county officials, PDSI should help ensure all contract components as referenced under 4300.139. The BFO also suggests a dialogue be initiated to discuss a change in the contracts to performance-based. Contracts should be performance-based to the extent possible which would reward PDSI for excellent service delivery, thereby benefiting the agency financially.

Cost Settlement

Section 4300.116(d) states "Departmental participation in payments based on negotiated rates shall be adjusted for reported or audited actual costs, or both, and compliance with §§ 4300.82 - 4300.108 and 4300.158 (relating to revenue). The allowances provided under § 4300.87(c)(2)(iii) and (vii) (relating to occupancy) and § 4300.108 (relating to retained revenue) are considered costs under this subsections. Audits shall be conducted under § 4300.161." This requires counties to do a comparison of actual costs to monies paid to the provider (a cost settlement). However, only Franklin/Fulton did a limited cost settlement, and it was simply a comparison of total (audited) expenditures to total budgeted expenditures. This is not the intent of the regulations and does not ensure agencies manage their expenses appropriately. Accordingly, any shifting of money between cost categories would not be disclosed. A "proper" cost settlement would compare the budget to actual for major cost categories and even by individual line items if warranted; this can not be done for PDSI because the cost categories in the independent auditor's report are different than those in the budgets and general ledger.

PDSI should request the accounting firm/independent auditor change the way expenses are grouped for financial statement purposes (including interim financial statements) so that comparisons of budget to actual can be made. This will allow management to see how much of the budget has been spent for each expense category throughout the year and is essential for effective and efficient management of the contracts. It would also allow management to project the costs for the year based on current spending patterns and make adjustments as necessary before year end.

Results of Fieldwork (Continued)

Observation 2: SSCI/PDS Lacks Sufficient Fundraising Activities to Support the Organization.

Non-profit organizations often can not survive without multiple funding streams. The programs that operate under the auspices of the 4300 regulations were not intended to be wholly supported by public funding sources. SSCI/PDSI's fundraising activities are insufficient to serve the needs of the organization.

Currently, PDSI holds only a single fundraiser per year. The fundraiser is an annual "wine-tasting". The fundraiser is expensive and provides a negligible rate of return. See the table below.

Fundraising Costs vs. Benefits				
	Revenues	Costs	Net Fundraising	Dollars Earned for Every Dollar Spent
2002	3,312.00	(1,928.00)	1,384.00	0.42
2003	8,558.00	(9,399.00)	(841.00)	(0.10)
2004	4,035.00	(3,531.00)	504.00	0.12
2005	6,976.00	(5,555.00)	1,421.00	0.20

The net amount of fundraising dollars accounts for less than ¼ of a percent of all revenues for the past four years.

Like many organizations, the SSCI/PDSI's Board of Directors oversees fundraising activities. SSCI/PDSI's Board does not actively pursue fundraising to supplement the wine tasting. There is no permanent fundraising committee. According to the FYE 6/30/05 Board minutes, the Board rejected ideas for expanding fundraising activities. We are uncertain as to why this decision was made.

Increased fundraising will help PDSI to grow. It will raise the community's awareness of the organization and help PDSI recruit volunteers and employees. Fundraising would also improve the organization's reputation and financial position. Fundraising dollars can help the company meet financial challenges by improving the company's cash flow, cover over budget expenses and offset unallowable costs.

Results of Fieldwork (Continued)

PDSI should solicit donations and explore other available funding sources, such as: individual donors, family or community foundations, corporations, large organizations such as United Way, and churches. PDSI should explore low-cost, high return fundraising activities throughout the year, such as: golf outings, gift wrapping during the holidays, hoagie sales, booths at local festivals, yard sales, raffles of donated items and other seasonal events. This is also another good reason that PDSI should become a 501(c)(3). When this occurs, donations are tax deductible. This would increase the public's perception that PDSI is a reputable and worthy charity. It would help people feel better about making donations. Donors would also receive a tax benefit. This, in turn, would likely increase the amount of donations PDSI receives. PDSI should also compile a donor database to keep in contact with people and groups that have contributed in the past.

As noted, the issues in this report were discussed with PDSI management throughout the course of fieldwork and a meeting with OMR Regional staff occurred on July 21, 2006 to discuss the contents of this report. An exit conference was held on December 19, 2006. An auditor's commentary is attached and labeled as Appendix A. The response from PDSI is attached and labeled as Appendix B.

In accordance with our 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.

If you have any further questions concerning this review or if we can be of any further assistance in this matter, please contact Richard Polek of the Audit Resolution Section at (717) 787-8890.

Sincerely

John H. Bungo

John H. Bungo, CGFM, CFS

Attachment

cc: Mr. Gibat
Mr. Lenahan
Ms. Martin
Mr. Stauffer
Ms. McCool/Mr. Witt
Ms. Wnoroski/Mr. Lynn

cc: Mr. Keating
Mr. Ketchum
Ms. Davis
Ms. Miosi
Ms. Kelly
Mr. Wynn

EXHIBITS

Summary of Questioned Costs
Shared Support Concepts, Inc./Person Directed Supports, Inc.
For the 2004/05 Fiscal Year

Description	Unallowable Payment to Chris (Martin) Clee	Total Questioned Rent Charged to Program	Difference of Principle and Interest	Questioned Costs-Staff Transportation	Questioned Costs-Client Transportation	Unallowable Parking Fines	Audi Lease and Repair Costs	Excess Cost of Luxury Items for Trailblazer	Unallowable Gifts to Staff (Staff Development)	Total
CMSU Counties										
[redacted] FLP	328.00	8,678.52		140.65	45.85	3.81		39.98	842.91	10,079.72
[redacted] FLP	520.00	13,141.08		222.97	1,414.76	6.03		63.39	1,336.32	16,704.55
Total	848.00	21,819.60		363.62	1,460.61	9.84		103.38	2,179.23	26,784.27
Consultants *										
[redacted]	42.00	18.90		18.01	0.19	0.49		5.12	14.11	98.82
	2.00	0.90		0.86	0.01	0.02		0.24	0.67	4.71
Total	44.00	19.80		18.87	0.20	0.51		5.36	14.78	103.53
Franklin/Fulton										
[redacted] Res	1,282.00	2,875.90		549.72	1,505.56	14.88		156.28	1,190.14	7,574.48
[redacted]es	1,088.00	3,382.60		466.53	602.02	12.63		132.63	1,010.04	6,694.45
Enhanced Day	1,344.00	604.80		587.93	559.78	15.60		163.84	1,247.70	4,523.65
[redacted] Day	532.00	239.40		228.12	421.23	6.17		64.85	493.88	1,985.66
Respite	14.00	6.30		6.00	2.34	0.16		1.71	13.00	43.51
[redacted] Day	720.00	324.00		313.74	500.25	8.36		87.77	668.41	2,622.53
[redacted]es	1,330.00	5,218.50		570.30	750.52	15.43		162.13	1,234.70	9,281.59
Total	6,310.00	12,651.50		2,722.34	4,341.70	73.22		769.22	5,857.87	32,725.86
Lancaster County										
CLA	3,912.00	20,700.08	759.99	1,677.43	1,424.64	45.40		476.89	6,491.26	35,487.69
[redacted]Res	366.00	7,618.70		336.62	141.03	4.25		44.62	607.31	9,118.53
[redacted]FLP	574.00	9,612.30		246.13	1,126.59	6.66		69.97	952.45	12,588.10
[redacted]HBW	344.00	816.80		147.51	133.89	3.99		41.94	570.81	2,058.93
[redacted]HBW	4.00	8.80		1.72	-	0.05		0.49	6.64	21.69
Total	5,200.00	38,756.68	759.99	2,409.41	2,826.15	60.34		633.91	8,628.46	59,274.94
Lehigh County										
Crisis Res	50.00	95.50		21.44	4.37	2.05		6.10	66.62	246.08
[redacted]Res	264.00	6,104.80		113.20	100.83	10.83		32.18	351.74	6,977.59
[redacted]oc	8.00	14.60		3.43	0.69	0.33		0.98	10.66	38.68
Golden Key	998.00	13,495.13		535.31	1,435.31	40.96	10,149.88	121.66	1,329.70	28,105.95
New Res	580.00	9,178.00		248.70	291.62	23.80		70.70	772.77	11,165.60
[redacted] FLP	216.00	6,374.20		92.62	92.42	8.86		26.33	287.79	7,098.23
Respite	602.00	5,850.90		258.14	346.24	24.71		73.39	802.09	7,957.46
Total	2,718.00	41,113.13		1,272.84	2,271.48	111.55	10,149.88	331.34	3,621.37	61,589.59
Northampton County										
[redacted] FLP	648.00	8,735.27		277.86	298.43	37.94		78.99	818.59	10,895.09
[redacted] Res	2,016.00	18,135.99		1,257.16	1,248.20	118.05		245.76	2,546.72	25,567.88
[redacted]es	428.00	8,920.44		183.52	145.86	25.06		52.18	540.67	10,295.73
[redacted]oc	282.00	755.17		120.92	35.68	16.51		34.38	356.24	1,600.90
[redacted] Voc	140.00	374.90		60.03	27.93	8.20		17.07	176.86	804.98
Total	3,514.00	36,921.77		1,899.49	1,756.10	205.77		428.37	4,439.07	49,164.58
Northumberland County										
[redacted]PDFS	4.00	10.91		1.72	0.64	0.05		0.49	10.68	28.49
[redacted]Hab	22.00	59.99		9.43	14.19	0.26		2.68	58.77	167.31
[redacted]Hab	18.00	49.08		7.72	12.79	0.21		2.19	48.08	138.07
[redacted]HB	2.00	5.45		0.86	0.33	0.02		0.24	5.34	14.25
[redacted]oc	136.00	370.83		58.32	686.28	1.58		16.58	363.28	1,632.86
[redacted]	94.00	256.31		40.31	78.76	1.09		11.46	251.09	733.02
[redacted]FLP	-	-		-	3.85	-		-	-	3.85
[redacted]oc	108.00	294.49		46.31	226.50	1.25		13.17	288.48	978.20
[redacted]SL	66.00	179.96		28.30	106.92	0.77		8.05	176.30	566.29
[redacted]FLP	916.00	11,847.68		395.05	802.93	10.63		111.66	2,446.77	16,530.72
Total	1,366.00	13,074.70		588.02	1,933.19	15.85		166.52	3,648.78	20,793.06
Grand Total	$ 20,000.00	$ 164,357.18	$ 759.99	$ 9,274.59	$ 14,589.43	$ 477.09	$ 10,149.88	$ 2,438.10	$ 28,389.57	$ 250,435.83

*Source of this funding was undetermined.

Exhibit A

Shared Supports Concepts, Inc./Person Directed Supports
Schedule of Net Income (Loss) and Net Questioned Costs By County
For the 2004/05 Fiscal Year

	County Revenue	Service Revenue	Other	Total	Expenditures	Net Income (Loss)	Questioned Costs	Net Questioned Costs
CMSU	143,425	21,423	810	165,658	166,731	(1,073)	26,784	25,711
Franklin/Fulton	1,155,538	35,693	9,386	1,200,617	1,239,004	(38,387)	32,725	-
Lancaster	984,943	42,647	5,821	1,033,411	1,033,995	(584)	59,275	58,691
Lehigh	528,935	9,017	3,459	541,411	528,109	13,302	61,344	61,344
Northampton	677,934	9,013	3,953	690,900	691,013	(113)	49,165	49,052
Northumberland	256,947	11,003	3,216	271,166	268,028	3,138	20,793	20,793
Crisis	12,354	-	54	12,408	6,010	6,398	246	246
[redacted]	7,618	-	32	7,650	8,272	(622)	99	-
	666	-	4	670	454	216	5	5
Total	3,768,360	128,796	26,735	3,923,891	3,941,616	(17,725)	250,436	215,842

Summary of Questioned Costs
Shared Support Concepts, Inc./Person Directed Supports, Inc.
For the 2005/06 Fiscal Year

