COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
Room 525 Health and Welfare Building
Harrisburg, Pennsylvania 17105-2675

KEVIN M. FRIEL
DIRECTOR

TELEPHONE NUMBER
(717) 772-2231
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MAY 24 2010

Ms. Audrey List, Co-owner
Ms. Tammy Steier, Co-owner
Childhood Early Intervention, LLC
1980 Wayne Road
Chambersburg, Pennsylvania 17202

Dear Ms. List and Ms. Steier:

I am enclosing the final performance report of Childhood Early Intervention, LLC (CEI), as completed by this office. Your response has been incorporated into the final report and labeled Appendix B. Due to the volume the exhibits referenced in your response is on the enclosed disk. The Franklin/Fulton Mental Health and Mental Retardation Office's response is labeled Appendix C. Also our commentary on your Response is included in the final report and labeled Appendix A.

The final report will be forwarded to the Department's Office of Child Development and Early Learning 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 the fieldwork.

If you have any questions concerning this matter, please contact Mr. Alex Matolyak of the Audit Resolution Section at (717) 783-7786.

Sincerely,

Kevin M Friel

Kevin M. Friel

Enclosure

c: Mr. Todd Klunk
Ms. Maureen Cronin
Ms. Marci Walters
Ms. Claire Hornberger

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.

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MAY 24 2010

Ms. Claire Hornberger, LCSW
Administrator
Franklin/Fulton MH/MR Program
425 Franklin Farm Lane
Chambersburg, Pennsylvania 17202

Dear Ms. Hornberger:

I am enclosing the final performance report of Childhood Early Intervention, LLC (CEI), as completed by this office. Your response has been incorporated into the final report and labeled Appendix C. CEI's response is labeled Appendix B. Due to the volume the exhibits referenced in CEI's response is on the enclosed disk. Also our commentary on CEI's Response is included in the final report and labeled Appendix A.

The final report will be forwarded to the Department's Office of Child Development and Early Learning 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.

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Sincerely,

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Enclosure

c: Mr. Todd Klunk
Ms. Maureen Cronin
Ms. Marci Walters

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MAY 24 2010

Mr. Todd Klunk
Acting Deputy Secretary for Child Development
and Early Learning
333 Market Street, 6th Floor
Harrisburg, Pennsylvania 17126-0333

Dear Mr. Klunk:

In response to a request from the Franklin/Fulton Mental Health and Mental Retardation Office (Joinder), the Bureau of Financial Operations (BFO) completed an audit of Childhood Early Intervention, LLC (CEI). The audit was conducted in response to the Joinder's concern regarding the allowability of costs that were identified while performing subrecipient monitoring of CEI. The audit was directed to CEI's Early Intervention (EI) services provided during fiscal year (FY) 2007-08 and FY 2008-09.

Childhood Early Intervention, LLC
Executive Summary

CEI is a for profit corporation which started providing EI services on July 1, 2006, to children in Franklin and Fulton counties. The company is co-owned by an occupational therapist and a physical therapist that personally provide over 50% of the direct care services in their specialty. CEI employs one speech therapist and subcontracts for developmental therapy (DT), occupational therapy (OT), physical therapy (PT) and speech therapy (ST) services. CEI contracts with an independent accounting company to complete its bookkeeping, payroll processing and tax preparation. The co-owners also complete administrative functions, and contract with a part-time office manager.

CEI entered into a related party rent agreement on November 1, 2008 for its administrative office. Prior to this, the co-owners operated the business from their personal residences. CEI made improvements to the facility after entering into the agreement.

CEI receives over 80% of its revenues from the Joinder. The Joinder paid CEI $382,508 in FY 2007-08, and $561,726 in FY 2008-09 for EI services. CEI also receives funding from Medical Assistance (MA) and the Lincoln Intermediate Unit (LIU). During FY 2008-09, CEI provided EI services to one consumer through a contract with the Huntington/Mifflin/Juniata Mental Health/Mental Retardation (MH/MR) Office.

Subsequent Event

At the conclusion of FY 2008-09, CEI continued to provide services while attempting to negotiate a contract with the Joinder for FY 2009-10. The Joinder, in consideration of the possibility that the audit would result in questioned costs, ceased paying CEI on July 20, 2009. Payments from that date forward were limited to reimbursement payments for the CEI subcontractors. In the absence of the receipt of any financial remuneration, CEI stopped providing service on September 16, 2009. Negotiations continued until it was evident that the parties would not be able to reach an agreement. At that point the Joinder entered into a contract with another vendor, which is now operating in the Franklin and Fulton service area.

The report findings and recommendations for corrective action are summarized below:

FINDINGS	SUMMARY
Finding No. 1 – CEI received funding in the amount of $305,752 that is not eligible for reimbursement.	The contract between CEI and the Joinder requires expenses be in compliance with the Chapter 4300 regulations. During the audit period, CEI incurred expenses that do not appear to be in compliance with the regulations. Below is a summary of some of the questioned costs that were identified: | | 2007-08 | 2008-09 | Owner's salary: 2007-08 $82,556; 2008-09 $53,356 Related party rent: 2008-09 $21,942 Company automobiles (net of allowance): 2007-08 $9,893; 2008-09 $9,607 Other non-reimbursable costs: 2007-08 $14,416; 2008-09 $6,727 The Joinder paid CEI in excess of allowable expenses in the amounts of $123,746 and $182,006 in FY 2007-08 and FY 2008-09 respectively. The questioned costs detailed above represent a portion of the overpayment.

	2007-08	2008-09
Owner's salary	$82,556	$53,356
Related party rent		$21,942
Company automobiles (net of allowance)	$9,893	$9,607
Other non-reimbursable costs	$14,416	$6,727

HIGHLIGHTS OF RECOMMENTATIONS

The Office of Child Development and Early Learning (OCDEL) should:

- Recover the $305,752 ($123,746 in FY 2007-08 and $182,006 in FY 2008-09) in overpayments that was reimbursed to CEI by the Joinder.
- Ensure the Joinder is effectively negotiating and monitoring its EI contracts.

CEI should:

- Ensure program operations comply with the provisions of the 55 PA Code, Chapter 4300 regulations and other requirements as defined in their contract.

FINDINGS	SUMMARY
Finding No. 2 – The Joinder needs to enhance its contracting process.	The Joinder's contracting process is fragmented. A central point of contact is needed and the policies and procedures specific to the contracting process should be documented. There is no evidence that the service rates were negotiated. A budget increase was not documented by a budget revision, appendices are incomplete and some of the contract is not applicable for EI services. A lapse in fiscal monitoring and timely completion of cost settlements occurred.

HIGHLIGHTS OF RECOMMENDATIONS

The Joinder should:

- Identify a management level employee that would be the central point of contact for the contracting process. This individual would be responsible for contract negotiations and ensuring the contract document, budget and appendices are complete and accurate.
- Develop written policies and procedures detailing the contracting process.
- Ensure the contract language is applicable to the EI program and reflective of the 55 PA Code, Chapter 4300 regulations and current OCDEL policy.
- Continue to conduct periodic fiscal monitoring of providers and ensure timely cost settlements occur.

FINDINGS	SUMMARY
Finding No. 3 – CEI needs to implement fiscal and management controls.	CEI's system of internal controls cannot ensure the accountability of funds and compliance with the 55 PA Code, Chapter 4300 regulations. Oversight of the contracted accounting function was inadequate. Supporting documentation for numerous purchases was not retained. Payments from the funding sources are not reconciled to claims. The use of personal credit cards and funds for business-related purchases were not monitored.

HIGHLIGHTS OF RECOMMENDATIONS

CEI should:

- Develop and implement an effective management control system over its financial operations.
- Review the financial work that is performed by the accountant for accuracy and appropriateness.
- Maintain financial documentation related to revenues and expenditures, including receipts. This information should be maintained at CEI's administrative office.
- Perform a reconciliation of service billings to the payments that are received and follow-up on any discrepancies.
- Obtain business credit cards and eliminate the use of personal funds for company purchases.

CEI's comments to the draft audit report, attached as Appendix B are in conflict with various findings and conclusions in the audit report. An Auditor's Commentary, labeled as Appendix A, was prepared to explain the BFO's disagreement with CEI's response.

Background

The EI program provides supports and services for families with children, birth to age five, with developmental delays. CEI provides OT, PT, ST and DT services to children in Franklin and Fulton counties. Eligible children, up to the age of three, are reimbursed by the Department of Public Welfare (DPW). At age three, children are transitioned from the Joinder EI program to the Intermediate Unit and services are funded through the Department of Education.

EI services are paid based upon a fifteen minute unit of service rate. The DPW distributes annual fee schedules that identify the maximum amount of Department participation for services funded by the Joinder. Since the published rates are maximum limits, the Joinder is required to negotiate rates and cost settle contracts. CEI was reimbursed $31.01/unit for OT, PT and ST services and $27.71/unit for DT services in the FY 2007-08. The state maximum rate during the FY was $31.45 and $27.71, respectively. In 2008-09, CEI was reimbursed at the state maximum rates, which were $31.76 for OT, PT and ST services and $27.99 for DT services.

The EI program is governed by Pennsylvania Code, Title 55, Chapter 4300 regulations.

Objective/Scope/Methodology:

The audit objective, developed in concurrence with the Joinder was:

> To determine if Childhood Early Intervention's rates are comprised of costs that are allowable, reasonable, and applicable to the Early Intervention program and in compliance with Department regulations and contract requirements.

The audit was directed to CEI's program activities for the 2007-08 and 2008-09 FYs. In conjunction with the audit the BFO completed an analysis of the Joinder's contracting processes as it related to the contracts with CEI.

In pursuing the objective, the BFO interviewed the CEI co-owners; staff from CEI's accounting firm, Joinder staff, the fiscal consultant under contract with the Joinder, and OCDEL. We reviewed CEI's contracts with the Joinder, budgets, general ledger, general journal entries, payroll records, receipts and other pertinent information necessary to complete the objective. We also evaluated CEI's operations for compliance with the Chapter 4300 regulations and contract requirements.

At the request of the Joinder, a Fiscal Consultant under contract with the Joinder participated in on-site fieldwork with BFO staff and prepared workpapers which were reviewed and approved by BFO as part of the audit. The BFO also relied upon the analysis performed by the Joinder's EI Service Coordinator supervisor to compare payment records and make a determination if duplicate billing occurred.

We conducted this performance audit in accordance with generally accepted government audit standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

GAGAS also requires that we obtain an understanding of management controls that are relevant to the audit objective. The applicable controls were examined to the extent necessary to provide reasonable assurance of the effectiveness of those controls. The deficiencies in management controls that were noted are described in the findings included in this report.

A closing conference was held on September 3, 2009 with CEI, their accountant and attorney, and Joinder and Franklin County staff to discuss Findings No. 1 and No. 3 in this report. The weaknesses disclosed in Finding No. 2 were discussed in separate meetings with the Joinder and Franklin County staff on that date.

Fieldwork was conducted between July 21, 2009 and August 21, 2009. The report, when presented in its final form, is available for public inspection.