Description	Unallowable Payment to Chris (Martin) Clee	Total Questioned Rent Charged to Program	Questioned Costs-Staff Transportation	Questioned Costs-Client Transportation	Unallowable Parking Fines	Unallowable Gifts to Staff (Staff Development)	Total
Franklin/Fulton							
[redacted] Res	4,582.01	2,406.76	877.76	619.88	23.92	809.02	9,319.35
[redacted]es	4,076.28	3,054.26	780.88	551.46	21.28	719.72	9,203.88
Enhanced Day	2,796.73	201.89	535.76	378.36	14.60	493.80	4,421.14
[redacted] Day	1,334.39	96.33	255.62	180.52	6.97	235.60	2,109.43
Respite	1,328.30	95.89	254.46	179.70	6.93	234.53	2,099.81
[redacted] Day	2,949.06	212.90	564.94	398.96	15.39	520.70	4,661.95
[redacted]es	4,277.36	5,036.77	819.40	578.66	22.33	755.23	11,489.75
[redacted] Day	249.82	18.03	47.86	33.80	1.30	44.11	394.92
Total	21,593.95	11,122.83	4,136.68	2,921.34	112.72	3,812.71	43,700.23
Lancaster County							
CLA1	4,661.22	13,674.95	892.93	630.59	24.33	823.00	20,707.02
[redacted]2	7,086.28	3,190.09	1,357.49	958.66	36.99	1,251.17	13,880.68
[redacted]Res	-	-	-	-	-	-	-
[redacted]FLP	-	-	-	-	-	-	-
[redacted]HBW	-	-	-	-	-	-	-
[redacted]HBW	-	-	-	-	-	-	-
[redacted]HB	316.84	140.04	60.70	42.86	1.65	55.94	618.03
[redacted]HBW	-	-	-	-	-	-	-
[redacted]Res	194.98	2,086.18	37.35	26.38	1.02	34.43	2,380.34
[redacted]Day	36.56	16.16	7.00	4.95	0.19	6.45	71.31
Lancaster...	-	-	-	-	-	-	-
Total	12,295.88	19,107.42	2,355.47	1,663.44	64.18	2,170.99	37,657.38
Lehigh County							
[redacted]Voc	79.21	56.73	15.17	10.72	0.41	13.99	176.23
[redacted]Voc	146.23	104.73	28.01	19.78	0.76	25.82	325.33
[redacted]Voc	341.21	244.38	65.36	46.16	1.78	60.25	759.14
[redacted]Res	2,297.10	20,145.17	440.05	310.76	11.99	405.58	23,610.65
Crisis Res	469.17	336.02	89.88	63.47	2.45	82.84	1,043.83
[redacted]Voc	469.17	336.02	89.88	63.47	2.45	82.84	1,043.83
[redacted]Gol...	-	(1,079.40)	-	-	-	-	(1,079.40)
[redacted]Res	2,156.96	16,944.80	413.20	291.80	11.26	380.84	20,198.86
[redacted]Voc	365.59	261.83	70.03	49.46	1.91	64.55	813.37
[redacted]G...	3,454.79	16,856.63	661.82	467.38	18.03	609.99	22,068.64
Main Resp...	42.65	30.55	8.17	5.77	0.22	7.53	94.89
[redacted] FLP	2,388.50	16,462.78	457.55	323.13	12.47	421.72	20,066.15
[redacted] Res	4,527.17	16,387.31	867.25	612.46	23.63	799.33	23,217.15
Respite	-	-	-	-	-	-	-
Lehigh Co...	-	-	-	-	-	-	-
Total	16,737.75	87,087.55	3,206.37	2,264.36	87.36	2,955.28	112,338.67
Northampton County							
[redacted]FLP	1,943.70	19,931.08	372.35	262.95	10.15	343.19	22,863.42
[redacted]Res	158.42	369.31	30.35	21.43	0.83	27.97	608.31
Respite	-	-	-	-	-	-	-
[redacted] Res	4,880.57	18,465.46	934.95	660.27	25.48	861.73	25,828.46
[redacted]Res	1,535.46	18,821.81	294.14	207.72	8.02	271.11	21,138.26
[redacted]oc	1,346.58	3,139.09	257.96	182.17	7.03	237.76	5,170.59
[redacted]Voc	408.24	951.67	78.20	55.23	2.13	72.08	1,567.55
[redacted]Res	30.47	71.02	5.84	4.12	0.16	5.38	116.99
Total	10,303.43	61,749.44	1,973.79	1,393.89	53.80	1,819.22	77,293.57
Grand Total	$ 60,931.00	$ 179,067.24	$ 11,672.31	$ 8,243.03	$ 318.06	$ 10,758.20	$ 270,989.84

Exhibit C

APPENDICES

Shared Supports Concepts, Inc. / Person Directed Supports, Inc.
Auditor's Commentary

Based on the PDSI response to the revised draft report, the following is presented to provide additional commentary and clarify certain areas of the PDSI response that by themselves could be misleading. Page numbers correspond to the PDSI response.

1. Expansion of audit scope (Page 1): In regards to expansion of the audit scope (to the 2005/06 fiscal year), it is in accordance with Government Auditing Standards that when known questionable costs occur in current periods, audit procedures should be expanded. Financial accountability for public resources is a fundamental concept that the BFO holds dearly. Taxpayers, legislators, and government officials have the right to know how government funds are expended.

2. Financial Condition (Page 4): The PDSI response states that financial information was provided to the BFO that "has been compiled and audited by Certified Public Accounting Firms". This is incorrect. While the BFO was provided with compiled financial statements for the 2005/06 fiscal year, they were not audited. It is our understanding that audited financial statements have yet to be issued. Due to the uncertainty of unaudited numbers and the various adjustments that could result from the audit process, the BFO's analyses are derived from <u>audited</u> financial statements only.

   In addition, the PDSI response mentions $55,800 that is to be received from the Franklin/Fulton joinder. The BFO was not aware of this and it was not mentioned in the exit conference. While this payment should improve PDSI's financial picture, it does not rectify the large amount of debt the company has taken on. It should also be noted that the payment will not improve the PDSI cash flow until it is received, even though the analyses provided in the response show immediate benefits from the payment (due to accrual-basis accounting).

   Finally, the response states that "the agency is working with several financial institutions that are aggressively seeking our business to ensure our liquidity". It is nice to hear that in two years, SSCI/PDSI has gone from not being able to secure a loan on a car (leading to the inappropriate lease of the Audi) to having financial institutions aggressively seek their business. The BFO can only assume this statement is correct.

3. Cash Flow Management (Page 8): Prior to the exit conference, PDSI provided the BFO with their Billing Summary/Range analyses for 2004/05 and 2005/06. Due to Lehigh having the longest "average days after service

that funds were received", the BFO requested and received the detail behind these calculations. The BFO analysis revealed that the long average time was due to a few programs that took longer to pay. It was not due to a systemic problem where all payments were regularly late. In fact, when the late-paying programs were omitted, the average dropped to approximately 27 days (from 70 days). This re-emphasizes our point that PDSI needs to be more proactive when programs are being paid late. Our analysis did not include other counties.

4. Occupancy/Fair Rental Appraisals (Page 10): The PDSI response asserts that the agency complied with the 4300 regulations by comparing "rents advertised in the market for similar space". At the exit conference, the BFO questioned the adequacy of such a method by offering an example for Allentown. PDSI rented a property for $1,400 per month. An internet search of 3-bedroom houses in Allentown yielded costs from $725 to $1,750 per month. The advertisements without a comparative analysis does not indicate whether $1,400 per month is a good price or not. One cannot determine from advertisements alone the fair rental value for a house because each home is different. There are differences in location, layout, size, age, general condition, etc. The only fair and accurate method to determine the value is by an appraisal from a professional in the real estate field. In addition, the advertisements shown were presented after-the-fact, which does not convince the BFO that due diligence was done as PDSI asserts.

5. The footnote on page 10, specific to the amount of questioned costs for occupancy for Fiscal Year 2005/06 is incorrect. The correct amount is $179,067.24.

   The quote on page 11 related to occupancy is incorrect. The first sentence states "To facilitate this requirement, agencies are required to obtain the fair rental appraisal from a licensed real estate appraiser." It should read "To facilitate this requirement, agencies should obtain the fair rental value through an estimate from a licensed real estate appraiser." Also, the response references page 10 of the BFO report, but the quote is on page 12.

6. Travel (Page 12): In regards to the other travel expenses, ($14,112.41), we reemphasize that a cancelled check (in itself) is not adequate supporting documentation. The PDSI response states that the portion of the insurance policy that includes the CEO's son was not charged to the program. The invoice reviewed by the BFO included the CEO's son and 95% of the cost was paid by PDSI.

Auditor's Commentary (Continued)

7. Vehicle Costs (Page 12):
   a. Audi. The PDSI response states that the vehicle operated well and was only in the shop for a total of 18 days. While this conclusion could be made from reviewing the repair invoices, it does not show the entire picture. An OMR representative had visited the house on several occasions over several months and the vehicle was sitting in the yard in disrepair for much of this time. In fact, the visits were initiated due to complaints from staff that they were forced to use their own vehicles, necessitated in part by the Audi not working properly.

      In addition, the BFO called a Harrisburg Audi dealership to assess the reasonableness of PDSI's claim that the vehicle's engine was damaged from being overfilled with oil. The service manager at the dealership stated that while overfilling the engine is not good, it is highly unlikely to blow the head gasket or ruin the turbo.

      The BFO did not find the PDSI's arguments presented in the response or at the exit conference convincing and still consider the lease and repairs to be inappropriate.

   b. Trailblazer: The PDSI response states that "the BFO disputes $2,438.00 in the sticker price of certain options as excessive." The $2,438.00 is not from the sticker price, but rather from the invoice price. Also, the PDSI claim that they paid approximately $6,000 under the sticker is meaningless as virtually all prudent buyers pay less than the sticker price for a new vehicle. The BFO is unsure whether the price paid is a good deal for the vehicle.

      The arguments in the PDSI response and those presented at the exit conference have not convinced the BFO that the vehicle did not include unnecessary luxury items. For example, the vehicle had OnStar and it was argued that this is used to locate the vehicle where there is no cell reception. Given the good reception of today's cell phones and the fact that many PDSI employees have them, the OnStar is unnecessary.

      Also, the vehicle had XM satellite radio. PDSI claimed at the exit conference that this was needed because a client at one of the sites speaks Spanish and they play the Spanish station on long drives to Philadelphia. The BFO met this client and he also speaks English. This was confirmed by the CEO during the exit conference. The BFO still contends that XM satellite radio is an unnecessary luxury item.

Auditor's Commentary (Continued)

Finally, the BFO would like to re-emphasize that PDSI only received bids for one type of vehicle with these luxury items. Other vehicles without these items were not considered.

8. Staff Development (Page 14): The $28,390 of questioned costs was projected from a sample of $24,758 of which $10,747 (43.41%) was specifically reviewed and determined as questioned. PDSI identified $10,657.87 in their initial response which was less than the amount in the BFO sample. PDSI then added two unsupported payments of $1,500 to arrive at their amount. Based on the understated number PDSI presented, the BFO believes PDSI has not considered all unallowable expenditures in the staff development account and supports the $28,390 identified in the audit report.

   In addition, the BFO finds it troubling that PDSI believes shifting a cost from one account to another will change its allowability for funding. The expenditures for gift cards, flowers, etc. were not based on any formalized plan that includes the criteria for staff getting these items. Also, PDSI could not provide documentation that shows who actually received these benefits.

9. Payment to Former Chief Operating Officer (Page 15): The BFO was given conflicting accounts on the payment to the COO. During audit fieldwork, the CEO stated that the payment was for consulting. The PDSI response says "severance" and then also a "distribution of assets". The BFO is confused as to what PDSI's "official story" is but the end result is the same: these payments do not comply with the 4300 regulations.
   a. If the payment is a distribution of assets: A nonprofit can only distribute assets to another nonprofit and this was a distribution to a person. The payments were run through PDSI's payroll.
   b. If the payment is severance pay: PDSI does not have a policy on severance pay and we did not see any evidence that other employees (such as the previous Chief Clinical Officer, CFO, or direct care workers) received severance pay. This is an example of preferential treatment being given to the former COO. In addition, there is no direct benefit to the PDSI programs from this payment.
   c. If the payment is for consulting: There was no evidence of consulting services provided, such as invoices showing the hours worked. Also, the former COO was on the payroll and consultants would not be on the payroll and would receive a 1099 (since they are not employees of the company).

   We also note that this payment was to Chris Martin (personally) and not to the newly formed company.

Auditor's Commentary (Continued)

In closing, the BFO is still uncertain as to what benefits PDSI obtains by maintaining the corporate status as a Pennsylvania non-profit without the Federal exemption from the 501(c)(3) status. This is due to the numerous benefits the agency could attain by having tax exempt status, which were detailed by the BFO during fieldwork and in the audit report.

person directed supports

Person Directed Supports, Inc.
1050 Schadt Avenue
Whitehall, PA 18052

February 2, 2007

VIA ELECTRONIC MAIL AND OVERNIGHT MAIL

Randall B. Roll
Audit Manager
DPW Bureau of Financial Operations
Division of Audit and Review, Central Field Office
P.O. Box 2675, Third Floor Bertolino Building
Harrisburg, PA 17105

Re: Revised Draft Audit of SSCI/PDSI

Dear Mr. Roll:

I enclose a copy of the response of Shared Support Concepts, Inc. ("SSCI") and its successor Person Directed Supports, Inc. Inc. ("PDSI") to the revised draft audit report of the Bureau of Financial Operations dated January 8, 2007. We appreciate the opportunity to provide comments and the opportunity to meet with you at the Exit Conference regarding the revised draft audit.

Very truly yours,

Kenneth A. Gibat

Kenneth A. Gibat

KAG/lap
Enclosures
cc: Patricia McCool (w/ enclosures)
Jule Wnoroski (w/ enclosures)
William D. Lenahan (w/ enclosures)

I. INTRODUCTION

Shared Support Concepts Inc. (SSCI), a Pennsylvania Not-for-Profit offers this response to the draft audit issued by the Bureau of Financial Operations ("BFO") on October 10, 2006. It has been our understanding that the audit of SSCI was for the fiscal period ended June 30, 2005. Despite the information we provided in regard to the audit, we were subsequently asked for additional information for the fiscal period ended June 30, 2006 including the general ledger and information regarding the administration of client funds. We complied with all requests and supplied any information that was available for these periods. It is important to note however, that there is a significant difference between the two fiscal periods. As of July 1, 2005, SSCI, was renamed Person Directed Supports, Inc. ("PDSI"), due to the dissolution of the association between SSCI founders Chris Martin and Ken Gibat. Both of the founders went forward to lead respective organizations: Ken Gibat leading PDSI, the successor to SSCI which would continue to provide individuals with community based habilitative services and supports in community homes in several counties, and Chris Martin leading SSI, a new Pennsylvania not-for-profit, created after the dissolution, which would continue to develop and provide supports to consumers in other living circumstances, such as family living, on an individualized basis in other counties. Both would continue to provide their different models of service in Lancaster County.

This introduction summarizes what the services and supports SSCI/PDSI provides are intended to achieve for the individuals and their families who help direct and receive them, and also summarizes how SSCI/PDSI have been set up to help the individuals achieve their goals.

The Community Imperative for Individuals

The community imperative has been the standard system goal for over twenty five years. PDSI is committed to community living; which is the main focus of our mission. We are proud to be the provider of choice for the many families whom we serve with community based habilitative services and supports.

In addition to being chosen as a provider by consumers and families, we have been contacted repeatedly for emergency supports. These respite requests almost always occur under emergency conditions, and are received when our services are the only viable option to placement in hospitals or state centers. We have, at times, responded to these emergencies in as little as 30 minutes. In fact, several times we have responded to emergency needs of the counties we contract with in the Pittsburgh area, providing supports to the individuals in as little as two days.