Acknowledgement

The BFO would like to acknowledge the Joinder's efforts in improving its contracting and monitoring functions. The Joinder's Mental Health/Mental Retardation Administrator and the Human Services Administrator recognized short-comings in these processes and implemented positive changes prior to the BFO audit. Many of the weaknesses disclosed in Finding No. 2 were also identified by the Joinder and corrective action is being taken.

Results of Fieldwork

Finding No. 1: Analysis of Expenses and Revenues Identified $305,752 in Funding that is Not Allowable for the Early Intervention Program.

The EI program requires compliance with 55 PA Code, Chapter 4300 fiscal regulations. In addition, CEI's contract with the Joinder specifies the regulations and requirements that are to be adhered to for the operations of the program. We were informed by the CEI's co-owners that they did not read the contracts they signed with the Joinder and were not aware of the requirement that they comply with the Chapter 4300 regulations.

A. Analyses

The BFO analyzed CEI's expenditures and revenues for FYs 2007-08 and 2008-09. The results of the analysis are detailed in the schedules attached to this report. A summary of CEI's audited allowable expenses, program revenues, and costs in question are identified below.

Exhibits	Fiscal Year	Joinder Revenues	Allowable Joinder Expenses	Costs in Question
1	2007-08	$ 382,508	$ 258,762	$ 123,746
2	2008-09	$ 561,726	$ 379,720	$ 182,006
				$ 305,752

Results of Fieldwork (continued)

B. Owner's Compensation

CEI's co-owners did not maintain timesheets to identify and support the salary they received for performing direct care and administrative activities. In addition, although CEI submitted program budgets to the Joinder disclosing their salary, payments to the co-owners significantly exceeded the budgeted amounts.

Compensation to the two co-owners was as follows:

	Fiscal Year 2007-08	Fiscal Year 2008-09
Co-owner A	$107,916	$105,849
Co-owner B	$113,056	$107,755

- Payment Methodology

CEI's co-owners did not receive regularly occurring payroll disbursements but received payments by two methods: a monthly wage for direct care services and periodic payments written directly from CEI's account.

- ➢ The CEI accountant, based upon e-mails from CEI, prepared monthly wage payments which were computed based on the reported number of direct care units provided by the owners in the prior month.

- ➢ The co-owners also cut checks to themselves. These periodic payments varied in amounts that were contingent on an analysis of available funds. We were informed that regular payroll disbursements were not possible and a priority was given to outstanding agency bills. Periodically throughout the year, the accountant would treat a majority of these withdrawals as salary and ensure that taxes were paid on the money.

- Allowable Salary Expense

The co-owners of CEI are somewhat unique in that they provide direct care services, along with performing administrative tasks. The determination of an allowable salary expense for each of these individuals utilized budgeted salary costs. An allowance was also provided to allow the owners to maximize retained revenue. In FY 2007-08 an additional allowance was added in consideration of the increased OT and PT services performed by the co-owners. Also, for FY 2008-09 an additional allowance for increased administration duties was added in consideration of the amended contract amount.

Results of Fieldwork (continued)

The following schedule shows the allowable compensation computed for each co-owner:

Allowable Salary	Fiscal Year 2007-08	Fiscal Year 2008-09
Budgeted Direct Care Salary	$ 55,100	$ 65,000
Additional Direct Care Salary (co-owner units as a % of total OT/PT units x budgeted OT & PT salaries)	$ 3,834	
Budgeted Administration Salary	$ 4,536	$ 5,000
Retained Revenue (3% of Joinder payments)	$ 5,738	$ 8,426
Additional Administration (% of administration salary total Joinder budget x payments in excess of budget)		$ 1,698
Total Allowable Salary	$ 69,208	$ 80,124

- Budgeted Salary Costs

Title 55 PA Code § 4300.83(a), regarding Compensation, states "Compensation costs eligible for Departmental participation shall be the lesser of the amounts negotiated and approved by the Joinder as part of the contract or the amounts specified in subsections (b) and (c)". Title 55 PA Code, § 4300.83(b) provides for participation in compensation of program funded agencies up to the functionally equivalent Commonwealth position.

Although CEI is not a "true" program-funded agency, the application of a cost settlement at year end adjusts negotiated rates to audited actual costs similar to program funded agencies. An application of the comparison of the budgeted salaries to functionally equivalent positions within the Commonwealth resulted in our use of the budgeted numbers.

- Additional Direct Care Salary

For the FY 2007-08, CEI budgeted $149,200 in direct care OT and PT salaries for the co-owners and for two vacant positions. Although CEI hired subcontractors to perform OT and PT services, the co-owners performed 79% (5,444 units to the total of 6,866 units) of the OT and PT services that fiscal year.
To account for this the BFO is allowing a $3,834 increase to the budgeted direct care salary of each co-owner. The additional salary was calculated by multiplying the total budgeted salaries of $149,200 by 79% and dividing the result by 2. The difference between the $58,934 and the $55,100 originally budgeted for is the increase of $3,834.

- Retained Revenue

In conjunction with 55 PA Code § 4300.108, CEI's contract with the Joinder contains specific conditions on which a provider can retain up to 3% of gross contract revenues. Since some of the payments to the co-owners appear to be related to a distribution of profit we included an allowance for retained revenues to the allowable salary. It should be noted that neither CEI nor the Joinder completed the activities required to allow for retained revenue (see Finding No. 2).

Results of Fieldwork (continued)

BFO is considering the maximum of 3% of contract revenue as detailed in the contract as the allowable distribution. This amounts to a total of $11,475 in FY 2007-08 ($382,508 x .03) and $16,852 in FY 2008-09 ($561,725 x .03).

- Additional Administration Salary

During FY 2008-09, the Joinder requested that CEI provide additional services than were initially agreed to in the contract. A budget revision was not completed to correspond to the contract amendment and CEI received payment of $142,367 in excess of the budget (see Finding No. 2).

The BFO assumed that the expansion of the contract would have entailed additional administrative time on the part of the co-owners. As a result additional administration salary in FY 2008-09 in the amount of $3,395 was allocated to the co-owners. The amount was calculated by taking the percentage of administration salary to the total Joinder budget (approximately 2.38%) multiplied by the $142,367 of payments in excess of the original budget.

C. Related Party Rent

CEI began renting a house from Royalty Development, LLC (RD) to use as its administrative office on November 1, 2008. Prior to this time, the business was operated out of the personal residences of the two co-owners. The co-owners of CEI are also the owners of RD. Since common ownership exists between CEI and RD, the organizations are considered related parties. According to 55 PA Code § 4300.13(a) "A related party is treated as if it were part of the provider for the determination and reimbursement of costs".

Since CEI and RD are related parties, the maximum allowable rent for CEI's administrative office must be determined in accordance with 55 PA Code § 4300.87(c), which places limitations on the allowable occupancy costs for buildings used in the program that are owned by the agency or a related party. Title 55 PA Code § 4300.87(c)(2) provides that the payments in lieu of rent may include downpayments, closing costs, principal and interest.

RD purchased a 2,500 square foot ranch house on over ¾ of an acre of land for $195,000 plus $3,551 in closing costs and $961 for taxes. To finance the purchase, RD obtained a ten year, $120,000 mortgage; a ten year, $50,000 loan; and paid $29,512 in cash. While waiting to secure the ten year, $50,000 loan from a local county development agency, CEI obtained a one year, $50,000 promissory note which was paid off within two months. RD entered a one year lease with CEI for $43,800, payable in monthly installments of $3,650. CEI paid RD $35,850 in FY 2008-09, which according to the co-owners includes eight months of rent and $7,300 for two months security deposit. However, CEI's accountant recorded the security deposit as rent expense, rather than an asset.

55 PA Code § 4300.87(c) allows for payments in lieu of rent for buildings owned by related parties. Subsequent to audit fieldwork, the co-owners obtained two fair market rental appraisals of the property. To allow for reimbursement of the principal and interest of the mortgage and the loan, the BFO assessed those costs against the parameters of 55 PA Code § 4300.87(c)(2)(vi).

Results of Fieldwork (continued)

Additionally, as allowed for by 55 PA Code § 4300.87(c)(2)(iii), the BFO calculated an allowance to recognize RD's equity in the property. The allowance is based on an 8% rate of return on the original downpayment amortized over the life of the 10 year mortgage. The allowable payment in lieu of rent for FY 2008-09 is $13,908, as shown below.

		10/31/08-6/30/09 8mos.	FY 08/09 Maximum Allowable Payment in Lieu of Rent
Purchase Price		195,000.00	
Closing Costs		3,550.88	
Cost Basis		198,550.88	
LESS: Debt: Mortgage	120,000.00		
Loan	50,000.00	170,000.00	
Equity		28,550.88	
Equity X 1.08 (8.0 % participation rate)		30,834.95	
Amortized over 120 months:		256.96	
Amortized Equity for 8 months ($256.96 x 8)			2,055.66
Principal (Mortgage)			5,203.28
Interest (Mortgage)			4,122.47
Principal (Loan)			1,229.01
Interest (Loan)			4,156.00
Interest (Promissory Loan)			501.37
FY08/09 Allowable Payment in Lieu of Rent			**13,907.70**

In addition to the allowable payment in lieu of rent, the BFO allowed occupancy related taxes in the amount of $961.

D. Company Automobiles

In February 2007, CEI purchased two, 2007 Acura MDX vehicles for approximately $48,000 each. The co-owners used these vehicles for traveling to provide direct care services, commuting and personal use. The DPW will participate in the cost of the purchase (or lease) and operation of vehicles if the guidelines specified in 55 PA Code § 4300.104(b) are followed.

The guidelines provide, at a minimum: the use of bidding or written estimates; reimbursement to the program for the personal use of the vehicle; maintenance of a daily usage log; and documentation to support that the purchase vs. lease option was explored.

CEI did not follow the guidelines listed above. Documentation on the use was limited to estimates of the personal use of the vehicles for tax purposes. Reimbursement for the personal use of the vehicles was not received by CEI.

Results of Fieldwork (continued)

Since CEI did not adhere to 55 PA Code § 4300.104(b), the BFO is questioning all of the vehicle costs. This includes gasoline, repairs and maintenance, insurance, depreciation, interest and other related transportation costs. Total questioned costs are $25,919 and $25,584 for FY 2007-08 and FY 2008-09, respectively.

The BFO, however, acknowledges the use of the vehicles for direct care services and is providing for an allowance for mileage reimbursement. The rate used to calculate mileage reimbursement is $0.325/mile, which is the reimbursement rate that CEI paid to its employee. The BFO accepted the mileage provided by the co-owners for each FY and deducted the personal miles to determine the business-related miles.

The computation of allowable mileage reimbursement is shown below.

Driver	Fiscal Year 2007-08	Fiscal Year 2008-09	Total
Co-owner A			
22,702 miles X $0.325	$ 7,378.15		
21,806 miles X $0.325		$ 7,086.95	
Co-owner B			
26,609 miles X $0.325	$ 8,647.93		
27,354 miles X $0.325		$ 8,890.05	
Total	$ 16,026.08	$ 15,977.00	$ 32,003.08

Subsequent to the closing conference, the co-owners informed the BFO that CEI made a retroactive policy change related to mileage reimbursement. Reimbursement to their employee was increased from $0.325/mile to the applicable government rate for the period. In consideration of this policy change the co-owners requested that the BFO increase the mileage allowance used for the computations above. The request was considered and rejected.