Over the past three years, we have supported 28 people in need of these emergency supports and services. As one of the narratives below indicates, it is our mission, as well as a good business practice, to develop referrals by being responsive to emergent needs of the system, consumers, and families. When that emergent need has been met, we can work with the consumer, family members and others through the Circle Concept to develop and implement a more permanent plan.

<u>The Circle Concept</u>

While the two entities went their separate ways as of July 1, 2005, each continued to utilize the "circle concept" ("Circle"); providing services and supports as they had since founding SSCI in February, 2000. The Circle premise and purpose are simple: the individual who must have supports to maximize his or her life is at the center of the Circle. Everyone else who is involved in supporting the individual, e.g. family, friends, case manager or supports coordinator and provider staff gather at one time to discuss and develop supports with the individual and with each other. By meeting at one time, the Circle prompts efficient education, decision-making and direction as all people necessary for implementation are present. Most importantly, the Circle approach reminds everyone involved that the individual receiving the supports is at the center and is the reason for the services. This reinforces that the individual has the right to direct the choices that make up his or her life, such as where the individual lives, with whom they live, whether the individual works, who will provide supports, what personal outcomes are sought and how are they to be prioritized and budgeted. Two individuals' experiences with the Circle process are briefly described here:

> [redacted] - [redacted] *started supports with Person Directed Supports, Inc. at age 23. Her previous provider had given a 30-day notice of discharge, with no plans for where* [redacted] *would go. She was living with symptoms of Bipolar Disorder and Post Traumatic Stress Disorder. For her, this included extreme self-injurious behavior, running into the street, property destruction, and difficulty interacting with others on any level. She had been hospitalized over and over again within the past year before she came to us.*
>
> *Initially, Person Directed Supports, Inc. completed a comprehensive psychological evaluation and person centered plan. Based on* [redacted]*s evaluation, a Community Home was developed to meet her specific needs and desires.* [redacted]*'s new home needed many environmental supports in order to promote her successes she would frequently attempt to hurt herself. Her home was in a rural location to provide safety from busy streets and a measure of privacy.* [redacted] *also required a suite with a kitchen and bath separate from her two female house mates to help avoid conflict and de-escalate those conflicts that would occur. Transportation was secured to support her when she needed to leave the home and when she needed to be calm.*
>
> [redacted] *was officially admitted within 30 days of referral. After a period of time, the therapeutic and clinical supports that had been provided began to yield results. Today* [redacted] *has not been admitted to the hospital for over two years (See <u>Exhibit 1</u>.) She no longer runs into the street. She has succeeded in restoring her relationship with her mother and has created new meaningful relationships with peers and support staff.* [redacted] *whose behaviors a short time ago frequently caused hospitalization, has begun to volunteer at* [redacted]. [redacted]*'s family, her support staff, friends, and supports coordinator continue to meet in her circle of support in an effort to meet her chosen outcomes and encourage her continued success. A contract was developed to support* [redacted]*'s needs once they were expressed and understood.*
>
> [redacted] *- PDSI received a call at 9:30 one morning requesting emergency placement for* [redacted]*. It turned out that* [redacted] *belongings were already packed and were on their way to storage in a moving van because he had been displaced from his previous living arrangement with little notice. He had absolutely nowhere to go. With the help of the entire senior management team, including the COO & CEO by 10:00 a.m.,* [redacted] *was*

unpacking in his new home with PDSI. He transitioned very well and has developed great bonds with his house mate and supporters. A contract could not be developed with only 30 minutes notice, but one was negotiated to support [redacted]*'s needs after the issues of his emergency placement were resolved.*

Aside from applying the Principles for the Mental Retardation System described in the OMR Bulletin 00-03-05, June 13, 2003, these examples describe how the Circle helped SSCI and PDSI benefit both the individual receiving services and the mental retardation system by developing and implementing positive outcomes that are less costly than traditionally structured providers. (A copy of OMR Bulletin 00-03-05 is attached as Exhibit 2.)

This occurs because the Circle not only promotes communication and decision-making intended to meet the individual's needs, it also helps support that individual's specific habilitation needs through developing an effective program and a fiscally responsible budget in a way that cannot be achieved when the strengths and needs the individual are not clearly focused upon.

For example, instead of assuming that the community home will purchase a large van, each individual and their Circle is given the opportunity to identify how they wish to be transported and how they will pay for that waiver eligible service. One individual may wish to lease a small car, another may prefer public transportation, and yet another may desire to travel in a support staff person's vehicle. When individualized planning occurs, business practices are affected. This benefits the person, as the likelihood of meeting the individual's desired outcomes increases when resources and supports are identified. Individualized planning also benefits the organization as it encourages de-bundling, to more effectively meet the individual needs in response to portable funding. Sharing information fosters an equal relationship with all stakeholders and encourages people to make fact-based decisions about their budgets and supports. Additionally, understanding their funding and identifying their resources and supports avoids potential conflict among all stakeholders while encouraging choice and responsibility.

Circle meetings allow for ongoing communication and problem-solving between all people involved. The Circle develops action plans to manage costs and reviews the budget whenever a new resource or change in resources has been requested. Circle members can also request monthly reports identifying the status of expenditures. The Circle concept can be applied to many aspects of the budget such as habilitative supplies, staffing, housing, and the procurement of other household supplies and assets.

Programmatic needs and resources are not only managed more effectively by the Circle's concentration on planning for the individual, but those needs that are met are also more cost effective using the Circle's flat management structure. Healthcare coordinators, training coordinators, area supervisors, quality assurance managers, human resources directors, and other management positions that are important in the operation of organizations that operate under other program funding models are unnecessary because the individual and the Circle focused only on the supports needed to reach the goals of that individual take on those responsibilities.

By eliminating the need for those positions, the Circle also eliminates the costs of those positions so that the funds are utilized to support the individual's needs rather than the provider organization's structure. Executive staff participate in the Circle when PDSI responds to calls for services, such as in the cases of [redacted] or [redacted], in order to get the services and supports in place to meet the individual's needs. After the initial decisions are made and supports and services have begun to work, the Executive Staff do not need to be involved in the Circle unless significant change is called for.

Overall, the Circle process works. The individuals' outcomes are achieved and licensure surveys are nearly 100% deficiency free.

II. RESPONSE TO RESULTS IN BRIEF

Financial Condition

The BFO report expresses concern regarding PDSI's alleged poor financial condition and its ability to continue as a financially viable entity.

On page 8 of the draft report the BFO noted:

- At first glance, the information found on the income statement appears positive. SSCI/PDSI experienced rapid revenue growth, almost exclusively through county contracts, in the last four years. The company's 2005 revenues were 527.70% of the 2002 revenues. However, expenses have also grown rapidly and at a greater rate than income which resulted in the decreasing change in net assets.

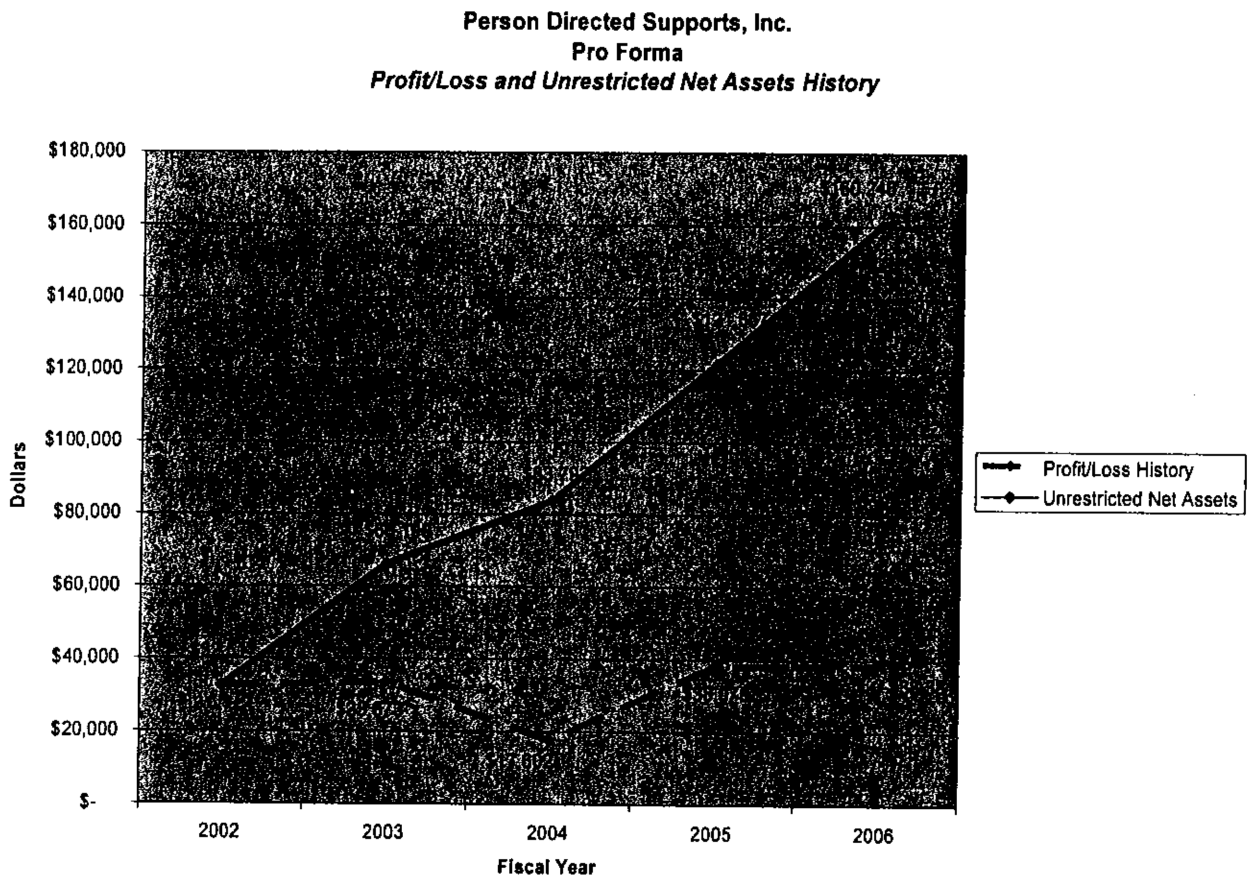
- If the above mentioned trend continues, it is likely that PDSI could post another loss in 2006. This information, when considered with the decline in working capital and the increasing debt, should raise serious questions about PDSI's ability to continue operations.

We are uncertain as to why the BFO continues to make this assertion when all financial information provided to the auditors shows that not only has the agency survived, but it is clearly growing and prospering. All of this information has been compiled and audited by Certified Public Accounting firms. All of this information shows BFO's assertion is wrong.

It is our contention that the auditors based their opinion on a limited time frame that did not provide a comprehensive assessment of our financial processes, including the potential ramifications of available income stemming from the cost reconciliations performed by the counties with whom we contract. For example, shortly after our exit interview, the agency was made aware of additional revenues that it would be receiving for both Fiscal Year 2005 and 2006 due to cost reconciliations and the execution of certain contracts that some counties had delayed. The affect of these revenues on our financial statements will be detailed below.

Recently, the agency was made aware of an additional $55,800 that it would be receiving from the Franklin/Fulton jointure as a result of its cost reconciliation for Fiscal Year 2005 (see <u>Exhibit 3</u>). As the Office of Mental Retardation is aware, the cost reconciliation can be an extended process, taking anywhere from several months to well over a year, and varies by county contract. While the agency has no control over the outcome of this process, its result can have a substantial effect on the agency's year-end numbers. Restating our financial statements on a pro forma basis to include this revenue would paint a much different picture than the dire one that the BFO auditors have alluded to. Over the next few pages, we will portray the significance of this fact.

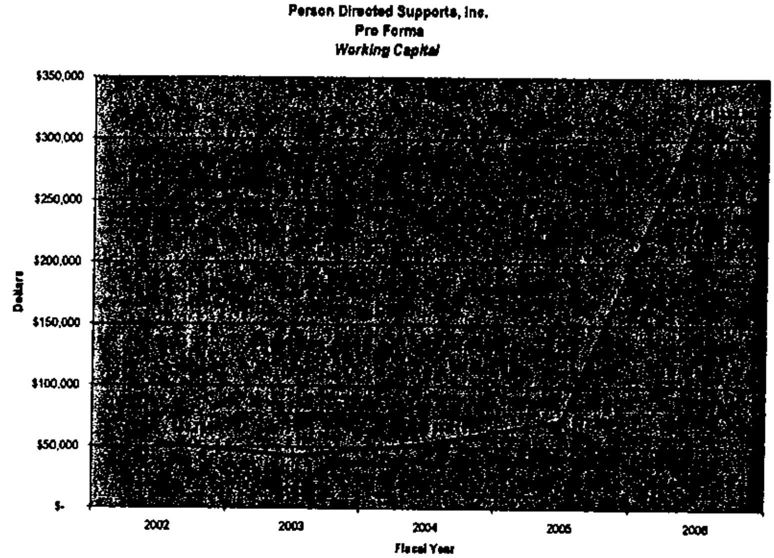
The following graph indicates that when we include the revenue from the Franklin/Fulton joinder cost reconciliation to our Fiscal Year 2005 results, our change in net assets reflects a steady uptrend in growth, and eliminates the "decreasing change in net assets" that the BFO auditors refer to. Our Profit/Loss history also reflects our ability to continually produce a steady, managed level of unrestricted net assets



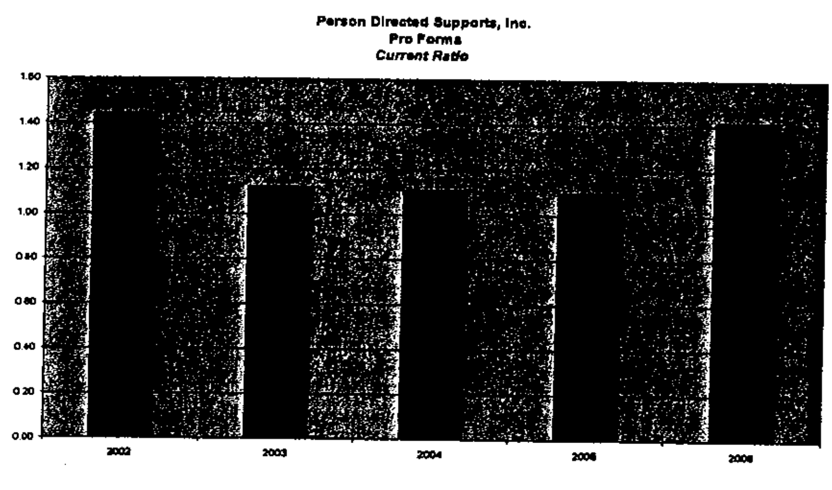
This graph is also indicative of the fact that, in contrast to the concern expressed by the BFO in regard to our ability to have a profitable 2006, the agency continued in its upward trend in net assets, and maintained a stable level of net profits.*

When reviewing the BFO's report, the first item mentioned in the "Results of Fieldwork" section is that PDSI is "*cash poor*". However, the bleak picture painted by the auditor's is not accurate due to their failure to recognize the possibility of post-cost reconciliation revenue. When the FY 2005 and FY 2006 revenues are added to our balance sheet, the following graph is more representative of the true state of our working capital:

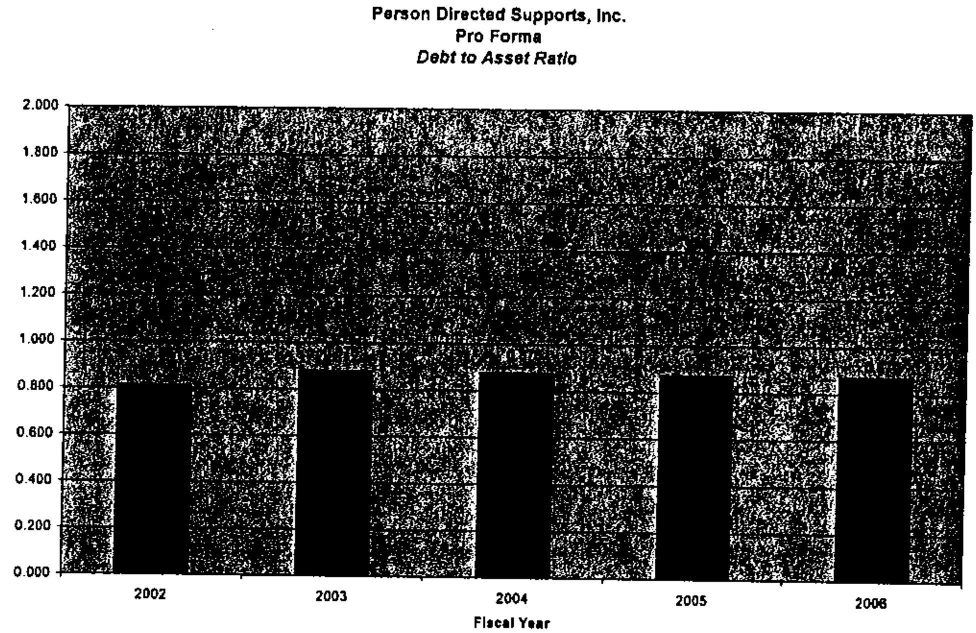
* Please note these figures do not include monies that will be received from Lancaster County in the amount of $2,179 for FY 06. (Please see Exhibit 4).



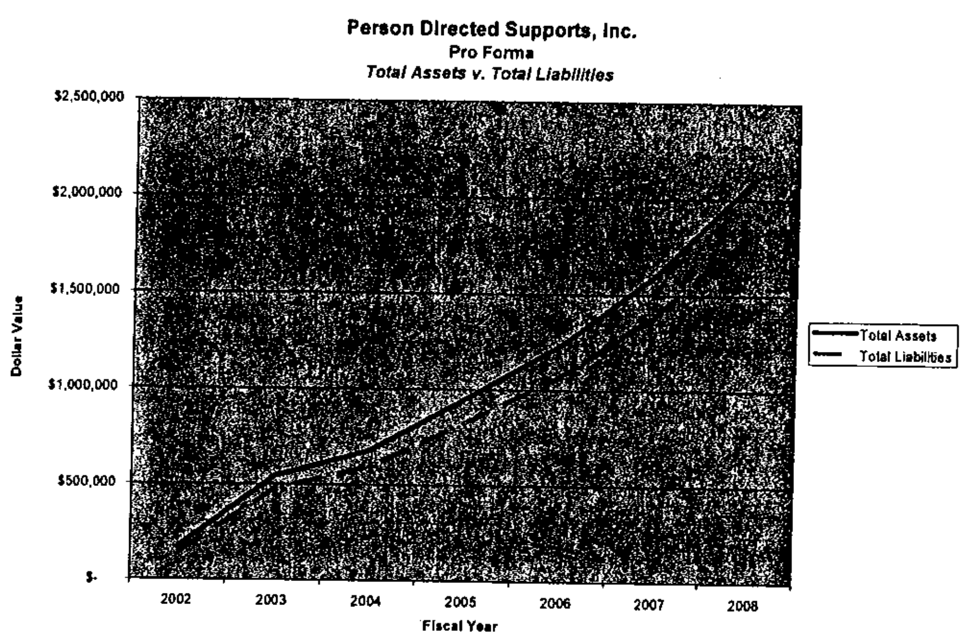
Further into their examination, the BFO report examines our current ratio with the auditor's reaching the conclusion that PDSI is "vulnerable to cash shortages". We, like any other non-profit agency, are indeed "vulnerable to cash shortages" as we are reliant on payments from the counties that we contract with. PDSI would prefer to have a higher ratio of current assets to current liabilities, and we are aggressively working to achieve that goal. Taking into account the additional revenues mentioned previously, our current ratio actually is much more favorable as shown below:



Also in the BFO auditor's report, the debt to asset ratio was mentioned as another gauge of an agency's well being. The BFO report states that "*most social service agencies have few assets. In a financially healthy agency, a good debt to asset ratio will be steady over time or be slowly decreasing, meaning that their assets are growing faster than their debt.*" The ratio figure quoted by the auditor's once again reflects pre-cost reconciliation figures. When the additional post-cost reconciliation revenues are added to our financial statements, our debt to asset ratio chart would be as follows; presenting a ratio that is steady and has been slowly decreasing for the past four (4) years:



To help establish their position, the auditors also presented a graphic illustration of Total Assets vs. Total Liabilities where our liabilities will surpass our assets sometime in 2008. Again, when the post-cost reconciliation revenues are added to our results, the graph changes substantially to reflect a widening positive gap between assets and liabilities as seen here:



It is our contention that PDSI is not in poor financial condition, rather it is working to effectively deal with the same growing pains typically experienced by any new business, regardless of it being a non-profit or for profit. Specifically, we have managed to operate successfully despite the fact that the agency contracts with counties that are known to pay slowly; resulting in unavoidable liquidity issues. On a pro forma basis, in all of the years that it has operated, PDSI has reported an increase in its unrestricted assets and has sufficient funds to cover its current liabilities. The agency is also working with several financial institutions that are aggressively seeking our business to ensure our liquidity, and to provide the resources necessary to fund asset purchases that will further strengthen our balance sheet position.

Cash Flow Management

PDSI's cash flow challenges are primarily the result of the ongoing delays related to receiving its funding from the various counties that it serves. More specifically, PDSI, on average, receives payments 55.97 days (8 weeks) after invoices are submitted. During FY2005/2006 payments were received anywhere from 14 days to as many as 577 days and counting after submission.

In contrast to our experience, the draft report on page 9 states:

> *"Delays in payment to most providers usually stem from two main causes: unresolved contract issues and unusual billings (provider errors, budget overages, etc.). Delays typically occur at the beginning of the fiscal year or when a new contract is initiated. Many of the delays in payment may have been avoided if the providers and the counties executed timely contracts or letters of agreement that spelled out payment provisions ensuring a cash flow to the agency, as delays in payment are inevitable for human service providers. SSCI/PDSI must make more fiscally conservative choices to ensure the company's viability."*

Overall delays in payment were not due to SSCI/PDSI. First, as mentioned previously, there is no opportunity to work out the details of a contract to support an individual when the costs are not yet and cannot yet be known, which always happens with emergency respite placements. Secondly, the auditors point to the fact that the delays in payment to "*most providers*" are caused by "*unresolved contract issues or unusual billings*". We are uncertain as to why the BFO referenced this in our audit report, when the reference is to "most providers". This is not the case in regard to PDSI, as occurrences of provider billing errors have been minimal and any budget overages PDSI has reported were offset by other programs under the same county contract or a contract addendum. In fact, PDSI's poor cash flow position over the past few years, has been, and continues to be, due to the very late payments by one county. For instance, services provided beginning in February were not paid until 5-7 months later.

As the draft audit correctly notes, PDSI gets essentially all of its funding from the county MH/MR programs, but the draft report completely misses the mark when stating, "*and the counties generally mail checks for regular billings to the provider within two to six weeks.*"

That has not been SSCI/PDSI's usual experience. For example:

- One county pays within this timeframe once a contract has been signed which can take 2-3 months.

- Another county issued a contract in December (a total of 6 months after the start of the fiscal year), but has yet to make payment on any of the billings forwarded.

- Advances are at the sole discretion of the county.

- A third county will issue the contract promptly, but payment on provider invoices have been held up in the county comptroller's office for upwards of three months, which puts payment to the provider at a minimum of 4 months..

In other words, delays in payment are not due to provider errors. A copy of PDSI's billing summary by County for FY 2004/2005 and FY 2005/2006 is attached as Exhibit 5, as well as a copy of the contract letter from one of the counties that we serve reflecting our receipt date in December. We were informed by the county, that this delay occurred because new commissioners wished to review each and every contract.

PDSI agrees that it would greatly benefit from both prompt payment and the granting of advances by all of the counties that contact with it. However, experience has shown PDSI cannot make the counties issue contracts, agree to advances, or make payments more promptly than the counties' processes allow. A letter of agreement promising payment by the county to PDSI would be welcome, but that is an issue the counties, not PDSI, can remedy.

While the agency is diligently seeking to decrease the number of days/weeks that it takes to be paid on its invoices, it has proactively taken several steps within its control to alleviate the negative effects that these slow payments have had on our cash flow. These steps, which help assure better cash management, include, but are not limited to the following:

1. we have met with county officials to request advance payments on contracts and prompt payment for services;

2. we are maintaining overtime at an already acceptable rate of ten percent (10%), including respite services, which always requires overtime for the first couple of weeks;

3. we have restricted loans or advances to employees to medical related emergencies; (this policy is currently suspended pending policy review)

4. instituting and encouraging the use of direct deposit (instituted years ago);

5. we have eliminated the use of company credit cards;

6. carefully monitoring that expenses fully comply with the Chapter 4300 regulations through an audit process conducted by our CFO, while reducing late fees.

Please bear in mind that even these proactive approaches to cash management by PDSI ultimately cannot solve the problems caused when there are delays of payment for periods of time well beyond six weeks time.

Another important step the agency has taken in response to improve cash flow management, as well as the increase in size of the organization, PDSI searched for a Chief Financial Officer ("CFO") and hired an individual who began in that position on November 6, 2006. PDSI had hired another individual for the CFO position over a year ago, but that person left after a short period of employment due to a change in family circumstances.

PDSI disagrees with the BFO auditor's statement that its management style is reactive rather than proactive which has led to cash flow management issues and bad business decisions. Rather, PDSI believes that these "bad business decisions", as identified by the BFO, are those made in response to the call from counties to help an individual who needs supports and services, often immediately due to a need for emergency placement. We do not believe these to be "bad decisions", rather these are decisions based on the need to provide for the health and safety of people who need supports and services and at times immediately; and PDSI stands by those decisions.

III. COMPLIANCE WITH CHAPTER 4300 REGULATIONS

The draft audit also questions expenditures made by SSCI or PDSI that are not in compliance with the Chapter 4300 Regulations. Those expenditures are addressed in the order raised in the draft audit:

Occupancy

The occupancy costs for leased homes in the amount of $165,117 during Fiscal Year 2004/2005 were questioned.† The draft audit states:

> *SSCI/PDSI leases all of its homes except for one, which it purchased. Occupancy costs for these residential sites are eligible for DPW participation to the extent that the rental costs fall within the guidelines of the Chapter 4300 regulations. These regulations indicate that while the Department will participate in occupancy expense, the provider must take the necessary steps to ensure that the rental agreements entered into are fair and reasonable. Section 4300.87(b)(2) indicates that the amount of rent to be charged for programs should not "exceed the rental charge published for the general public for similar space in that geographical area".*

SSCI and PDSI understands this provision and acted in accordance with it by renting properties based upon a comparison of rents advertised in the market for similar space. SSCI/PDSI attached samples of newspaper advertisements and several explanatory letters for leased properties (as Exhibit 6) to show it explored the real estate market for acceptable, similar

† Occupancy costs for leased homes in the amount of $216,307.24 during Fiscal Year 2005/2006 were questioned for the same reasons.

space before renting. However, where we believe a mistake has been made is on page 10 of the audit which states:

> *To facilitate this requirement, agencies are required to obtain the fair rental value through an estimate from a licensed real estate appraiser. Appraisals shall be in writing and specify the valuation approach and other components used in the estimation of the fair rental value. With the receipt of fair rental values from a licensed appraiser, the county program and the Department gain reasonable assurance that the rental costs of their programs are fair and not inflated.*
>
> *Our review of the fair rental appraisals (FRA) disclosed that SSCI/PDSI had them completed for only five homes within the Franklin/Fulton (F/F) program. Other homes within F/F and the other county programs did not have the required appraisals. Further analysis of the existing FRAs disclosed that three rental rates charged exceed the appraised amounts. Accordingly, costs without appraisals and above approved rates do not qualify for DPW participation.*

The 4300 Regulations do not state the above, and SSCI and PDSI do not believe these statements are correct. Furthermore, it was stated at our exit conference that the need for FRAs was the auditor's opinion based on his interpretation of the 4300 Regulations. The regulations do not support that interpretation. Under the Occupancy Cost regulation, fair rental value is to be utilized to help a provider determine whether the Department will participate in the purchase of real estate by a mortgage with a term of less than fifteen (15) years. The Department makes that decision based on whether the cost of the mortgage principal, interest, major renovations and improvements exceeds the fair rental value of the property which is determined by averaging two independent appraisals. 4300.87(c)(2)(vii). There is no such requirement for Department participation in mortgages of fifteen years or more. Section 4300.87(c)(2)(v).