E. Non-reimbursable Costs

In addition to the areas discussed above, the BFO identified other expenses that are not allowable for Department participation. This primarily includes expenses related to a prior fiscal year, undocumented expenses, and expenses which were not "necessary and proper for the operation of the program and the provision of services," as required by 55 PA Code § 4300.28(a).

- Prior Period Costs

The BFO identified expenses and revenues that were not recorded in the proper fiscal years and made the necessary adjustments to those accounts. The BFO questioned $9,689 of expenses in FY 2007-08 that were related to the prior FY. Expenses in the amount of $18,938 related to FY 2007-08 were posted to FY 2008-09 and adjusted by the BFO prior to our analysis.

Results of Fieldwork (continued)

- Undocumented Expenses

As discussed in Finding No. 3, CEI did not maintain receipts for many of their expenses. Since supporting documentation was not available for review, the BFO questioned $11,929 and $12,707 in FY 2007-08 and FY 2008-09, respectively. Of those amounts, $10,431 (FY 2007-08) and $9,654 (FY 2008-09) were undocumented transportation related expenses, which were disallowed as noted in "E" above.

- Unallowable Costs

CEI incurred several costs during the scope of the audit that are unallowable per the 4300 regulations and unnecessary for the provision of services. These include: meals for the co-owners incurred during non-travel status ($2,515); polo shirts with the CEI logo ($615); donations ($300); holiday parties ($1,982); and professional membership fees for the co-owners ($1,065).

Recommendations:

The BFO recommends OCDEL recover $305,752 from the Joinder for overpayments made to CEI in FYs 2007-08 and 2008-09. This amount includes questioned costs associated with the co-owners' salaries, related party rent, vehicle expense and non-reimbursable costs.

The BFO also recommends that OCDEL ensure the Joinder is effectively negotiating and monitoring contracts with its EI providers.

The BFO further recommends that CEI ensure program operations comply with the provisions of the 55 PA Code, Chapter 4300 regulations and other requirements as defined in their contract.

Finding No. 2: The Joinder Needs to Enhance Its Contracting Process.

The contracting process is the cornerstone for managing purchased services and must be performed effectively. When the Joinder enters into contracts/agreements, they must adhere to DPW's 4300 regulations and follow sound business practices. The Joinder executed two contracts with CEI for EI services: The Infants, Toddlers and Families Medicaid Waiver (IT&F) contract and the boilerplate County contract for base services. Since the IT&F Waiver contract cannot be modified from the Department established model, our comments in this area are specific to the boilerplate contract and accompanying budget.

A. Contract Management and Execution

The Joinder lacks a centralized unit or individual to provide program and fiscal oversight for the contracting process. As in any governmental entity, one of the primary objectives of management is to provide an organizational structure that allows specific work activities to be effectively and efficiently completed. The current contracting structure was found to be fragmented, and contracts are "piece-mealed" together by numerous staff.

Results of Fieldwork (continued)

In addition, the Joinder lacks formal contracting policies and procedures for the management of this process. Written policies and procedures provide continuity of performance when transition in staff occurs. We also noted that although a contract amendment was executed for FY 2008-09, the Joinder did not obtain a revised budget from CEI to disclose how the additional funding would be used.

Finally, the Joinder executed the contract with CEI with three incomplete appendices attached to the document, including Appendix C, Program Budget. The Joinder's budget contains an area for the signature of the Joinder staff after reviewing and approving the budget, which was not completed for either FY budget. Since the appendices and attachments to a contract are integral pieces of the document, the expectation is that they are complete and accurate.

B. Contract Negotiations

As required in the 4300 regulations, the Joinder must negotiate rates based on actual costs in relationship to the units provided. In addition, 55 PA Code § 4300.28(a) requires that negotiations should result in "the lowest possible rate ... consistent with good program quality."

Due to the turnover in the Joinder staff, the BFO could not verify if negotiations occurred with CEI. However, no evidence to support that negotiations occurred was provided to the auditors.

C. Contract Language

Contracts establish the expectations, guidelines, and rules of the parties to the contract. Therefore it is critical that the language in the contract be clear, accurate and enforceable and should be tailored for each program.

- Retained Revenue Provision

  As noted in Finding No. 1, the Joinder's contract contains a provision for the allowance of retained revenue. However, the contract states that the provider can retain revenue in an amount not to exceed three percent of gross allowable expenses. This is not in compliance with 55 PA Code § 4300.108(b), which requires retained revenue to be based upon total gross revenues applicable to the contract. In addition, for rate development purposes, the budget inaccurately calculates retained revenue based on three percent of gross expenses.

  Further, the contract limits the use of retained revenue to certain purposes and requires prior approval from the Joinder. CEI did not submit documentation detailing how retained revenue would be used, and the Joinder did not require CEI to submit this documentation.

- Other Provisions

  Although the Joinder modified its boilerplate MH/MR contract to fit the EI program, the contract document contains provisions that are not applicable to the EI program. In addition, some of the applicable regulations are not properly cited.

Results of Fieldwork (continued)

The following was noted:

- Section XV, Subsection B, relating to direct care workers, is written for care given to MH/MR consumers, rather than EI consumers. This provision specifically excludes therapists, who are the primary providers of direct care services in the EI program.

- Section XV, Subsection D, references 55 PA Code § 4300.87(c)(2)(i) and (vii), but the verbiage in the contract is not consistent with what those regulations address.

- Additionally, in Section XVI – Fixed Assets, Subsection 6, the provision does not distinguish between related and non-related parties. Also, this section is specific to "MH/MR" and was not revised when EI was identified as a separate program.

D. Fiscal Monitoring

Monitoring can be any planned, ongoing or periodic activity that measures and ensures compliance with the terms, conditions and requirements of a contract. Effective monitoring will ensure that expenses are reasonable, in compliance with the 4300 regulations and supportive of program services.

Two individuals that were involved with provider monitoring left the Joinder over eighteen months ago. From February 2008 until January 2009, the Joinder did not complete fiscal monitoring of its providers. In January 2009, the Joinder executed a contract for fiscal consulting services and fiscal monitoring of providers began at that time.

E. Cost Settlement

The completion of provider cost settlements ensures that providers are appropriately reimbursed and provides a cost basis for future rate negotiations as part of the contracting process. In addition, the 4300s require counties to complete cost settlements of contracted providers.

The Joinder has not completed cost settlements on CEI's contracts. According to Joinder staff, cost settlements of other EI, MH and MR program contracts had not been performed since the two individuals involved with provider monitoring left the Joinder. Since the Joinder contracted for fiscal consulting services in January 2009, cost settlements of other EI, MH and MR contracts have been completed.

Recommendations:

The BFO recommends that the Joinder continue to enhance its contracting process to ensure that it is effective and adheres to DPW's 4300 regulations. The Joinder should designate one unit or individual to manage and control the process by providing the necessary fiscal and program oversight. In addition, this unit or individual should develop and implement comprehensive policies and procedures that would ensure timely execution of contracts and agreements.

Results of Fieldwork (continued)

The BFO also recommends that the Joinder ensure that all contracts, agreements, and budgets are adequately reviewed and approved by appropriate management staff. Documentation of the review and approval should be maintained.

The BFO also recommends that the Joinder effectively negotiate contracts by scrutinizing budgets and other financial information obtained from the provider. If possible, an individual skilled in this area should perform this function.

The BFO also recommends the Joinder review and revise its EI contracts to ensure the contract language is applicable to the EI program, and reflective of the 55 PA Code, Chapter 4300 regulations and current OCDEL policy.

The BFO further recommends that the Joinder continue to conduct regular and periodic fiscal monitoring of providers.

The BFO finally recommends that the Joinder develop a comprehensive cost settlement process and ensure that settlements are completed timely.

Finding 3: CEI Needs to Implement Fiscal and Management Controls

Fiscal and management controls are developed to ensure, on a reasonable basis, that errors and irregularities do not occur. A good control system is essential to achieving proper conduct and full accountability of resources. It also facilitates the achievement of management objectives and effective decision making by serving as a check and balance against undesired actions. The following areas were identified where CEI needs to implement controls.

A. Management Oversight of Financial Records

CEI contracts with an independent accounting firm to perform its accounting functions, including posting revenues and expenses in the general ledger, preparing journal entries and completing bank reconciliations. CEI does not review the accounting work that is performed by the firm. A periodic review of the financial records should be completed to ensure that revenues and expenses are properly posted and recorded in the general ledger and that bank reconciliations are accurate.

The BFO identified several transactions that were erroneously posted in the general ledger. Prior to our analysis, adjustments were made to ensure proper identification and recording of these transactions in the appropriate account. As an example, the BFO identified car wash expenditures as being posted in five different expense categories, including Interest Expense. Also, costs associated with meals, office supplies, therapy equipment and rehab supplies were erroneously posted to the Transportation account.

In addition, the agency maintains its records on a calendar year basis and accruals were not prepared to properly account for revenues and expenses on a FY basis. As a result, numerous transactions needed to be reclassified into the appropriate FY prior to our analysis.

Results of Fieldwork (continued)

Finally, CEI does not have documented policies and procedures detailing the fiscal operations of the agency. At a minimum, this should include: developing a process to review the accountant's work, the flow and dissemination of financial records between CEI and the accounting firm, a retention policy for receipts and other financial documentation, billing and payment reconciliation procedures, review and approval of credit card and other purchases and management of the Petty Cash fund, including cash count procedures.

B. Documentation Retention

Contract requirements and the 4300 regulations necessitate that documentation to support expenditures charged to the program be maintained. In addition, maintaining documentation is good business practice. CEI did not maintain receipts or other financial documentation to support expenses charged to the program. Without receipts or other documentation, the BFO was unable to verify the legitimacy and accuracy of numerous expenses charged to the program. The failure to keep most receipts could in many cases be related to CEI's belief that they were not required to maintain receipts for less than $75.

CEI did not retain the copies of the banking deposit slips for funds deposited into the corporate account. Without this documentation, CEI cannot ensure the accuracy of its bank statements or bank reconciliations.

Although CEI began renting its administrative office in November 2008, financial documentation was not maintained at the location. The financial records, including the general ledger, are located at the accounting firm and other supporting documentation, such as receipts, subcontractor agreements and invoices, the lease agreement and mileage records were at the co-owners personal residences. Documentation to support the agency's fiscal operations should be maintained in a central file located at the administrative office.

C. Billing Procedure

CEI management indicated that they do not compare their billing statements to the payments that are received. A fundamental part of business operations is to ensure that payments for services rendered are accurate and timely. When discrepancies are noted in the reconciliation process, the appropriate follow-up should occur.

The auditors identified four instances where CEI billed and received payments of $508 from the Joinder and MA for the same dates of service for the same child. Subsequent to the closing conference, CEI presented documentation to the BFO that it had credited MA $508 for the duplicate payments.

D. Use of Personal Funds

Since CEI does not have a business credit card, each co-owner uses a personal credit card to make purchases for the business. In addition, the co-owners use their personal funds for various cash purchases and are reimbursed by check. Neither co-owner reviews the other co-owner's credit card statement or other supporting documentation to verify the accuracy and legitimacy of the purchases that are being made. The use of personal funds increases the risk that personal expenses will be paid with program funds.

Results of Fieldwork (continued)

As of the June 2009 credit card statements, the co-owners had earned reward points, or dollars of $34,877 and $25,413. The co-owners stated the actual reward points/dollars they would receive are a small percentage of the earned amounts shown on their statements. While the co-owners stated that neither has used any of the points/dollars earned, those reward points/dollars should be used for program related goods or services since the purchases were paid with program dollars.

Recommendations:

The BFO recommends that CEI develop and implement an effective management control system over its financial operations. This should include reviewing the financial work that is performed by the accountant for accuracy and appropriateness.

The BFO also recommends that CEI establish policies and procedures that include the areas identified above.

The BFO also recommends that CEI maintain financial documentation related to revenues and expenditures, including receipts. This information should be maintained at CEI's administrative office.

The BFO further recommends that CEI perform a reconciliation of service billings to the payments that are received and follow-up on any discrepancies.

The BFO finally recommends that CEI obtain business credit cards and eliminate the use of personal funds for company purchases. If a business credit card is opened that accumulates reward points, CEI should establish policies and procedures for the program use of the reward points earned.

An audit exit conference was held on March 2, 2010 with CEI's co-owners, attorney and accountant, Joinder staff, Franklin County officials and OCDEL. At the conference, the findings and recommendations in the November 9, 2009 draft report and CEI's initial response were discussed. Subsequent to the exit conference, a revised draft report, dated April 21, 2010, was issued to CEI and the Joinder. CEI, through their attorney, received a copy of the revised draft report by e-mail on March 26, 2010. The revised draft included changes made as a result of discussions at the exit conference and subsequent information provided by CEI. CEI modified their response to the revised draft report and it has been incorporated into the final report and labeled as Appendix B. The Joinder's response is labeled Appendix C.

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

RA-pwauditresolution@state.pa.us

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

Please contact Alexander Matolyak, Audit Resolution Section at (717) 783-7786 if you have any questions concerning this audit or if we can be of any further assistance in this matter.

Sincerely,

Kevin M Friel

Kevin M. Friel

Attachments

c: Ms. Audrey List
Ms. Tammy Steier
Ms. Maureen Cronin
Ms. Marcie Walters
Ms. Claire Hornberger

EXHIBITS

Childhood Early Intervention, LLC
Calculation of Audited Unit Rate
7/01/2007 - 6/30/2008

	CEI G/L Acct #		Audited Costs		Service Category DT	Service Category PT/OT/ST
DIRECT PROGRAM EXPENSES						
PERSONNEL SERVICES						
WAGES & SALARIES			$ 141,699.20		$ -	$141,699.20
Total Salary	5400	$ 141,699.20				
EMPLOYEE BENEFITS			$ 18,190.04		$ -	$ 18,190.04
Social Security	5531/5532	$ 10,973.00				
Retirement	5135	$ 3,536.04				
Insurance & Other Benefits						
Health & Welfare Insurance		$ -				
Unemployment Insurance		$ -				
Disability/Other Payroll Tax						
Workman's Comp./Other	5210	$ 3,681.00				
MISC. PERS. EXP			$ 1,312.22		$ 578.34	$ 733.88
Staff Development	5425	$ 1,312.22				
TOTAL PERSONNEL EXPENSES			$ 161,201.46		$ 578.34	$160,623.12
OPERATING EXPENSES						
COMMUNICATIONS			$ 1,762.07		$ 776.61	$ 985.46
Communications	5050/5540	$ 1,762.07				
OFFICE SUPPLIES			$ 876.95		$ 386.50	$ 490.45
Office Supplies	5480	$ 876.95				
SUPPORTIVE SVCS			$ 2,050.54		$ 903.75	$ 1,146.79
Medical Supplies		$ -				
Drugs		$ -				
Food & Clothing		$ -				
Rehab Supplies	5500	$ 2,050.54				
Developmental/Activities/ Supplies/Equipment		$ -				
Recreational Activities/ Supplies/Equipment		$ -				
Household Goods		$ -				
TRANSPORTATION			$ 17,026.29		$ -	$ 17,026.29
Staff Transportation	5550/5575/5565	$ 17,026.29				
Client Transportation		$ -				
PURCHASED DEV. SVC			$ 126,070.00		$ 45,190.00	$ 80,880.00
Purchased Physician & Other Practioners Services	5325	$ 126,070.00				
Purchased Institution & Other Facility Services		$ -				
Purchased Lab Services		$ -				
TOTAL OPERATING EXPENSES			$ 147,785.85		$ 47,256.86	$100,528.99
EQUIPMENT & OTHER FIXED ASSETS						
PURCHASE OF ASSETS			$ -		$ -	$ -
Buildings and Land		$ -				
Office Equipment		$ -				
Medical Equipment		$ -				
Other Equip & Furnishings		$ -				
Motor Vehicles		$ -				
REP. & IMPROVEMENTS			$ -		$ -	$ -
Building repairs		$ -				
Office Equipment		$ -				
Medical Equipment		$ -				
Other Equip & Furnishings		$ -				
Motor Vehicles		$ -				
TOTAL EQUIPMENT & OTHER			$ -		$ -	$ -
SUBTOTAL DIRECT PROGRAM EXPENSES			$ 308,987.31	$ 308,987.31	$ 47,835.20	$261,152.11

Childhood Early Intervention, LLC
Calculation of Audited Unit Rate
7/01/2007 - 6/30/2008

	CEI G/L Acct #		Audited Costs		Service Category DT	PT/OT/ST
ADMINISTRATION EXPENSES						
Wages & Salaries	5400		$ 9,072.00		$ 3,998.35	$ 5,073.65
Social Security	5531/5532		$ 694.00		$ 305.87	$ 388.13
Retirement	5135		$ 272.16		$ 119.95	$ 152.21
Insurance & Other Benefits			$ 216.91		$ 95.60	$ 121.31
Hospital Insurance		$ -				
Unemployment Comp.		$ -				
Disability/Dues & Licenses	5100	$ 216.91				
Workman's Comp./Meals	5250	$ -				
Office Manager	5260		$ 362.12		$ 159.60	$ 202.52
Office Rent	5350		$ -		$ -	$ -
Office Communications	5050/5540		$ 153.22		$ 67.53	$ 85.69
Insurance	5205		$ 2,161.79		$ 952.78	$ 1,209.01
Office Expense	5260		$ 250.00		$ 110.18	$ 139.82
Office Supplies	5490/5600		$ 3,854.83		$ 1,698.96	$ 2,155.87
Office Equipment	5390		$ 1,347.36		$ 593.83	$ 753.53
Taxes - Other	5535		$ 1,248.00		$ 550.04	$ 697.96
Computers			$ 3,042.00		$ 1,340.72	$ 1,701.28
Accounting	5280		$ 5,445.00		$ 2,399.81	$ 3,045.19
MISC. EXPENSES			$ 1,204.37		$ 530.81	$ 673.56
Library/Contributions	5025/5225	$ 96.91				
Interest Expense	9000	$ 1,107.46				
DEPRECIATION			$ -		$ -	$ -
Buildings		$ -				
Equipment & Other	5075	$ -				
SUBTOTAL - ADMINISTRATION EXPENSES			$ 29,323.76	$ 29,323.76	$ 12,924.03	$ 16,399.73
Administration Limitation (if applicable)						
(Direct Program Expenses x 15%)	$ 46,348.10					
Administrative Expenses in Excess of Limit	0			$ -	$ -	$ -
TOTAL EXPENSES				$ 338,311.07	$ 60,759.23	$277,551.84
LESS:						
LIU expenses				$ (6,563.00)	$ (2,892.55)	$ (3,670.45)
NET EXPENSES				$ 331,748.07	$ 57,866.68	$273,881.39
				Less Non-County Funding		
FUNDING SOURCES						
Local Allotment (MH/MR Funds)			$ 382,508.22			
Medical Assistance			$ 72,985.75	(72,985.75)	$ -	$ (72,985.75)
Net County Expenses				$ 258,762.32	$ 57,866.68	$200,895.64
ACTUAL UNITS OF SERVICE PROVIDED TO JOINDER				12,942	5,704	7,238
AUDITED UNIT COST OF SERVICE (Total Net Co. Expenses/Total Units Billed)				$ 19.99	$ 10.14	$ 27.76

Note: Costs related to direct care staff salaries, benefits (if applicable) and transportation are directly charged to the appropriate therapy service. All other costs are allocated between the service categories based upon the percent of applicable therapy units to the total units of service provided to the Joinder.

Childhood Early Intervention, LLC
Cost Settlement Based on BFO Audited Results
Fiscal Year 2007 - 2008

Allowable Joinder Costs	$ 258,762.32
Joinder Revenues	$ 382,508.22
Total Funds Overpaid	**$ 123,745.90**

Exhibit 1-B

Childhood Early Intervention, LLC
Calculation of Audited Unit Rate
7/01/2008 - 06/30/2009

	CEI G/L Acct #		Audited Costs		Service Category DT	PT/OT/ST
DIRECT PROGRAM EXPENSES						
PERSONNEL SERVICES						
WAGES & SALARIES			$ 188,551.35		$ -	$ 188,551.35
Total Salary	5400	$ 188,551.35				
EMPLOYEE BENEFITS			$ 18,287.56		$ -	$ 18,287.56
Social Security	5531/5532	$ 14,387.56				
Retirement	5135	$ 3,900.00				
Insurance & Other Benefits						
Health & Welfare Insurance		$ -				
Unemployment Insurance		$ -				
Disability/Other Payroll Tax	5532	$ -				
Workman's Comp./Other	5210	$ -				
MISC. PERS. EXP			$ 757.50		$ 285.53	$ 471.97
Staff Development	5425	$ 757.50				
TOTAL PERSONNEL EXPENSES			$ 207,596.41		$ 285.53	$ 207,310.88
OPERATING EXPENSES						
COMMUNICATIONS			$ 3,961.98		$ 1,493.42	$ 2,468.56
Communications	5050/5540	$ 3,961.98				
OFFICE SUPPLIES			$ 459.37		$ 173.15	$ 286.22
Office Supplies	5475	$ 459.37				
SUPPORTIVE SVCS			$ 430.58		$ 162.30	$ 268.28
Medical Supplies		$ -				
Drugs		$ -				
Food & Clothing		$ -				
Rehab Supplies	5500	$ 430.58				
Developmental/Activities/ Supplies/Equipment		$ -				
Recreational Activities/ Supplies/Equipment		$ -				
Household Goods		$ -				
TRANSPORTATION			$ 18,350.36		$ -	$ 18,350.36
Staff Transportation	5575/5565	$ 18,350.36				
Client Transportation		$ -				
PURCHASED DEV. SVC			$ 211,166.15		$ 76,283.75	$ 134,882.40
Purchased Physician & Other Practioners Services	5325/5450	$ 211,166.15				
Purchased Institution & Other Facility Services		$ -				
Purchased Lab Services		$ -				
TOTAL OPERATING EXPENSES			$ 234,368.44		$ 78,112.62	$ 156,255.82
EQUIPMENT & OTHER FIXED ASSETS						
PURCHASE OF ASSETS			$ -		$ -	$ -
Buildings and Land		$ -				
Office Equipment		$ -				
Medical Equipment		$ -				
Other Equip & Furnishings		$ -				
Motor Vehicles		$ -				
REP. & IMPROVEMENTS			$ -		$ -	$ -
Building repairs		$ -				
Office Equipment		$ -				
Medical Equipment		$ -				
Other Equip & Furnishings		$ -				
Motor Vehicles		$ -				
TOTAL EQUIPMENT & OTHER			$ -		$ -	$ -
SUBTOTAL DIRECT PROGRAM EXPENSES			$ 441,964.85	$ 441,964.85	$ 78,398.15	$ 363,566.70