More importantly, there is no such requirement for Department participation in provider rentals in the occupancy cost regulation. Consequently, there is no basis to conclude that rental costs without appraisals do not qualify for DPW participation. In accordance with Section 4300.87(b)(2), SSCI/PDSI leased these homes for a rental that does not "exceed the rental charge published for the general public for similar space in the geographic area" as shown in Exhibit 6. The rentals of the properties leased to provide program services during FY 04/05 and FY 05/06 comply with the requirements of the Chapter 4300 regulations.

The draft audit also addresses the one facility purchased by SSCI in March of 2003 and notes:

> *"We also want to point out that the home had a pool when purchased and renovations including a fence around the pool were done shortly thereafter. Subsequently, the pool was filled in at a cost of $9,650. While these costs are not questioned, it is an example of poor planning and ineffective cost management."*

The draft audit does not take into account the special needs of the three individuals who occupy this home and how those needs prompted SSCI to both buy this home and later fill in the pool.

For example, the single story house was partially renovated when purchased. The house has several exits available for immediate egress for its three residents, each of whom uses a wheelchair or cart and one of whom has a bed that also can be moved out of the house quickly through one of those exits. While the pool was a great attraction to the individuals and their families when the house was being considered, when the residents repeatedly failed to make use of the pool, and after full consultation with each individual and their families, it made more program and fiscal sense to fill it in and create an adaptive garden which they do use rather than maintain a pool which they did not use. Even with a pool, a house that well suited to the prospective tenants needs does not come along often.

The purchase of this property was carefully considered and decided upon for these reasons. Its acquisition reflects neither poor planning nor ineffective cost management, but instead reflects an effort to meet the expressed needs of the individuals and their families and adapt to those changes.[‡]

The $165,177 in occupancy costs at issue for FY 04/05 and the $179,066 for FY 05/06 were properly incurred in accordance with the Chapter 4300 regulation provisions cited.

<u>Travel</u>

SSCI/PDSI agrees that reimbursement for certain expenditures incurred during employee's travel is inappropriate. Repayment in the amount of $9,751.59, drawn directly from the personal accounts of the agency's Senior Managers and Board Members, has been made because these expenditures either were not in compliance with the Chapter 4300 regulations or were not documented. SSCI/PDSI regret these errors and have instituted policies to prevent their recurrence. SSCI/PDSI presented receipts for the balance of the $14,112.41 and will need further discussion and information from BFO to understand the reasons why these expenses related to client transport are being questioned. PDSI also notes that, despite the BFO remarks pertaining to the inclusion of the CEO's son on his automobile insurance policy, that portion of the insurance premium reflected to cover his son was never submitted to the agency for reimbursement, therefore, no cost was incurred by the program.

<u>Vehicle Costs</u>

(a) Audi.

The draft audit reaches a conclusion that leasing the Audi $_4$ was a bad business decision and a poor use of taxpayers funds. SSCI/PDSI believes the draft audit presents a narrative that is not

[‡] The Draft audit also notes that claiming depreciation and interest rather than mortgage principal and interest is incorrect. SSCI/PDSI agree and will claim mortgage principal and interest during the term of the mortgage and will calculate the amount eligible for the continuing participation allowance based on the purchase price and renovations in accordance with Section 4300.87(c) (2) (vii)

entirely accurate. First, SSCI assumed [redacted] lease for the car solely because it needed to obtain a vehicle quickly. SSCI/PDSI took over responsibilities for three individuals from another provider. That provider was to have transferred a van to transport them, but in the week before the transfer, the provider changed its decision and kept the van. SSCI did not have sufficient credit history to qualify to lease another car, but it still had to have a car at the time to transport one individual, [redacted] whose behavioral outbursts either were prevented or calmed during extended rides. This approach and behavioral support kept everyone safe from harm. As charted on Exhibit 10, it also contributed to the dramatic reduction in inpatient hospitalizations for [redacted] The car was needed and [redacted] made it available in May, 2004 for those purposes. As the draft audit notes, the lease assignment was drafted by the law firm of [redacted] was not paid anything for the car. All lease payments were made directly to Audi. SSCI made payments under the lease assignment only for the period it was used by the program.

Second, the car operated well when it was leased by SSCI. Unfortunately, after the lease had been assigned, a staff member overfilled the oil which blew the head gasket and ruined the turbo charger. The car had to be repaired. That repair took 11 days, not several months. A copy of the repair invoice which indicates the car was delivered to the repair shop on 11/01/04 and the payment invoice as prepared 11/11/04 is attached as Exhibit 7. BFO was given all of the repair receipts for the car which established the car was in for repairs for 18 days, not several months. [redacted], the individual at the Golden Key home still had to be transported during those 18 days and she was. Third, it is important to understand the Audi was not intended to transport all individuals at that home at the same time. Their behavioral characteristics and space limitations due to the number of staff required to accompany [redacted] in particular at that time would not permit that.

As the draft audit states, an uninformed observer may perceive leasing the Audi was not an appropriate expenditure of taxpayers funds; however, given the necessity to acquire a vehicle right away when all of the facts that led to leasing the Audi are understood, we believe an informed observer will understand the Audi lease was the only way to meet the individual's needs until other suitable transportation could be secured.

(b) Trailblazer.

The draft audit correctly describes the purchase of the Chevy Trailblazer at the end of FY 2004/2005 as part of a spend-down of available funds at year end. This means Leasing would not have been an option as the funds were available for year-end spend-down, not for an extended lease term. PDSI needed a four wheel capable vehicle. PDSI obtained three bids. This vehicle fit that need. To receive the funds, PDSI had to take delivery of the vehicle by June 30, 2005 so there was no opportunity to order another vehicle that would have taken 2 weeks or 2 months to deliver. This required PDSI to select from models on the dealer lot to take delivery by June 30, 2005.

BFO disputes $2,438.00 in the sticker price of certain options as excessive. PDSI had to select from models on the lot as they were. PDSI negotiated a price that was less than the sticker price of the vehicle which reduced the price of these options. That negotiation reduced the priced paid for the Trailblazer by approximately $6,000.00 below the sticker, inclusive of the options. A copy of the sale invoice is attached as Exhibit 8. The items also serve a purpose and their cost was greatly reduced in the negotiation by the dealer who wanted to make the sale. As explained to BFO, It would have been imprudent if PDSI had to pass up this opportunity to acquire a vehicle it needed because a vehicle without some of these options may have been available after June 30, 2005.

In addition, On Star positioning and leather seats are useful when transporting individuals because the vehicle can be located in areas where there is no cell reception and the seats can be cleaned and dry immediately following an accident, while cloth seats cannot. PDSI understands BFO's concerns, but PDSI acted as a prudent purchaser in acquiring a vehicle that was the least expensive of the three bids which could be delivered by June 30, 2005.

Staff Development

The draft audit questioned $28,390 in costs which BFO had projected for gift cards, flowers to employees and contracted professionals. First, the $28,390 in questioned costs is much greater than the actual expenditures for gifts to staff. During both FY 04/05 and FY 05/06 cards at holidays or flowers for illnesses, births or losses of family members, gift certificates for employee recognition, team dinners or articles of clothing (with the agency's name and logo) were presented to build morale. The total cost for both years was $13,657.87. See Exhibit 9.

PDSI agrees with the auditors that these expenses should have been charged to personnel expenses rather than staff development, and we are working with our independent auditing firm to restate our financial reports to reflect this proposed adjustment. We do, however, disagree with their reasoning in considering these costs "unallowable".

As all social service agencies would concur, recruiting and retaining staff is a very difficult task. PDSI utilized low cost or no cost informal recognition strategies to help retain employees. These low cost items helped agency personnel, as well as consumers, identify with and revitalize their support for the mission of the agency, which in turn helped lead to higher quality services and better outcomes for the individuals served. Also, see the narrative and chart regarding recruitment and retention tools presented by provider representatives and the OMR Policy Director on October 30, 2006 attached as Exhibit 10 for additional information on steps providers are encouraged to take in recruiting and retaining staff. Ultimately, these strategies helped PDSI reach direct support turnover rates of 23.6% for FY 04/05 which is far below the 31.8% reported by OMR for similar agencies. See Exhibit 11.

While the agency disputes the "non-allowance" of the majority of the costs incurred in providing the incentives used to retain our employees, we have identified $3,000 in charges that we will willingly repay. In June 2005, checks were written by Chris Martin Clee and [redacted] in the amount of $1,500 each to cover the cost of reference materials. Ms. Clee and Mr. [redacted] have decided to retain these materials, and have agreed to reimburse the agency for the $3,000.

Payment to Former Chief Operating Officer

As described in the introduction, effective July 1, 2005 Ken Gibat and Chris Martin, incorporators and founders of SSCI, implemented the dissolution of their association in accordance with the terms agreed to in the document entitled, "Dissolution of Association". The Dissolution of Association was negotiated in consultation with, and drafted and executed by [redacted] of the law firm of [redacted] for the purposes of effectuating this dissolution, including the necessary division of obligations and assets to fulfill those obligations, as well as paying the severance to Chris Martin to compensate her for her integral role in developing the service models and the entity that became PDSI. In addition, by structuring the payout of the vast majority of the severance into bi-weekly installments as designed by [redacted] the severance assisted in the start-up of the new organization so services would not be compromised in any way.

Up until that date, as an incorporator and Chief Operating Officer of SSCI, Chris Martin had been integral in the start-up and expansion of that organization. In accordance with the terms of the Dissolution of Association, assets and contractual responsibilities of the organization were divided between the two entities that Chris Martin and Ken Gibat would lead. As Chris Martin's organization would continue to provide services and supports on a strictly individualized program basis and Ken Gibat's organization would continue to pursue community homes as well as individualized services and supports, three quarters (3/4) of the contractual responsibilities and assets to support those responsibilities went to PDSI, the organization Ken Gibat leads. Consequently, to provide a fair severance that also would ensure the services to the individuals supported by Chris Martin's organization would continue seamlessly without any disruption, PDSI agreed to provide severance to compensate Ms. Martin in the amount of $80,931, of which $20,000 was paid on June 30, 2005 and the remainder was paid through twenty-six (26) equal payments of $2,343.50 every two weeks until June 30, 2006, the start-up year for Ms. Martin's new organization. Please note that during this period Ms. Martin did not receive payment from the new organization.

This was the first time a founder of the agency had left the organization, and the only time to-date that a person would be considered eligible for severance. Through the agreement, Chris Martin's 5 1/2 year contribution to the organization that became PDSI was recognized and compensated, while Ken Gibat's organization maintained the vast majority of what had been built up over that period of time. Most importantly, both recognized the need to provide Chris Martin with a fair distribution of assets and funds to assist her in achieving their mutual goal of assuring the seamless flow of supports and services to the individuals who had received supports and services through programs Chris Martin and Ken Gibat had developed for them since 2000. In accordance with this goal, while Ms. Martin spent the time necessary for starting up her new organization, she also remained available to PDSI for consultation and assistance, and she continued to provide such assistance as needed. The implementation of the Dissolution of Association accomplished every one of those goals, especially the seamless delivery of services and supports to individuals who needed them. Therefore, it is our contention that this was not an improper expenditure of funds and that the agency completed due diligence in this matter by contracting with a law firm to negotiate this matter.

IV. RECOMMENDATIONS AND OBSERVATIONS

SSCI/PDSI appreciate the recommendations and observations that have been made by the auditors in an effort to help our organization run more efficiently and cost effectively. We agree with some of those recommendations, such as increasing our fund-raising efforts and hiring a Chief Financial Officer. PDSI recognizes that it has grown to a point where fundraising efforts could raise awareness of our organization in the community and provide additional revenue beyond the amounts we have raised in the past. In addition, largely due to that growth, PDSI recognizes the need for a Chief Financial Officer and as noted above, succeeded in hiring a person for that position effective November 6, 2006. We agree that adding a financial perspective and financial expertise in-house will benefit the organization.

PDSI also appreciates the suggestion to consider applying to become a Section 501(c) (3) tax-exempt entity. Although PDSI will do so if we find sufficient reason to make such a change, at present we intend to maintain our current corporate status and structure as a Pennsylvania not-for-profit.

However, there are other areas of the audit where PDSI for the reasons described above has to disagree:

- PDSI is not in the dire financial condition BFO asserts;
- PDSI's rentals comply with the requirements of the Chapter 4300 regulations;
- PDSI does not consistently makes bad business decisions;
- PDSI makes decisions based on the needs of the individuals who will receive supports and often must do so in very short timeframes.

In summary, although SSCI/PDSI recognize there are areas in which we can make improvements, our response to the draft audit report largely is intended to provide background information about our mission and service delivery model so that what we have done can be better understood. When the services we provide and the way we provide them are considered, we believe our response indicates there are several areas of questioned costs where we have gotten it right.