Childhood Early Intervention, LLC
Calculation of Audited Unit Rate
7/01/2008 - 06/30/2009

	CEI G/L Acct #		Audited Costs		Service Category DT	Service Category PT/OT/ST
ADMINISTRATION EXPENSES						
Wages & Salaries			$ 13,396.00		$ 5,049.46	$ 8,346.54
Social Security	5531/5532		$ 1,024.80		$ 386.29	$ 638.51
Retirement			$ 401.88		$ 151.48	$ 250.40
Insurance & Other Benefits			$ 275.00		$ 103.66	$ 171.34
Hospital Insurance		$ -				
Unemployment Comp.		$ -				
Disability/Dues & Licenses	5100	$ 275.00				
Workman's Comp./Meals	5250	$ -				
Office Rent & Real Estate Tax	5360		$ 14,869.33		$ 5,604.82	$ 9,264.51
Utilities	5160/5625		$ 4,430.09		$ 1,669.87	$ 2,760.22
Insurance	5205		$ 4,478.23		$ 1,688.01	$ 2,790.22
Housekeeping	5175		$ 165.00		$ 62.19	$ 102.81
Office Manager Wages	5260		$ 13,228.00		$ 4,986.13	$ 8,241.87
Office Communication	5050/5540		$ 1,298.13		$ 489.31	$ 808.82
Office Supplies	5490/5600		$ 10,039.76		$ 3,784.36	$ 6,255.40
Office Equipment	5385/5390		$ 7,430.46		$ 2,800.82	$ 4,629.64
Minor Renovations			$ 9,677.42		$ 3,647.79	$ 6,029.63
Worktop			$ 2,780.00		$ 1,047.89	$ 1,732.11
Taxes - Other	5535		$ 1,258.00		$ 474.19	$ 783.81
Accounting	5280		$ 7,081.00		$ 2,669.10	$ 4,411.90
MISC. EXPENSES			$ 1,646.10		$ 620.48	$ 1,025.62
Library/Advertising & Contrib	5000/5025	$ 743.20				
Interest Expense	9000	$ 902.90				
DEPRECIATION			$ -		$ -	$ -
Buildings		$ -				
Equipment & Other	5075	$ -				
SUBTOTAL ADMINISTRATION EXPENSES			$ 93,479.20	$93,479.20	$ 35,235.85	$ 58,243.35
Administration Limitation (if applicable)						
(Direct Program Expenses x 15%)		$ 66,294.73				
Administrative Expense in Excess of Limit				$ (27,184.47)	$ (4,654.53)	$ (22,529.94)
TOTAL PROGRAM EXPENSES				$ 508,259.58	$ 108,979.47	$ 399,280.11
LESS:						
LIU expenses				$ (17,682.00)	$ (6,665.02)	$ (11,016.98)
HMJ expenses				$ (5,869.00)		$ (5,869.00)
				Less Non-County Funding		
FUNDING SOURCES						
Local Allotment (MH/MR Funds)			$ 561,725.57			
Medical Assistance			$ 104,988.64	$ (104,988.64)	$ -	$ (104,988.64)
Net County Expenses				$ 379,719.94	$ 102,314.45	$ 277,405.49
ACTUAL UNITS OF SERVICE PROVIDED TO JOINDER				18,515	6,979	11,536
AUDITED UNIT COST OF SERVICE (Total Net Co. Expense/Total Units Billed)				$ 20.51	$ 14.66	$ 24.05

Note: Costs related to direct care staff salaries, benefits (if applicable) and transportation are directly charged to the appropriate therapy service. All other costs are allocated between the service categories based upon the percent of applicable therapy units to the total units of service provided to the Joinder.

Childhood Early Intervention, LLC
Cost Settlement Based on BFO Audited Results
Fiscal Year 2008 - 2009

Allowable Joinder Costs	$	379,719.94
Joinder Revenues	$	561,725.57
Total Funds Overpaid	**$**	**182,005.63**

Exhibit 2-B

CHILDHOOD EARLY INTERVENTION
AUDITOR'S COMMENTARY

APPENDIX A

Childhood Early Intervention
Auditor's Commentary

CEI provided a written response to the draft audit report. The BFO's comments related to the response and supplemental information provided follows:

<u>CEI asserts there are numerous errors and inadequacies with the revised draft report.</u>

CEI Assertion	BFO Comments
Page 2, there were no payments from July 20, 2009 forward, and the Joinder never made payments directly to the CEI subcontractors.	The BFO has corrected the wording in the final report.
Page 3, CEI did reconcile service billings to payments that were received. Follow-up occurred with the Joinder and MA through the use of Spreadsheets.	No changes were made. The co-owners informed both the BFO and Joinder staff that they did not reconcile billings to payments. No evidence exists to support that reconciliations occurred.
Page 5, the co-owners did read the county contract and interpreted the parts that applied to EI.	No changes were made. The co-owners stated to BFO and Joinder staff that they did not read the contract.
Page 16, a statement was added to the initial draft report that is false. The co-owners did not say the reward points/dollars were a small percentage of earned amounts.	No changes were made. After the initial draft report was issued, a co-owner verbally requested that the report be revised to reflect that the actual earned reward points were a percentage of the dollars identified on the credit card statements.
Page 16, under billing procedure there was one billing instance with 4 dates of service not 4 instances.	No changes were made. Four MA Remittance Advices, obtained from CEI, showed billing dates of 8/19/08, 9/9/08, 10/11/08, and 11/12/08.
Page 11, the sentence regarding meals that occurred during non-travel status for the co-owners is not true. These expenses were for meals for new hires, potential applicants, business and team meetings.	No changes were made. Meals incurred during non-travel status and/or for recruitment purposes are not eligible for reimbursement.

CEI asserts the $305,752 the BFO finds is not eligible for reimbursement is not accurate for several reasons:

CEI Assertion	BFO Comments
The revised draft report does not mention CEI being credited for the retained revenue from LIU and HMJ, which were not part of the audit. The allowable expenses are now listed only as Joinder without an explanation.	The BFO originally offset allowable program expenses against all revenue received by CEI to determine the overpayment. BFO agreed with CEI's request to not include LIU and HMJ revenues and expenses in the determination of the overpayment. As shown on the attached Exhibits, the BFO reduced total allowable expenses by the LIU and HMJ costs provided by CEI and did not offset the LIU and HMJ revenues. This allowed CEI to receive profits of 31% and 41% from the LIU and 37% from the HMJ MH/MR program.
There is still $107,255 that is not explained in BFO's number. The summary box on page 2 of the draft report totals to $198,497 which contradicts the recommended recovery of $305,752.	The Joinder overpaid CEI $305,752 between the two fiscal years. The overpayment is comprised of ineligible expenses and excess revenues.
There is no mention of credit for the depreciation on equipment that was approved at the exit meeting.	In response to CEI's request at the exit conference, 100% of the items were expensed in the year of purchase as provided for in the regulations.
Expenses incurred by CEI after the contract period should be reimbursed because: • CEI had a binding month-to-month contract with the Joinder. • 55 PA Code, Section 4300.149(b) provides "if a contractual agreement is entered into which extends beyond the end of one funding period, the time portion of the agreement after the end of the funding period shall be treated as a charge against the next funding period". • the Joinder told CEI the expenses would be approved.	We express no opinion on expenses beyond the audit period.

CEI asserts the BFO incorrectly applied department regulations regarding compensation.

CEI states the BFO's reliance upon the fiscal regulation limiting reimbursement based on the amounts in the county negotiated contract is incorrect because the Joinder did not sign the budget. Instead, CEI believes compensation for the co-owners should follow state comparable positions. The applicable fiscal regulation provides that the department's reimbursement be the lesser of the county negotiated contract, state comparable position, or a reimbursement grid. Our analysis indicates that the county contract was the lesser of the three.

CEI also asserts that this finding is unfair because the BFO did not take into account additional time the co-owners spent being full-time therapists and additional caseloads the Joinder encouraged CEI to take. The schedule on page 7 was included in the revised draft report. Budgeted salaries of the co-owners were increased to compensate for subcontractors CEI did not hire, and for additional administrative work. The methodology for increasing the salaries is also described on pages 7 and 8.

CEI's response states the co-owners did not plan to work as full-time treating therapists when the company was formed but assumed the positions in response to the service needs of the counties. [The formation occurred in the fiscal year prior to the two fiscal years being audited.]

The co-owners did provide over 50% of the units for children needing occupational and physical therapies. Each co-owner was paid $30 for each unit of service they provided as a portion of their salary, while CEI paid its OT and PT subcontractors only $15 per unit of service. While the co-owners benefited from this model, it was not the most cost effective and efficient for consumer service.

Furthermore, CEI asserts that in lieu of timesheets, they maintained daykeepers which documented their hours. After the initial draft report was issued, CEI provided the BFO with timesheets for the two FYs. Some timesheets were mathematically incorrect and an additional day was added in one month indicating hours being worked. As such, the BFO could not rely on this information.

No changes were made.

CEI asserts the draft report inaccurately described how the co-owners were paid.

The response states CEI paid all their bills and therapists first, and then paid themselves the remaining portions of their salary when funds became available. The response continues that regular payroll disbursements were not possible due to delays in Joinder payments to the provider.

CEI's Check Register reveals the checks for the additional disbursements to the co-owners were often written on the day of the regular payroll, or a day or two before the payroll. Also, the disbursement checks were written prior to paying subcontractors and vendors.

No changes were made.

CEI asserts that the recording of rent of the administrative office as an administrative expense is unfair.

CEI believes a majority of the allowable rent expense should be recorded as a direct program cost, rather than an administrative cost.

However, we were not provided with any evidence that would allow an allocation of the administrative site costs to direct care. All evidence indicates that the therapist duties performed by the subcontractors were completed in the field.

CEI obtained budgets of four Early Intervention providers that show a majority of their occupancy costs as direct costs. The BFO has not audited the costs of the other providers and can not comment on their appropriateness.