Thank you for the opportunity to comment.

[redacted] Inpatient Days

*Moved into Golden Key Road with Person Directed Supports, Inc.

Month	2003 Inpatient Days	% Inpatient Hospitalization	2004 Inpatient Days	% Inpatient Hospitalization	2005 Inpatient Days	% Inpatient Hospitalization	2006 Inpatient Days	% Inpatient Hospitalization
January	N/A	[redacted] School	5	16%	9	29%	0	0%
February	N/A	[redacted] School	14	50%	0	0%	0	0%
March	N/A	[redacted] School	2	3%	0	0%	0	0%
April	20	67%	*22	73%	0	0%	0	0%
May	8	26%	19	61%	0	0%	0	0%
June	6	20%	10	33%	0	0%	0	0%
July	31	100%	5	16%	0	0%	0	0%
August	21	68%	4	13%	0	0%	0	0%
September	30	100%	8	27%	0	0%	0	0%
October	30	97%	13	42%	0	0%	0	0%
November	15	50%	12	40%	0	0%	0	0%
December	8	26%	13	31%	0	0%		

Total Hospital Days = 169 (4/03 – 12/03) **Percentage of Inpatient Hospital Days = 61%**	**Total Hospital Days = 106 (4/04 – 12/04)** **Percentage of Inpatient Hospitalization Days = 39%**	**Total Hospital Days = 9 (1/05 – 12/05)** **Percentage of Inpatient Hospitalization Days = 2%**	**Total Hospital Days = 0 (1/06 – 3/06)** **Percentage of Inpatient Hospitalization Days = 0%**

Exhibit 1

MENTAL RETARDATION BULLETIN

COMMONWEALTH OF PENNSYLVANIA · DEPARTMENT OF PUBLIC WELFARE

DATE OF ISSUE	EFFECTIVE DATE	NUMBER
JUNE 13, 2003	Immediately	00-03-05

SUBJECT:	BY:
Principles for the Mental Retardation System	Kevin T. Casey Kevin T. Casey Deputy Secretary for Mental Retardation

SCOPE:

County Mental Health/Mental Retardation Administrators
Base Service Unit Directors
State Center Directors
Non-State Operated Intermediate Care Facility (ICF/MR) Directors
Community Home Directors
Family Living Home Directors
Adult Training Facility Directors
Vocational Facility Directors
Early Intervention Program Directors

RECEIVED JUN 2003

BACKGROUND:

In 1991, the Office of Mental Retardation convened a planning retreat with members of the OMR Planning Advisory Committee (PAC) for the purpose of developing an overall vision for Pennsylvania's mental retardation service system. The PAC, which was the first advisory body to the Office of Mental Retardation to include people with disabilities and families as full participating members, focused its work on what people with disabilities and families said was important to them and what kind of supports they needed. The result of the PAC's efforts was *Everyday Lives*, published by the Department of Public Welfare in 1991.

Since its publication, the values and vision expressed in *Everyday Lives* have provided the framework for planning, policy development, service design and all related activities in the mental retardation service system. *Everyday Lives* has served as the foundation for both the Pennsylvania's Multi-Year Plan for the Mental Retardation Service System and the Plan to Address the Waiting List.

COMMENTS AND QUESTIONS REGARDING THIS BULLETIN SHOULD BE DIRECTED TO:
Appropriate Regional Mental Retardation Program Managers

In the fall of 2000, the PAC asked the Self-Determination Consumer/Family Group to review developments in the system since publication of *Everyday Lives* in 1991 and to create an updated edition, *Everyday Lives: Making it Happen.*

This 2001 publication of *Everyday Lives: Making it Happen*, adopted by the PAC in November 2001, reaffirmed the values of choice and control, individual freedom and safety, individuality and relationships, success, stability and the recognition that comes from making a contribution to the community. The new edition also introduced the values of collaboration, quality, mentoring and accountability. The document closes by spelling out the challenges of the future.

Principles of the Mental Retardation Service System:

The values, articulated as principles in *Everyday Lives: Making it Happen*, set the direction for the service system. They provide standards for policy development, service design and decision-making. They articulate the outcomes in person-centered terms that our system should achieve and they are a guide for personal action.

Principle #1: Choice – in all aspects of life including the services people receive, who provides supports, where to live and with whom, where to work, recreation and leisure activities, vacations, planning individualized day activities, and having support provided at home.

Principle #2: Control – over a person's life including relationships, budgets and how money is spent, supports and services they receive, medical issues and planning.

Principle #3: Quality – of life determined by people. People want quality supports and services to enable them to have the life that they want. When people pay for high quality supports, people expect to get high quality.

Principle #4: Stability – feeling secure that all changes in their lives are made only with their input and permission – "nothing about me without me."

Principle #5: Safety – to be safe at home, work, and school and in their neighborhood, as well as in all other aspects of their lives. People want services that ensure individual health and safety without being overprotective or restricting them.

Principle #6: Individuality – being known for their individuality and being called by their name. Being respected by having privacy of their mail, files, and history and being able to choose to be alone at times.

Principle #7: Relationships – with family, partners, neighbors, community people such as pharmacists, hairstylists and grocers, support staff and having friends they choose.

Principle #8: Freedom – to have the life they want and to negotiate risk. People want others to use 'People First' language and to have freedom from labels. People with disabilities have the same rights afforded to all citizens. They want to exercise the freedom of choice, to associate with people they choose, to move from place to place, and to use complaint and appeal processes.

Principle #9: Success – freedom from poverty and having a chance to be successful in the life they choose. Living independently with sufficient support to be successful and having expanded opportunities for employment with supports provided as needed.

Principle #10: Contributing to the Community – being full citizens of the community, voting, working for pay or volunteering, participating in leisure and recreation activities, belonging to a religious community, owning or renting one's own home, living among family and friends and not being segregated. People want to be recognized for their abilities and gifts and to have dignity and status.

Principle #11: Accountability – State and county government, together with support workers, provide the services and supports that people need when they need them and make sure that they don't lose needed supports that they already have.

Principle #12: Mentoring – people and families trained as mentors to help other people and families by providing information and working with them until they can do things on their own; experienced Supports Coordinators mentoring new Supports Coordinators; senior support staff mentoring new support staff; and individuals and families mentoring support staff.

Principle #13: Collaboration – between the Office of Mental Retardation and other offices within the Department of Public Welfare and other state and federal departments. People want collaborative planning during times of transition. They also want a seamless system that bridges from education to people/services/systems that are involved with them.

Principle #14: Community Integration – in all aspects of the person's life. People want to be able to use community resources, like banks and food stores, just as other people in the community do, without feeling left out because of a disability. Integration means both being in the community and having the opportunity to participate in all that the community has to offer; including generic resources that don't label people as "special."

Obsolete Bulletins

Mental Retardation Bulletin 00-02-04, Principles for the Mental Retardation System, issued March 25, 2002.

person directed supports

Human Services • Community Living Arrangements • Community Based Day Services • Person Centered Planning

TO: Ken Gibat, CEO

FROM: Lewis Goshen

DATE: January 17, 2007

RE: Cost Reconciliation

Ken I just wanted to let you know I had a phone conversation with Mr. Russ McConnell from Franklin/Fulton County Fiscal Department. Russ has indicated that Franklin /Fulton County MH/MR will participate in the cost reconciliation. Russ indicated that Person Directed Supports, Inc. should receive $55, 800.00. The County remains uncertain of the time of issuance of the funds.

1930 Scotland Avenue
Chambersburg, PA 17201
(717) 264-6290
fax (717) 263-3594
PersonDirectedSupports.com

517 East Main Street
Ephrata, PA 17522

291 Poplar Street
Catasauqua, PA 18032

1115 West Walnut Street
Allentown, PA 18102

1565 Eastwood Drive
Bethlehem, PA 18018

Exhibit 3

LANCASTER COUNTY

MENTAL HEALTH / MENTAL RETARDATION / EARLY INTERVENTION PROGRAM

COUNTY COMMISSIONERS
DICK SHELLENBERGER, Chairman
HOWARD "PETE" SHAUB
MOLLY S. HENDERSON

EXECUTIVE DIRECTOR
JAMES A. LAUGHMAN

Administration/Early Intervention/Mental Retardation
150 North Queen Street, Lancaster, PA 17603

Administration Telephone: 717-299-8021
Fax: 717-295-3880
Early Intervention Telephone: 717-399-7323
Fax:717-399-7396

Mental Retardation Telephone: 717-399-7355
Fax: 717-209-3064

Mental Health
1120 Frances Avenue, Lancaster, PA 17601
Telephone: 717-393-0421
Fax: 717-299-7988

OFFICE OF
MENTAL HEALTH/MENTAL RETARDATION
OF
COUNTY OF LANCASTER, PENNSYLVANIA

CONTRACT AMENDMENT

WHEREAS, the County of Lancaster, Pennsylvania, Office of Mental Health/Mental Retardation entered into a contract with

Person Directed Supports, Inc.
517 E. Main Street
Ephrata, Pa. 17522

having contract number 05-00336, for the purchase of certain services; and

WHEREAS, it is now the intention of the parties to continue said contract and to amend certain terms thereof,

NOW THEREFORE, be and it is hereby agreed as follows;

1. The contract between the above mentioned parties, dated 1st day of July, 2005 and having an expiration date of 30th, day of June, 2006, is hereby amended for the 3rd time to B .

(Complete A, B, C, D, E, or F of page -2- Purpose of Contract Amendment.)

Purpose of Contract Amendment

(A) Extend the contract until __________ with increase in units and ___________.

(B) Increase County participation by $2,179.00 as set forth in the attached Contract Provision Sheet.

(C) Decrease County participation by $__________ set forth in the attached Contract Provision Sheet.

(D) Add __________ service activity code and ______________ to the contract.

(E) Change per diem rate for______________ with no increase in County costs.

(F) Other:

(For contracts over $10,000)

2. All other provisions of contract number 05-00336 and subsequent Amendments between the parties, shall remain as heretofore established.

IN WITNESS WHEREOF, the parties have caused their extension agreement to be executed on their behalf this ______ day of ____________, 20___.

(Date of Commissioners signatures)

Executive Director (Agency)

BY: County Commissioners

Board Chairperson (if necessary) (Agency)

Executive Director (LCOMH/MR)

Contract Content Solicitor Review
Date: 6/11/01

ATTEST: Chief Clerk

CONTRACT PROVISION SHEET

Provider Name: Person Directed Supports, Inc. Vendor or Subrecipient: V Business Associates Agreement on File (date): N/A

Mailing Address: 517 E. Main Street, Ephrata, Pa. 17522

Vendor Number: [redacted] Provider Type: 97 Waiver # 36-89 Service Type: Z9 Contract Begin Date: 7/01/05 Contract End Date: 6/30/06

Type of Services & Type of Funding	Service Group/Modifier Code	Procedure Code	Unit of Measure	Rate Not To Exceed	Budgeted Units	MH/MR Pay Not To Exceed
Community Residential Services						
Residential Home & Community Habilitation						
W7224 Community Homes Eligible						
Consolidated	300/3	W7224	Day	$285.75	1,988	*$568,069.00
W7225 Community Homes Inelgible (prior)						
Consolidated	300/3	W7225	Day	$24.62	1,988	*$48,940.00
Level 3 Enhanced						
Consolidated	700/7	W7061	15 min	$9.66	2,652	*$25,618.00
Home & Community Services						
W7059 Home & Community Habilitation						
Person Family Directed Supports	*700/7*	*W7059*	*15 min*	*$5.01*	*545*	**$2,731.00*
W7071 Community Habilitation Enhanced 1:1						
Consolidated	*200/2*	*W7071*	*15 min*	*$6.00*	*4,212*	*$25,272.00*
One time payment (Cost of Living Adjustment & Start up)						
Consolidated Eligible			7479-R-D1900-30052			$28,326.00
Consolidated Ineligible(prior)			7478-R-D1900-30052			$19,736.00
.e time payment						
ase			7470-R-D1900-30052			$16,543.00
e time payment (Retained Revenue)						
se			*7345-R-D1900-30052*			*$2,179.00*

*Amount off due to rounding

Projected Gross Provider Costs: $775,081.00 Projected Provider Collections: $37,667.00 Total MH/MR Pay Not To Exceed: $737,414.00

Provider: Person Directed Supports, Inc.

------------------SINGLE AUDIT ACT 133 INFORMATION------------------

(Federal Funds Applicable to Contract)

Waiver Eligible expenditures are to be charged CFDA #93.778

For budgetary purposes, we anticipate $357,834.00 being charged to CFDA #93.778 under this contract.

(If Federal Funds Exceed Single Audit Guidelines The Single Audit Under OMB 133 is Required)

------------------INFORMATION FOR CONTROLLER'S OFFICE------------------

Cost Center: 7401-R-D1900-30052 (300/3)
7401-R-D1900-30069 (700/7)
7470-R-D1900-30052
7476-R-D1900-30069
7478-R-D1900-30052
7479-R-D1900-30052
7345-R-D1900-30052

Program: MR

( ) New Contract ( ) Renewal #3 Amendment

Date: ________
Date County Commissioners Sign(s)

Existing Contract Number: 05-00336
Remarks: See attached remarks.
Contact Person: Fiscal Officer

------------------TO BE COMPLETED BY CONTROLLER------------------

Contract Number: ________

Contract Type: ________

Signature: ________

Date: ________

Distribution: Provider
Commissioners
Controller
Program Specialist
Fiscal

Contract Reviewed By: Please Initial/date

Program Director: AH 01-24-07

Fiscal Officer: [signature] 1/24/07

Systems Information: CB 1/24/07

Person Directed Supports, Inc.
FY 2005/2006

Billing Summary

County	# of Invoices	Total days after service that funds were received	Average days after service that funds were received
Franklin/Fulton	12	689	57.42
Lancaster	66	2188	33.15
Northampton	63	3080	48.89
Lehigh	141	9826	69.69
Lehigh Crisis Res	1		164

Range

County	Shortest Time	Longest Time
Franklin/Fulton	14 days	136 days
Lancaster	14 days	119 days
Northampton	21 days	190 days
Lehigh	15 days	284 days

Person Directed Supports, Inc.
FY 2004/2005

Billing Summary

County	# of Invoices	Total days after service that funds were received	Average days after service that funds were received
Franklin/Fulton	12	1237	103.08
Lancaster	102	3493	34.25
Northampton	59	2491	42.22
Lehigh	54	2408	44.59
Lehigh Crisis Res	1	TBD	So far 518 days

Range

County	Shortest Time	Longest Time
Franklin/Fulton	16 days	300 days
Lancaster	8 days	162 days
Northampton	21 days	97 days
Lehigh	20 days	198 days

To Whom it may concern,

I own a property at [redacted] Edgar Avenue. I advertised this property in the Public Opinion as a rental property.