The CEI response notes that one of the four budgets contains the phrase "per BFO" and states that this implies BFO had input into that budget. However, the BFO had no input into the budget.

No changes were made.

CEI asserts that the BFO changed company policy for mileage reimbursement.

CEI claims the co-owners were reimbursed at the prevailing government mileage rate based on company policy. No evidence exists to support this claim. CEI accounting records show the company paid the loans on two vehicles used by the co-owners in addition to gas, repairs, maintenance, washes, and detailing CEI did not comply with the fiscal regulations, therefore the BFO allowed reimbursement based on the mileage rate CEI paid to its employee to acknowledge the co-owners' use of the vehicles for work and commuting.

No changes were made.

CEI asserts it should be reimbursed for costs that are not necessary for client care.

CEI incurred costs for meals, shirts with the company logo, and made a couple of donations all of which CEI believes the company should be reimbursed. While there is no regulation that prohibits a company from incurring these costs, the applicable fiscal regulation limits the types of costs the department will reimburse to those that are necessary and proper. None of these costs benefited the Early Intervention clients for whom the program funds were intended to help.

No changes were made.

CHILDHOOD EARLY INTERVENTION'S RESPONSE TO THE DRAFT REPORT

APPENDIX B

TO: Thomas Crofcheck, Director

C: Edward P. Seeber, Esquire

FROM: Childhood Early Intervention, LLC

RE: Response to Revised Draft Audit Findings

Date: April 5, 2010

The following serves as Childhood Early Intervention, LLC's ("CEI") comments to the revised draft audit report prepared by the Division of Audit and Review and received through email on March 26, 2010. Furthermore, CEI reserves the right to provide additional factual and legal arguments for any appeals of the final audit report and any actions related thereto, and this response may not be construed as an admission or waiver of any defenses.

CEI is requesting the payment of the fees earned but withheld by the Franklin/Fulton Mental Health and Mental Retardation office ("Joinder") together with interest. CEI is disputing the draft audit findings as set forth below. To the extent that any actions are necessary to comply with the "recommendations", CEI has done so as discussed below despite the fact that the actions of the Joinder has caused CEI to go out of business.

Background and Summary of Events

In order to put the audit into perspective, CEI submits the following timeline of events that occurred during the audit process.

- June 16th -CEI received a letter stating that the Joinder was completing a monitoring of CEI since CEI was a sub-recipient of federal and state dollars. The letter requesting a *significant* amount of paper work within two business days. (See Exhibit A-1).
- June 24th - Joinder met with CEI and audited CEI's office space.
- June 29-July 2nd – Joinder continues their monitoring by reviewing records kept at CEI's accountant's office.
- July 10th – CEI was notified that the Bureau of Financial Operation ("BFO") would be performing an audit and that payment and all referrals were being withheld from CEI. (See Exhibit A). It was two weeks before the

Joinder gave an explanation to CEI as to why referrals were withheld. The reason given by the Joinder was that it was a rash decision which caused a disruption in the continuity of care for the children and therapists work schedules. (Exhibit B- email dated 7/28/09).

The Joinder requested in writing that as the audit was in progress that the process should be kept confidential between CEI and the County (See Exhibit C and Exhibit A), and this is what CEI followed. The Joinder did not follow what was being asked as the Controller's Office and Commissioners' office were made aware of the audit and preliminary findings during the audit process before CEI was made aware of any questioned costs. (Exhibit F) Additionally, the general public and CEI's team of therapists found out about the audit when the Joinder chose to release incorrect statements and preliminary information to the public through three newspaper articles, a radio broadcast and a television news broadcast. These statements misrepresented CEI and were defamatory in nature. The defamation of CEI and the co-owners prevented another company that the CEI co-owners owned from becoming a provider in a neighboring county. The budget was submitted as well as required paperwork and everything was ready to proceed forward. An email was received 9/22/09 noting concerns of the audit with CEI so a meeting was scheduled to clarify any questions with this neighboring county. On 9/29/09, the EI coordinator from Cumberland/Perry County cancelled the meeting due to all of the news and media coverage and letting the co-owners know that they were not willing to meet to hear our side or proceed forward. (See exhibits D, E)

- July 10th CEI was given just *three* business days to submit supporting documentation regarding CEI's ledger for the two fiscal years in question.
- July 14, BFO notified CEI that the BFO would be performing an audit starting July 21st.
- July 21st, two state employees from the BFO with the assistance of a fiscal representative contracted by the Joinder began fieldwork that lasted 4 ½

weeks (although the BFO letter stated they hoped to be done by August 4th.)

- Week of July 27th- The Joinder agreed to release payment to treating therapists during the audit so that services could continue without disruption. (Exhibit G). See explanation under example 2 below that when hours were submitted the Joinder paid all treating therapists except the co-owners of CEI.
- Week of August 24th- meeting with Joinder to discuss release of funds to pay CEI staff for their work performed as per the verbal and written agreement with the Joinder. There was also a discussion of projections for a new budget for 09/10
- September 1, 2009- Services were forced to be put on hold due to non payment from the Joinder to CEI for services provided for three months and the inability for CEI to pay their expenses, especially their therapists. At this time, the Joinder informed the families about the temporary hold and over 95% of the families decided to wait for their therapists from CEI to return to treating their children. CEI was always willing to continue to treat the children as long as the Joinder was upholding their agreement of payment.
- Sept. 3- Closing meeting with the State and Joinder.
- During the weeks of Sept. 7th thru the 14th- CEI left at least 3 messages for the commissioners and no calls were returned so that CEI could arrange a meeting with them. There were also a number of inconsistencies in information related to the commissioners as was reviewed in their meeting minutes on the county website. For example, the Franklin County Board Meeting Minutes from their website state that on 9/17/09 that the BFO "have sent a draft report that outlines the disallowed costs which include salaries, automobile charges, rent and personal expenses" as reported by Rick Wynn to the County Commissioners. The draft report wasn't even available at this point since it wasn't date stamped until November 9th, 2009. Again, the information being relayed to others in the community was not accurate.

- Sept. 8th- CEI met with the Joinder to submit proposal for continuation of services and summary response to questioned costs.
- Sept. 11- budget meeting with the Joinder to discuss 09/10 contract and CEI's concern that the families were still without service approaching the end of the allowable 2 week hold. With regard to the budget, even after CEI and the Joinder went through each line item for the 09/10 budget, the total amount of the budget was in excess of $550,000 for a 12 month contract. (Exhibit M).The Developmental Disabilities Director verbally stated that there was only $345,000 available and that CEI would have to be selective in which children they serviced and try to get the budget into that number. It is the understanding of CEI that the Joinder is responsible to make sure that the consumers who are deemed eligible for service get the service they need and control the waiting lists. (Exhibit I- paragraph F).
- Sept. 15th- Joinder gave their ultimatum of wanting collateral of at least 200,000 for CEI to continue to be a Provider. CEI did not have funds to put up as collateral and did not feel that the findings were justifiable.

The audit process was inconsistent and lengthy in nature. Some examples are as follows:

Example 1-There was inconsistency as to why payment was being withheld to CEI during the audit process. CEI was informed by the Joinder that funds were withheld solely due to an audit being performed but then CEI was informed that funds were withheld due to the amount in question during the audit process even though amounts were not known at that time. Since CEI was not kept aware of the progress and questioned costs during the audit yet the controller's office knew of questioned costs regarding automobiles and based non payment for services on questioned costs.

Example 2- An emailed version of the verbal agreement is attached to this report showing that the Joinder agreed to pay the treating therapists (Exhibit G). This was not to include the office manager, Spanish translator and other expenses necessary to run the business. When it came time to pay the treating therapists a) the Joinder would not release the check to CEI but made the co-owners come in to the county office and show each and every check that was written out to the therapists for payment before a check would be released from the controller's office b) in addition, CEI was also told that the co-owners direct patient care hours would not be paid even though the agreement was to pay the treating therapists. c) The Joinder went against its agreement but the co-owners continued to treat the children during July and August to prevent disruption in services even though they were not being paid d) and the Joinder decided after discussion with Claire Hornberger at the county to include paying the Spanish translator but then the Joinder never released the check to pay the translator e) and then after all the therapists with CEI treated for the month of August the Joinder did not release any funds to pay the treating therapists. CEI took the responsible approach and had to take out an additional line of credit to be able to pay its therapists for work performed. CEI is still responsible for this line of credit and is now out of business and needs the Joinder to release the funds they are holding so this can be paid back since the Joinder was supposed to pay CEI's therapists per the documented agreement. In addition to the verbal agreement described above, CEI also had a written agreement to continue to provide services on a month to month basis per the county contract page 2, number 6 *"...all terms and conditions of this agreement will continue to apply and be binding on the parties..."*

Example 3- Additionally, the co-owners were not kept abreast of the findings throughout the process as per the July 14th BFO draft letter (Exhibit A). All updates throughout the audit were through the request of the co-owners. The day before the closing meeting the co-owners were led to believe through an email that the questioned number was low. (Exhibit J). Verbally the co-owners were told by MH/MR Administrator that the number was approximately $35,000.00 at the end of the fieldwork. The following day at the closing meeting the co-owners were told that the questioned costs were around $212,000.00. Then when the draft copy was finally provided 10 weeks later the amount in question was $329,561 with a summary that only explained $233,531.00 of the questioned costs. Approximately five months later the revised draft audit report has an amount in question of $305,752 with a summary that only explained $198,497 of the questioned costs.

CEI will address the merits of the findings in the next section of this report but wants to point out the errors noted in the revised draft report.

- On page 2 of draft report the third sentence under subsequent event is incorrect. There were NO payments made from July 20, 2009 forward and the Joinder NEVER directly made payments to the CEI subcontractors as stated in the draft report.

- On page 3 recommendations under finding number 3 the 4th bullet recommends CEI perform reconciliation of service billings to payments that were received. CEI did reconcile service billings to payments that were received (examples: payments received from the county always included remittances attached and those were used against what was billed). Rebills were submitted on an ongoing basis to the county as discrepancies occurred. MA remittances were printed after each billing episode and checked once payments were received. Spreadsheets were also kept on billings and reconciled against payments received.

- On page 5 the owners did read the county contract and interpreted the parts that applied to EI to the best of their ability without legal consultation.

- On page 16 D paragraph 2 BFO added a statement that was not in the initial draft report by the co-owners that is false. The co-owners did not say ...the rewards points/dollars were a small percentage of earned amounts. The co-owners were not aware of reward points until the auditor asked if any were used. Once the co-owners were made aware of the rewards points by the auditor the rewards points were redeemed in the amounts of $350.00 and $125.00 and deposited into CEI's accounts. Documentation of the deposit is attached as Exhibits 3 and 4.

- On page 16 C paragraph 2 under billing procedure there was one billing instance with 4 dates of service NOT 4 instances. There was a preventative measure put in place that included documented and verbal communication with the office manager in training during this billing process. Documentation of this written communication was provided to the BFO prior to the initial draft report being issued.

On page 11 under unallowable costs, the sentence regarding meals that occurred during non travel status for the co-owners is not true. These expenses were for meals for new hires, potential applicants, business and team meetings.

Analysis- This section will further explain CEI's direct rebuttal of the findings, which begin on page 2 of the draft audit report.

The amount of $305,752 that is not eligible for reimbursement per the BFO revised draft report does not appear accurate for the following reasons:

1) The revised draft report does not mention CEI being credited for the retained revenue that was being allowed from the LIU and HMJ which were not part of the audit;
2) There is still $107,255.00 that is not explained in BFO's number. The numbers in the summary box on page 2 total 198,497.00 which contradicts paragraph 1 under recommendations on page 11 which identifies the items that led to the $305,752.00.
3) There is no mention of credit for the depreciation on equipment that was approved at the exit meeting.
4) The allowable program expenses in the first draft report include LIU, MA and Joinder revenues, but in the revised draft report the allowable expenses are now listed only as Joinder without any explanation.
5) With respect to the additional costs that you claim you will not be allowing as they fell outside of the contract period, it states on page 2 of the county contract #6-CEI had a month to month contract and all terms and conditions of this agreement will continue to apply and be binding on the parties. Furthermore, 55 PA Code Sec. 4300.149 (b) sets forth, *"if a contractual agreement is entered into which extends beyond the end of one funding period, the time portion of the agreement after the end of the funding period shall be treated as a charge against the next funding period."* CEI was told by the Joinder that the following expenses would be approved while the company was working from July 1st, 2009 –August 31, 2009 and meeting with the Joinder to finalize a 09/10 budget. CEI was told to put these expenses in the 2009-2010 budget and since CEI is no longer a provider and does not have a contract these expenses need to be

reimbursed to CEI by the Joinder *since the written contract was a binding agreement.*

Attorney fees= exceeding $8,500.00 and still accruing
Accounting fees= exceeding $9,600 and still accruing
ST Employee= $3,529.04 for work in Aug.
Sub-contractors=$14,999.01- for work in Aug.
Payroll taxes=$2,520.52 for August.
Co-owners salary for July (14,758.00 for co-owner A and B combined)
Co-owners salary for August (14,758.00 for co-owner A and B combined).

Owner's Compensation –

As set forth in 55 Pa. Code Sec. 4300.83a, regarding Compensation, states "Compensation costs eligible for Departmental participation shall be the lesser of the amounts negotiated and approved by the Joinder as part of the contract or the amounts specified in subsection (b) and (c). As noted on page 12 Part A of the revised draft report BFO notes under paragraph 3 that the Joinder's budget contains an area for the signature of the Joinder staff after reviewing and approving the budget, which was not completed for either FY budget. CEI strongly feels that the salary argument should follow 4300.83(b) since the budget was never approved, signed or reviewed by the Joinder.

The salary amounts paid to co-owners A and B are reasonable and justifiable when compared to the Commonwealth of Pennsylvania State Civil Service Commission Pay Schedule (refer to P.S. group MA10 and P.S. Level 15 (Exhibit R)

The co-owners of CEI are full-time treating Occupational and Physical Therapist treating over 50% of the children that CEI serviced as a whole. In response to the comment in the draft report that the co-owners did not maintain timesheets, CEI co-owners kept daytimers that represented their timesheets as summarized on Exhibits S and T).

DIRECT CARE SALARY

	CEI paid this amount for 07/08	CEI paid this amount for '08-'09	Amount BFO is Allowing for Direct Care	Current State Civil Service Crosswalk
Co-owner A	$85,000.00	$86,700.00	$57,969.00	$88,547.00 plus benefits package
Co-owner B	$85,000.00	$86,700.00	$57,969.00	$88,547.00 plus benefits package.

According to 4300.83 (b), the Department will participate in compensation for employees of program funded agencies up to the combined prevailing Commonwealth salaries and benefits for functionally equivalent positions. The salaries listed above are BELOW what the State Civil Service Pay Scale would pay a State employed therapist and therefore the Department should participate in the compensation that was paid as listed above. It is the position of CEI, that 4300.83 (a) regarding approved budgeted numbers is not a justifiable means of determining the co-owner's salaries due to the following reasons: (1) the Joinder did not sign that the budget was reviewed and approved for either FY in question, (2) how can CEI be held to a budget when the Joinder sent emails stating that the Joinder expects the Provider to back their numbers into a set amount for a 12-month period that was not reasonable based on the caseloads and costs to run the business (Exhibit U). (3) According to the contract a Provider cannot decline a referral which increased the need for the co-owners to continue to increase their caseloads; (4) the BFO is only questioning parts of the budget related to the co-owners salaries. The co-owners did not budget to work as full-time treating therapist when the company was formed which is why other OT and PT positions were budgeted for; the owners quickly assumed full time positions for direct patient care as outlined secondary to the need for service in Franklin and Fulton Counties. (5) CEI had to take additional referrals over what was budgeted in order not to breach the contract and to provide coverage when another company lost staff members; As per the Franklin Fulton County contract FY 2008-2009 page 6 letter F paragraph 1 *"...EI Program will also assure that consumers are not rejected from participation in or discharged from mental retardation/early intervention services or programs without prior planning and intervention"*. And, page 7 paragraph 2 *"...the Service Provider must accept the client"*. (Exhibit I).Therefore as the needs in the County grew; the Joinder encouraged and required CEI to continue to expand to provide services to the children that were deemed appropriate for service. CEI grew to meet their needs from a team of 4 to a staff of over 20 therapists in 3 years. The growth was quicker than expected and required the contract to be amended as discussed earlier (Exhibits P and Q). Referrals were withheld from both Providers in the county until children who had not been accepted due to special need or location were serviced. CEI took on additional caseloads when another Provider could no longer provide services due to maternity leave and therapist leaving/retiring. CEI asked the Joinder at that time to transfer encumbrance money but CEI was told that the amount of units serviced was about the same as the other local Provider but this was not the case. Please note that CEI provided 60% more service units (a unit if service is 15 minutes). In Table 1, CEI provided 18,525 units vs. 11,119 for UCP.

The Joinder set precedence when the Commissioners signed additional contract amendments for more encumbrance money and did not require a revised budget. The Joinder and Commissioners knew and agreed to additional funds that were needed for CEI to meet the needs of the state mandated program. CEI always billed the Joinder at the agreed upon rate. The contract amendments for additional funding occurred three times over the past two fiscal years. CEI is being asked to pay back money related to the co-owners salary solely due to being over the budgeted numbers submitted prior to the start of that fiscal year. Five other Providers ([redacted] for '07-'08 went over budget and 2 Providers ([redacted] for '08-'09 went over budget per open records request in Franklin/ Fulton County and none of these Providers had to submit a revised budget. To the best of our knowledge, these other companies do not have to pay back money that they received for going over budget for services provided.

The BFO is trying to treat the CEI co-owner's salaries as if they were contracted therapists to the company. The co-owners were salaried employees and as a salaried employee an employee is paid for more than just direct units.

As employees, the co-owners not only get paid for direct face to face patient care units but also for their direct care time for the patient treatment which includes, *inter alia*, drive time, phone calls to physicians, DME providers, parents and case managers. Based on the amount of time spent by the co-owners as both administrators and therapists, their salaries were more than reasonable.

In addition to being full-time therapists, the co-owners also performed all the administrative duties that [redacted]mployed 11 staff members to perform as per open records request for Franklin/ Fulton County. After 3 years of rapid growth from a team of 4 to a team of over 20 therapists, CEI hired an Office Manager to manage secretarial and office related task, as well as billing. Up to that point co-owners A and B performed job duties related to the following positions held by administrators at [redacted] another local provider, i.e Director, Executive Director, Executive Assistant, Manager, EI Billing Specialist, HR Director, and Therapy Supervisor. It is not questioned that the co-owners performed the administrative services and again the time sheets as converted from their day timers are available (See Exhibits S and T).

Table 1 shows the amount that the co-owners were paid to perform the duties listed above. The amounts paid to co-owners A and B are significantly less than what [redacted] was allowed to pay their staff. CEI actually saved the taxpayers $49,066.00 for FY 08/09 and provided over 7,000 more units of service. If one breaks down the actual cost to perform administrative duties, CEI's cost per unit would be $2.84 vs. $9.14 for [redacted] The admin salary being allowed by BFO makes the cost per unit 72 cents per unit when the $2.84 was reasonable.

Salaries (Not Related to the treatment of clients)- TABLE 1

Salaries for FY 2008-2009:

[redacted] (per open records request) CEI

Director	37,981		Co-owner A	19,149	
Ex Director	4,976		Co-owner B	21,055	
Program Dir	13,909		Admin Asst	12,482	
Admin Asst	25,709				
Controller	4,285				
Fiscal Manager	3,145				
EI Billing Specialist	2,772				
Payroll Facilitator	2,074				
HR Direct	3,244				
Special Events Coordinator	3,340				
Program Assistant	317				
Total paid to [redacted]	$ 101,752		Total paid per CEI which is being disallowed	$ 52,686	BFO only allowing total paid of $13,396.00 to CEI

Total base/waiver units	11,119		Total base/waiver units	18,525	
Cost per unit	$9.15		Cost per unit	$2.84	72 cents per BFO allowable

Salaries for FY 2007-2008: Table 2

[redacted] (per open records request)		CEI		
Director	38,242.00	Co-owner A	22,916.00	
Ex Director	$3,472.00	Co-owner B	28,056.00	
Ex Assistant	$1,372.00	Per Diem Office Worker	250.00	
Grant Writer	$1,954.00			
Fiscal Officer	$2,453.00			
Fiscal Manager	$2017.00			
EI Billing Specialist	$2,357.00			
Payroll Facilitator	$1,239.00			
HR Director	$2081.00			
Special Event Coordinator	$1,381.00			
Program Secretary	22,880.00			
Total paid to [redacted]	79,448.00	Total paid per CEI	51,222.00	BFO only allowing total paid of $9,072.00 to CEI

Total units	13,644	Total units	12,942	
Cost per unit	$5.82	Cost per unit savings compared to other agency	$3.96	Cost per BFO allowance is .70 cents

As clearly shown in the Tables above, CEI kept costs down in the administrative category and saved money on a cost per unit basis. CEI was able to provide direct care and tend to administrative tasks while keeping the costs down as exemplified by CEI. CEI did not follow the model used by other companies of putting multiple people on payroll and spending the money down in each category in fear that the funds would not be available for the next year if not spent.

Payment Methodology (page 6) – The draft audit report inaccurately states that CEI's co-owners received a monthly wage for direct care services and periodic payments written from CEI's account.

To the contrary, payroll was completed using the following method:

The co-owners of CEI wanted to avoid drawing on lines of credit and paying interest on a line of credit so CEI paid all their bills and therapists first and then paid themselves the remaining portions of their salary when funds became available. Regular payroll disbursements were not possible due to delays in Joinder payments to the Provider. On more than one occasion the Provider was informed by the Joinder that payments may be delayed longer than usual which is why the owners were cautious to not take their entire salary at regular intervals. On one occasion, the co-owners contacted Commissioner Bob Thomas to notify him that the Joinder was delaying payment beyond what was allowable in the contract. Periodically throughout the year, the accountant would treat all of these withdrawals as salary and ensure that taxes were paid on the money.