Sincerely,

[redacted]

[redacted]

[redacted] Pkwy #205 • Fort Belvoir, VA 22060

November 12, 2006

Person Directed Supports, Inc.
Attn: Mr. Ken Gibat
1050 Schadt Ave
Whitehall PA 18052-4538

Re: Leased property located at [redacted] N. New St., Bethlehem, PA

Dear Mr. Gibat,

In reply to your letter of 8 November 2006, the rental amount for the referenced property is $1,195.00 per month. This figure was the original advertised and leased amount upon your organization taking possession of the property.

Sincerely,

[redacted]

November 13, 2006

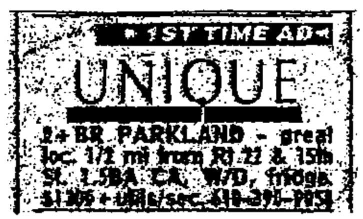
Person Directed Supports, Inc.
1050 Schadt Ave.
Whitehall, PA 18052

Dear Mr. Gibat,

The amount for the leased property at [redacted] Mauch Chunk Rd., Allentown, PA 18104 is $1300.00 plus utilities and security. This amount was the original advertised and leased amount upon your company taking possession of said property. Attached is a copy of the original advertisement as it ran in "The Morning Call".

Sincerely,

[redacted]



515 DWELLINGS FOR RENT

Chambersburg

TOWNHOUSE-nice end unit. Located North of Chbg. 2BR, 2 BA, garage. $900/mo. Quiet neighborhood. Call Steve [redacted]

CLASSIFIEDS

BEAUTIFUL 3BR 1BA RANCHER on large 3 acre country lot, 1 mi. from Roxbury Turnpike exit. $1,000 mo. + utils.

2 BEDROOM HOUSE, Completely Renovated, W/D Hookup. Garage Available. $695 Plus Deposit. No Pets. [redacted]

TOWNHOUSE- Nicholson Square, 2 & 3BR, 2.5 BA, wood floors, tile, 2 car garage, No pets, $825-$995/mo+utils. [redacted]

WALMART AREA 3BR, 2BA, garage, basement $880 GIANT AREA 2BR, 1.5BA, garage $799 NEW CA[redacted] NO PETS [redacted]

REMODELED 2BR + DEN, Central Heat/Air, Cable, Hardwood Floors, 2 Garages, Appliances, No Pets/Smoking On Premises, $850/Mo. Plus Oil/Electric, Security Deposit. [redacted]

515 DWELLINGS FOR RENT

LG DUPLEX on 1/2 ac. 3BR, 3BA, garages $880 No pets. [redacted]

E. QUEEN ST.-2BR. Incl. heat, has lots of living space. Very nice $725/mo., plus sec dep. [redacted]

NEW LARGE DUPLEX, Fayetteville, 3BR, 2.5BA, Basement, 1 Car Garage, $1100 plus Utilities [redacted]

FOR RENT
Large Duplex on Half Acre. 3BR, 3BA, 2-Car Garage, Large Rooms. No Pets. $880/Mo. [redacted]

WALMART AREA 3BR, 2BA, garage, basement $860 GIANT AREA 2BR, 1.5BA, garage $799 NEW CARPET, NO PETS [redacted]

SMALL 2BR 1BA Pets neg. Handicap accessible. Close to I-81 & schools. $650 mo + dep. [redacted]
Call before 8pm

DUPLEX-3BR, 1 BA, 1 block from Chbg Hospital, $750/mo. plus utils. Call [redacted]

LG DUPLEX on 1/2 ac. 3BR, 3BA, garages $880 No pets. [redacted]

November 6, 2006

Dear Mr. Gibat:

The $600.00 including utilities that I charged for my rental at [redacted] Front Street, New Berlin during 2004 and 2005 was the amount that was advertised in the local newspaper.

Sincerely yours,

[redacted]

[redacted] LLC
[redacted] Chambersburg, PA 17201

To: Person Directed Supports

Re: Property rental agreements

To whom it may concern:

[redacted] LLC is in the business of renting real property. The company owns numerous locations throughout the Commonwealth of Pennsylvania and other states such as Florida and Virginia.

We advertise our rentals through various means such as newspapers, hand flyers and word of mouth. Person Directed Supports has called upon us several times to provide housing for their clients. In some instances we were successful in obtaining their business and other times we were not. We provide rentals to the Agency at fair market value and at the same rate we would rent to any other tenant. Person Directed Supports is wonderful to work with, as they always pay their rent on time and are professional to work with if any problem arises.

11/3/06

From. [redacted] Add Cc ct Add to Whitelist
Sent: 10/30/06 3:42:13 PM
To, [redacted]@persondirectedsupports.com; ...
CC,
Subject:
Attachments: new street property

Person Directed Supports rents property from me at [redacted] New Street, Bethlehem, Pa. The amount is $1,195.00 per month. This amount is the advertised amount.

Thank you

Person Directed rents from us [redacted] At [redacted] West Fairmont St for Advertised Amount of $1,100.⁰⁰ month, As Advertised in paper [redacted]

[redacted] MEMORIAL ROAD
ALLENTOWN, PA. 18106

To Whom it may concern:

I, [redacted] have rented the property at [redacted] Mauch Chunk Road , Allentown, Pa. 18104 to Person Directed Supports. The rental amount is $1,300.00 per month as advertised in the Morning Call newspaper.

Sincerely,

[redacted]

Landlord

[redacted]

Hamburg PA 19526

Phone: [redacted]
Fax:
Email:

Date:
Invoice Number:
PO Number:

Due Date:
Shipping Method:

Billing Address

Person Directed Supports, Inc
1050 Schadt Ave
Whitehall PA 18052

Shipping Address

Person Directed Supports, Inc

Item	Description	Qty/Hours	Price/Rate

To Whom It May Concern:

The following properties are rented by Person Directed Supports for the amounts listed. These are the original amounts no increases have been made.

[redacted] Golden Key Road, Kempton, Pa. 19529 Amount $ 1795.00 advertised

[redacted] Chapel Street, Allentown, Pa. 18103 Amount $ 1850.00

[redacted] Fayette Street, Allentown, Pa. 18103 Amount $ 1400.00

Thank You,

[redacted]

[redacted]

Schearer's Sales & Service,Inc

Service Invoice: 6164

Name	Shared Support	Contact	[redacted]	Created	1 04	Year	1999
Address		Address 2		Time	7: PM	Make	Audi
	A		Allentown, PA 18102	Invoiced	11/11/04	Model	A4
Home	610-285-4475	Processed		Advisor	BOB	Lic #	EDX9013
Work	610-285-4475	VIN #	WAUCB28D4XA031874	Division	SE	Prod Date	
Fax		Drivetrain		PO#		Color	Tan
				Checked By	Bob	Miles In	160,351
				Pages	1 of 4	Miles Out	160,351

Job Description

Check for oil leak. Customer said smoke coming from

Tow to [redacted]

Line Total	1953.81
Labor	0.00
Parts	1913.81
Sublets	40.00

Part Number	Description	QTY	Each	Total
5541	Breather tube	1	29.83	29.83
5538	Pan gasket	1	27.63	27.63
5540	Tensioner assy	1	222.53	222.53
5537	Timing chain	1	41.36	41.36
5539	Oil pump	1	233.48	233.48
4528	Turbo unit	1	1161.25	1161.25
4529	Oil return gskt	1	4.59	4.59
4530	Oil return gskt	1	3.44	3.44
5126	Oil feed pipe	1	84.32	84.32
4046	Valve cvr gasket	1	34.25	34.25
5536	Gasket set	1	5.51	5.51
4531	Turbo gasket	1	5.15	5.15
3932	BG M.O.A.	1	7.99	7.99
4532	Exhaust gasket	1	18.95	18.95
5542	O-ring seal	1	2.28	2.28
205	Oil filter	1	11.25	11.25

under hood.

Customer said trans seems to hesitate before shifting

>Diagnose oil leak & running problems. Perform oil

>pressure test. Pressure drops to zero after few

>seconds of running. Remove valve cover & check

[redacted] PA 19539 | Station# 0048 [redacted]

Thank you for allowing us to provide you with our professional services. The greatest compliment we can receive is the referral of your family and friends.

X________________________________

Invoice Total	
Labor	$1,116.57
Parts	$1,924.81
Sublets	$40.00
Subtotal	$3,125.32
Tax	$185.00
Total	**$3,310.32**

S · d [redacted] [redacted]

[redacted]

Schearer's Sales & Service,Inc

Service Invoice: 6164

Name	Shared Support	[redacted]		Created	11 4	Year	1999
Address				Time	7:. M	Make	Audi
				Invoiced	11/11/04	Model	A4
	A		Allentown, PA 18102	Advisor	BOB	License	EDX9013
Home	610-285-4475	Franchise		Division	SE	Pro Date	
Work	610-285-4475	VIN #	WAUCB28D4XA031974	PO#		Color	Tan
Fax		Driveline		Checked By	Bob.	Miles In	160,351
				Page#	2 of 4.	Miles Out	160,351

Job Description

>cam timing chain & tensioner. No oil getting to	
>chain. Tensioner guides damaged by chain. Remove	
>under carriage of engine to remove oil pan. Found	
>oil pump defective & debri from tensioner guides	
>in pan. Customer was advised that after pump,	
>cam timing chain & tensioner are replaced there	
>still could be debri in system & turbo. Line Total	306.58
Labor	306.58
Parts	0.00
Sublets	0.00
>Installed new oil pump & pickup. Reinstall oil	
>pan with new pan gasket. Reinstall under carriage	
>of engine & all related parts. Line Total	191.61
Labor	191.61
Parts	0.00
Sublets	0.00
>Remove timing belt covers, tensioner & belt.	
>Remove bearing caps from chain gears. Remove chain	
>tensioner & cam chain. Install new chain & tensioner	
>with guides. Install new gasket set. Reinstall	

[redacted], PA 19539 | Station# 0048
| [redacted]

Thank you for allowing us to provide you with our professional services. The greatest compliment we can receive is the referral of your family and friends.

X________________________________

Invoice Total	
Labor	$1,116.57
Parts	$1,924.81
Sub Parts	$40.00
Subtotal	$3,125.32
Tax	$185.00
Total	**$3,310.32**

g · d [redacted] [redacted]

[redacted]

...Sales & Service,Inc

Service Invoice: 6164

Name	Shared Support	Contact	[redacted]	Created	11 04	Year	1999
Address	A		Allentown, PA 18102	Time	7. M	Make	Audi
Home	610-285-4475	Promised		Invoiced	11/11/04	Model	A4
Work	610-285-4475	VIN #	WAUCB28D4XA031974	Advisor	BOB	License	EDX9013
Fax		Drivetrain		Division	SE	Pro Date	
				PO#		Color	Tan
				Checked By	Bob	Miles In	160,351
				Pages	3 of 4	Miles Out	160,351

Job Description

Description		Amount
>bearing caps, Timing belt, tensioner & covers.		
>Make all necessary adjustments. Install new		
>breather tube. Install new valve cover gasket.		
>Clear codes from system & set engine basic settings.	Line Total	344.90
	Labor	344.90
	Parts	0.00
	Sublets	0.00
Road test vehicle. Engine is smoking & turbo is		
not working.		
>Remove turbo unit & all related parts. Install new		
>turbo unit, supply line & gaskets. Clear codes from		
>system & road test vehicle.	Line Total	255.48
	Labor	255.48
	Parts	0.00
	Sublets	0.00
3000 Mile Service	Line Total	18.00
	Labor	18.00
	Parts	0.00
	Sublets	0.00
> Ck all belts, hoses, fluid levels, & tire pressures		
> Oil & filter change. Add BG Motor Oil Additive.		

[redacted], PA 19539 | Station# 0048 [redacted]

Thank you for allowing us to provide you with our professional services. The greatest compliment we can receive is the referral of your family and friends.

X________________________________

Invoice Total	
Labor	$1,118.57
Parts	$1,924.81
Sublets	$40.00
Subtotal	$3,125.32
Tax	$185.00
Total	**$3,310.32**

[redacted] [redacted]

Schearer's Sales & Service,Inc

Service Invoice: 6164

Name	Shared Suppon	Contact	[redacted]	Created	11 04	Year	1999
Address				Time	7 M	Make	Audi
				Invoiced	11/11/04	Model	A4
	A		Allentown, PA 18102	Advisor	BOB	Lic #	EDX9013
Home	610-285-4475	Promised		Division	SE	Prod Date	)
Work	610-285-4475	V.I.N. #	WAUCB28D4XA031974	PO#		Color	Tan
Fax		Duration		Checked By	Bob	Miles In	160,351
				Page#	4 of 4	Miles Out	160,351

Job Description

> Lubricate chassis (as needed).

>Road test Vehicle.

[redacted], PA 19539 | Station# 0048 | [redacted]

Thank you for allowing us to provide you with our professional services. The greatest compliment we can receive is the referral of your family and friends.

X____________________________________

Invoice Total	
Labor	$1,116.57
Parts	$1,924.81
Sublet	$40.00
Subtotal	$3,125.32
Tax	$185.00
Total	**$3,310.32**

B ' d [redacted] [redacted]

1941

BUYER'S ORDER

[redacted] [redacted] Chevrolet Oldsmobile Volvo [redacted]

*** THIS ORDER SUPERCEDES ALL PRIOR ORDERS ***

PLEASE ENTER MY ORDER FOR THE FOLLOWING

X ☐ NEW ☐ USED ☐ DEMO ☐ CAR X ☐ TRUCK PRIOR USE:

YR.	MAKE	MODEL	TYPE
2005	CHEVROLET	TRAILBLAZR 4DR	SPTUTY

COLOR	TRIM	MILEAGE
22U	282	10

VIN

STOCK NO.	SALESMAN	TO BE DELIVERED ON OR ABOUT
5077	[redacted]	

NAME	DATE
SHARED SUPPORTS CONCEPTS INC.	MAY 31ST 2005

STREET: 1930 SCOTTLAND AVE

CITY	STATE	ZIP
BAINBRIDGE / CHAMBERSBURG	PA	17502 / 17201

PHONE RES.: | PHONE BUS.:

CELL PHONE # | EMAIL ADDRESS

DESCRIPTION OF TRADE IN

YR.	MAKE	MODEL	TYPE

COLOR	TRIM	MILEAGE

VIN

TITLE NO.	PLATE NO.	EXP. DATE

OWNER | LOAN #

LIENHOLDER | PHONE

ADDRESS | SPOKE WITH

AMOUNT | GOOD TILL | VERIFIED BY

COLLISION COVERAGE

NAME OF AGENT | PHONE

ADDRESS

POLICY NUMBER | COLLISION DEDUCTIBLE

INSURANCE CO. | SPOKE WITH

EFFECTIVE DATE | EXP. DATE | VERIFIED BY

The customer understands that they are responsible for maintaining the proper insurance coverage.

X SSCI [signature] CEO

In the event there is a trade-in on this transaction where there is a balance owed, I hereby agree to the following:
(1) If the amount owed on the trade is less than stated on retail contract, a check for the difference will be mailed to the customer by the lending institution receiving the payoff monies.
(2) If the amount owed is more than stated on the retail order, I agree to pay the difference within 72 hours.

CUSTOMER'S SIGNATURE ______ DATE ______

WITNESS'S SIGNATURE ______ DATE ______

PRICE OF VEHICLE	36080.00
LESS MANF REBATE	3,000.00
LESS HOT BUTTON CASH	1,000.00
[redacted] DISCOUNT	3035.97
ADJUSTED SELLING PRICE	29,044.03
ALLOWANCE FOR TRADE-IN *	
BALANCE DUE	29,044.03
SALES TAX	$ 1,742.64
PA. TIRE TAX	5.00
DOCUMENTARY FEE	55.00
PAYOFF OF TRADE IN ▲	
TITLE FEE $ 22.5 ENCUMBRANCE FEE $	22.50
ON-LINE REGISTRATION FEE $	15.00
TRANS. FEE $ REGISTRATION FEE $ 46.0	46.00
TOTAL CASH DUE	$ 30,930.17
DEPOSIT PAID ■	
CASH DUE AT DELIVERY	$ 30,930.17
ENVIRONMENTAL PROTECTION PACKAGE	
SERVICE CONTRACT	
GAP INSURANCE	
BALANCE FINANCED	
THRU	
TERM	
PAYMENT	
APR	

WARRANTY INFORMATION

☒ FACTORY WARRANTY - The manufacturer's warranty constitutes all of the warranties with respect to the sale of this item/items. The seller hereby expressly disclaims all warranties, either expressed or implied including any implied warranty of merchantability or fitness for a particular purpose, and the seller neither assumes nor authorizes any other person to assume for it any liability in connection with the sale of this item/items.

☐ USED CAR WARRANTY - Used car is covered by a limited warranty detailed in a separate document. You may obtain a full copy of any applicable warranty from us.

☐ AS IS - THIS MOTOR VEHICLE IS SOLD "AS IS" WITHOUT ANY WARRANTY EITHER EXPRESSED OR IMPLIED. THE PURCHASER WILL BEAR THE ENTIRE EXPENSE OF REPAIRING OR CORRECTING ANY DEFECT THAT PRESENTLY EXISTS OR THAT MAY OCCUR IN THE VEHICLE.

PURCHASER'S SIGNATURE X SSCI [signature] CEO

USED CAR BUYERS GUIDE: THE INFORMATION YOU SEE ON THE WINDOW FORM FOR THIS VEHICLE IS PART OF THE CONTRACT. INFORMATION ON THE WINDOW FORM OVERRIDES ANY CONTRARY PROVISIONS IN THE CONTRACT OF SALE.

If you cancel this purchase agreement or refuse to take delivery of the vehicle ordered, except as permitted by law, you shall, at our option, forfeit as damages the amount of $ 500.00

PURCHASER'S SIGNATURE X SSCI [signature]

Purchaser hereby acknowledges to the above items.

Exhibit 8

Person Directed Supports, Inc.
July 2004 – June 2005
Issue – Gifts to Staff
FY 04/05

Issue – Gift Cards

- As a means of addressing issues of retention and recruitment, gift cards are given to staff to acknowledge a job well done, to celebrate a holiday, or to thank them for accomplishing something above and beyond for the people we support.

Date	Store/Restaurant	# of Gift Cards	Total per Card	Total
11/23/04	Walmart	11	$25	$ 275
12/01/04	Walmart	3	$25	$ 75
05/22/05	Red Lobster	32	$25	$ 800
06/23/05	Olive Garden	25	$25	$ 625
06/23/05	Walmart	25	$25	$ 625
	Subtotal	**96**		$2,400

Please note that during this time, the agency employed approximately 95-100 people.

Issue – Agency Shirts

Date	# of Shirts (Sport Shirt with Monogram)	Total per Shirt	Total Cost
06/20/05	92	$23.27	$2,141.00

Issue – Flowers

- Flowers were sent to people we support and staff to acknowledge a major life event (e.g. birth, death, surgery)

Items Sent	Total Cost
12	$511.01

Issue – Other

- Checks issued for resource materials

Issued To	Total Cost
[redacted] (Check 1313)	$1,500.00
Chris Clee (Check 1314)	$1,500.00
Subtotal	$3,000.00

Grand Total of Staff Gifts **$8,052.01**

Person Directed Supports, Inc.

July 2005 – June 2006

Issue – Gifts to Staff

FY 05/06

Issue – Gift Cards (to supporters and consumers)

Date	Store/Restaurant	# of Gift Cards	Total per Card	Total
12/08/05	Red Lobster	5	$25 (+ $1 fee)	$130
			Subtotal	**$130**

Issue – Clothing – Agency Jackets (to supporters and consumers)

Date	# of Jackets	Total per Jacket		Total Cost
~~0/0/0~~ 12/10/05	94	$50.65		$4761.10
			Subtotal	**$4761.10**

Issue – Flowers / Cards (to supporters, consumers, and families)

Date	Item	Occasion(s)	Total Cost
08/31/05	Flowers	Illnesses (2), Birth (1)	$119.68
09/16/05	Flowers	Illnesses (2)	$ 58.10
10/07/05	Flowers	Illness (1), Births (2)	$146.89
10/07/05	Cards	Holiday	$105.00
01/07/06	Flowers	Illnesses (2), Celebrations (2), Thank you (1)	$185.55
05/07/06	Flowers	Sympathy (2)	$ 99.54
		Subtotal	**$714.76**

Grand Total of Gifts to Supporters, Consumers, and Families **$5605.86**

Monday, October 30, 2006

9:00 a.m. - 2:00 p.m. - Registration in Hotel Lobby
10:00 a.m. - 4:00 p.m. - Forums
Lunch Included

[redacted] National Project Director, College of Direct Support
Jackie Epstein, Director, Policy, Office of Mental Retardation
[redacted] HR Coordinator, KenCrest Services
[redacted] Associate Dir., HR, KenCrest Services
[redacted] Director, Staff Support, KenCrest Services
[redacted] Suburban Division, Mental Retardation Services
NHS Human Services

"To do good work you must first have good tools."
~ Chinese Proverb

This exciting and interactive forum will present several recruitment and retention tools. Some are results of successful partnerships involving public, private and academic interests. Others were formed and implemented using a team approach within agencies. Most importantly, these tools are working for providers.

OMR has extended its agreement with the College of Direct Support (CDS) and will continue to support this web-based curriculum to providers at significantly reduced costs. There are now over 17,000 learners in CDS across Pennsylvania, most of them employed by PAR members, taking advantage of the online educational benefits of CDS and the College of Frontline Supervision (CFS).

Are you thinking about adding CDS and/or CFS to your training curriculum or just beginning the process? Hear from [redacted] the visionary behind the Colleges, and learn tips and tools from people who have already gone through implementation. See a demonstration of the newest training module based on the Individual Supports Plan (ISP). These new ISP lessons were created for Pennsylvania and will be a course added to the PA CDS.

Jackie Epstein will also review the results of the 2005 Pennsylvania Turnover & Vacancy Survey, discuss what was learned and how PA plans to use the information. She will then share OMR's experiences with new models of training delivery designed to enhance provider capacity, including web casting, tele-education, train-the-trainer programs and other web-based approaches.

The afternoon will continue with PAR member KenCrest exploring the tool of leave pooling as a way for employers to control benefit costs and still attract and retain quality employees. Leave pooling, also known as a Paid Time Off bank, has the potential to increase employee satisfaction through added choice and flexibility, while reducing unscheduled absences and positively impacting your budget.

[redacted] will wrap up the workforce day with an interactive workshop that provides practical examples from business & human services agencies on how managers can breathe oomph and passion into their agency. The presentation will examine the workplace, particularly agencies being asked to do more with less, staff turnover, and the issues of work fatigue and perceived victimhood brought on by someone else's change requirements. Participants will learn how to have fun and put a spring back into their step while unleashing the talents, creativity, passion and imagination waiting to blossom from their staff.

[redacted] Consultant
[redacted] Sr. VP, Health Care, [redacted] Associates
Joe Church, Financial Management
Bureau of MR Program Support, Office of Mental Retardation
[redacted] Independent Contractor
former PA S [redacted]

This forum is a 'must' for every organization and continues PAR's educational initiatives that have been presented throughout 2005-2006 to assist providers in navigating policies and practices impacting fiscal operations. This critical policy and practice forum addresses two key fiscal issues: fee-for-service implementation and Pennsylvania's budget process from program offices through the intricacies of the executive and legislative branches.

Interim rate setting standards have been issued by OMR and fee-for-service has begun. Is your organization prepared for the changes that lie ahead? [redacted] Consultant and mental retardation fiscal expert, will present valuable information on the rate determination process, update participants on what has occurred during this past rate setting practice year, and discuss what has been learned from these experiences. Joe will also discuss potential changes providers can expect for the upcoming year, and review comments received from stakeholders on the Interim Rate Setting Bulletin issued by OMR.

[redacted] Associates, PAR's Fiscal Consultant and one of PAR's representatives on OMR's Fee-for-Service (Rate Setting) Workgroup, will team up with [redacted] to add a provider perspective to the issues that have been resolved and the remaining outstanding issues.

A new very special feature of this forum will be dedicated to offering participants an "insider's view" to understanding how the budget is developed as well as OMR's role and path toward the eventual allocation of dollars that finally makes its way to providers.

Joe Church will begin at the beginning of OMR's budget process and how it relates to the larger state budget process, including how it ties in to the Governor's Budget Office and the legislature. He will also provide a perspective on the current and upcoming budget year as it relates to MR.

Special Guest and Former [redacted] for the Commonwealth and former Director of DPW's [redacted] now an Independent Contractor, will explain the executive/legislative budget process in a non-technical, user-friendly way, highlighting critical decision-making points in the process that must be understood and monitored by those (providers and others) advocating for specific budget expenditures. For those of us advocating for increased funding for community mental retardation supports, this information is extraordinarily useful.

This is a first-time look into the entire budgetary process which is valuable knowledge to have as you advocate, wait, and plan your own budget, which is almost entirely dependent on the outcomes that are derived from the budgetary process that will be described

Informal Recognition Strategies

No Cost	Verbal thank you Verbal praise for a specific action A note of thanks on organization letterhead or on the supervisor's business card Certificates of achievement Inclusion of recognized employee in decision making for the organization Newsletter article describing staff accomplishments or important personal events (e.g., graduation) Recognition of birthdays or anniversaries Congratulation (public or private) to someone who handles a really tough situation well Recognition cards completed by co-workers or individual supported posted on a bulletin board Acknowledgement of concern for personal circumstances (e.g., death, birth, graduation from college, illness, child graduating) Having the supervisor or manager do the employee's job or certain tasks for one hour or one day
Low Cost	Clothing, mug, pen, etc. with company logo Gift certificate, gift card Plaques, trophies Team dinner or outing Flowers Bakes treats A bunch of balloons Time off for individual or the entire group
Higher Cost	Organization-wide celebration (picnic or holiday party) Promotion to a new position Fees paid to attend a professional conference

Person Directed Supports, Inc.

Turnover / Vacancy Report
FY 04/05

DSS Turnover Rate

Crude separation rate (turnover rate) for Direct Support Staff

21 people (DSS) left the agency during period of time ÷

89 people (DSS) positions = .236 or **23.6% turnover rate**

2005 OMR State reported turnover rate for similar agency = 31.8%

DSS Vacancy Rate

14 total number of open (unfilled) DSS positions ÷

89 people (DSS) positions = .157 or **15.7% vacancy rate**

2005 OMR State reported vacancy rate for similar agency = 13.5%

These rates were calculated using DPW-OMR's calculation formulas (see attached).