Understanding its rapid growth and need for further revision of its policy and procedure manual, CEI contracted with a Human Resource Consultant in the Spring of 2009 prior to any awareness or knowledge of a pending audit.

Related Party Rent

The problem under related party rent arises when the BFO is trying to put all of the rental charges under the administrative portion of CEI's budget which will put CEI over budget in that category and not be able to take the full amount of payments for the property as allowed in the regulations. Please refer to attached Exhibits W1,2,3, and 4 which show that all other Early Intervention Providers in the state that CEI obtained through open records request are allowed to include a majority of their occupancy charges under operating expenses versus administration. (100% on the York Adams budget with [redacted] and [redacted] budget with Bucks County, 65% on the Franklin County budget with [redacted] and 89.22% on the Franklin County budget with [redacted]. CEI feels that the BFO should not be able to choose to put 100% of CEI's rental costs under admin when the local county allows its Providers to do percentages between 65% up to 89.22% under direct operating expenses and the other counties in the same state allows for 100% . Kelly Leighty stated on the phone that this is being done because CEI does not provide direct care in the clinic. In the state of Pennsylvania, Early Intervention is performed in the natural environment so care is not typically provided in any Providers clinic (including [redacted] and [redacted] which are the local companies and yet they are allowed percentages under direct expenses as noted above. CEI is only asking for fairness in where rental costs typically go as noted in the above examples.

Furthermore, It is noted on Exhibit W1 that certain line items on [redacted] budget for Franklin/Fulton County were moved to the administrative section from direct operating expenses "per BFO" which Implies that BFO provided input on their budget. BFO left a majority of [redacted] expenses under "direct" operating expenses without the Joinder or BFO seeing a cost allocation plan. Please refer to exhibit ZZ which shows through open records request that the Joinder did not have a cost allocation plan on file at the start of FY's 07/08, 08/09, or 09/10 for [redacted] or [redacted]. CEI has already given BFO their cost allocation plan as was requested but BFO is still putting all of the rental costs and most other expenses on the administrative portion of their Exhibit 2A 08/09 budget which is not allowing 27,184.47 in expenses that should be approved. CEI is also providing time studies that were done once every quarter as supporting documentation for their requested split of 85/15.(Exhibit 2). It appears that CEI is the only company that is being questioned about where expenses go in a budget and the same procedures are not followed for the other Providers.

In addition, [redacted] budgeted for rental cost of $18,000.00 for Franklin/ Fulton County and $21,250.00 in York /Adams County when, to the best of our knowledge, there is not an actual office in any of these counties for the therapists to have access to. The home office for [redacted] is at least 100-130 miles away from these counties. Having a true physical location eliminates the need for mailings of equipment, supplies and paperwork thus decreasing the cost of other line items like communication and office supplies. CEI was being questioned by the Joinder and the State on the 2500 sq. foot office space for over 20 therapists and the cost involved when the new company [redacted] has come in and 1) to the best of our knowledge, has not disclosed to the county that there is a related party issue (see Exhibit Z, Z1, and Z2, and Z3). CEI has researched and found out that the address that is being used for the EI program for [redacted] is [redacted], PA. As per the Bucks County Assessment office, that property is owned by [redacted] LLC. The related party is that [redacted] who is an owner and operator of [redacted] s also the President and tax responsible party for [redacted] LLC as per the Department of State via phone call on 12/23/09 2) [redacted] is billing close to the same rental cost that CEI would have and the Joinder is without concern about how much square footage is allocated (Exhibit Z4) 3) [redacted] has multiple contracts in 28 states per their website that may this [redacted] address as their office address and should only be able to allocate a portion of costs to the EI program (4300.87) as well as follow the same related party guidelines in the 4300.13 regulations. [redacted] should be held to the same level of scrutiny that CEI was and should be looked into as a related party.

CEI provided a true physical location that the therapists used on a daily basis for computer use, files, faxing, copying, supplies, mail pick up/drop off, trainings, etc. thus saving money in the communication and office supply line items of the budget since CEI had a physical location.

Automobiles

CEI has the autonomy as a company to makes its own policies regarding reimbursement for travel. CEI reimburses their senior therapists at the prevailing government rate and their staff therapist at $.325 per mile. (Exhibit X). The BFO should not be able to change the company policy for mileage reimbursement. The auditors did not realize that CEI had two different job classifications, Senior Staff Therapist and Staff Therapist. The auditor thought that the classification was executive versus therapist. This was not the case. CEI made a suggestion that CEI would go back and pay the one staff therapist at the prevailing government rate for that time frame. CEI did not make a retroactive policy as referred to in the audit draft findings. It is the practice of CEI to make decisions and policies that are good business practice and that saves the county, state and company money.

Unallowable Costs

Meals for the co-owners accrued during non-travel status were meals related to interviewing applicants, hiring and training staff. The meals were a means of recruiting applicants in a professional setting over dinner as opposed to inviting an applicant/stranger into an office at a personal residence. The 4300.98 regulations list examples of means of recruitment but does not exclude meals. It is best practice to keep all receipts; however, use of a credit card receipt was thought to be acceptable per the IRS website. This is evidence of good recruitment and retention practice since it was 1) cost effective due to minimal need for advertisement since therapist were recruited in person. Note the following points: a) as per open record request [redacted] budgeted a total of $7,000.00 to Franklin Fulton County for nine months of the year for communications which includes postage, phones, and advertising; b) in York county [redacted] budgeted $6,300.00 in advertising and $6,600.00 in postage; c) CEI expensed meals for recruiting that are being denied that total $2,111.46 for '08-'09 when clearly this cost is 1/3 less than what [redacted] budgeted for just 9 months of this fiscal year; d) there appears to be a double standard with the use of state/county funds for staff retention and team building. The county has separate team building days at a local park, Caledonia with gift bags for the workers on a paid work day as well as their Holiday parties. 2) high retention (CEI recruited over 20 therapists over a period of 3 years with only 4 leaving due to demands of their full time job or lack of referrals and in one case a move).

Per 4300.88, *"the department will participate in the cost of office and program supplies, including medical drugs, food and clothing, related to the delivery of a service or the administration of a program"*. New staff members were provided with a shirt with the company name that was worn to trainings and to therapy sessions which should be allowed but are being denied in the BFO audit report. Small donations were given to a local charity for underserved families over Thanksgiving two times over the past 2 years. Holiday parties are Holiday meetings that occur one time a year in December as a means of retention to thank the team for their dedication and commitment to the children in the counties that were served and to continue to build a relationship and an open sense of communication with the county staff who also attended the dinner. Through an open records request from York/ Adams county, [redacted] who also follows the 4300 regs was allowed to budget for food when CEI is being denied food expenses related to training and recruiting. [redacted] from open records request was also able to budget for "miscellaneous meeting" expenses of $500.00 and food for $500.00 for York/Adams County FY '08-'09. (Exhibit W3)

Summary

A written agreement as well as a verbal agreement was made with the Joinder and Provider during the audit process so that services for the children would be able to continue as the Joinder was aware that their funding was the primary source of revenue for the company. This agreement was that the Joinder agreed to pay the direct treating therapists for services provided during the months of the audit. The Joinder only upheld this for one of the months during the audit process. Once invoices were submitted for June 2009, the Joinder specifically did not pay the two co-owners and would not pay them for their work even though they provided over 50% of the companies direct service hours to the children This continued in the subsequent month as well. Additionally, the Joinder did not uphold the written contractual agreement or their verbal agreement for the month of August and did not pay any of the direct treating therapists which caused the Provider to take out an additional line of credit to pay their staff. Subsequent payments should have been made to CEI as per the verbal/written agreements with the county for CEI to continue to provide services. CEI could not continue to ask their team of therapists to treat knowing that they would not be able to pay them. Therefore, the Joinder left CEI no choice during this audit process but to put services on hold. On the last day of the allowable two week hold the CEI was offered an ultimatum by the Joinder to put up collateral for the questioned cost of over $200,000.00 and the Joinder was already withholding $100,000.00 for services already provided. CEI provided an alternative to the Joinder including contracting through another company owned by the CEI owners while the audit of CEI was being carried out so that the children could continue to treat the children without there being a delay in service. The Joinder opted not to accept this alternative causing the children to go without services for a longer period of time.

At the start of the audit the CEI informed by BFO as well as the Joinder that this was a confidential process and not to inform the families. CEI upheld this request however the Joinder facilitated 3 newspaper articles, 1 television broadcast and 1 radio announcement providing misleading information about the so called "confidential audit".

CEI is being held to standards that other Providers within the state and under the same regulations are not being held to with regards to salary, rent and budget line items allocation.

CEI feels that Finding Number 1 of $305,752.00 is not fully explained. The report does not comment on the other $107,255.00 that is being questioned and the summary table only adds up to $198,497.00. The CEI co-owners were paid therapy salaries that were reasonable and justifiable and less than the State crosswalk. There should not be an amount owed back for the salary that was paid to the co-owners when the Joinder asked CEI to take on more clients and perform more work. This was documented and made official with the signing of the contract amendments (4x's) over the 2 FY's in question. CEI also had administrative costs that were significantly less than the other local providers but yet CEI's costs are being questioned. The BFO is making decisions on what amounts for salaries, rental costs, etc. go into certain line items on the budgets they created and putting the costs in the categories that would give the Department more money back. This action is preventing CEI from being able to use expenses that are allowable in categories like rent and salaries. Additionally, this is not how other Providers in the state or locally ([redacted]) are treated or required to do it.

CEI was cost conscious during their hiring and negotiating process for the 3 years they provided service. At no time did CEI overspend in any aspect. An example being when CEI was looking for a Spanish Interpreter, the going rate in the area after research was 35.00 to 45.00 an hour for a translator. CEI interviewed the same translator that the Joinder used but the rate being paid by the Joinder was 2.5 to 3 times the going rate and CEI could not afford that so the rate was negotiated with the translator and she was hired her for the going rate. CEI had to inform the Joinder that they could negotiate their rate. This information is referenced as an open records request (Exhibit Y). CEI is unsure why the Joinder's contract negotiated rates in 07/08 were fairly reasonable and then increased to over $100.00 per hour in 08/09 (above what the going rate was) and then decreased again for the following fiscal year. This is questionable spending and should be examined by the appropriate organization.

With regard to related party rent, the Department chose to apply 100% of the allowable costs to the administrative section of their audited budget. Doing it this way prohibits CEI from using the full allowable amount against the audit findings. It should also be noted that all of the open records requests that CEI obtained in the State of Pennsylvania apply their rental costs primarily to the direct portion of their budget and a very small percentage to administrative section and specifically the 2 Providers in this county. CEI feels that they should be treated the same as the other local Providers as well as those within the State and be able to apply a majority of their rental costs to the direct portion of their budget. This is how it was even calculated by the Joinder in the 09/10 projected budget during negotiations with CEI.

With regards to the automobile questioned costs, if CEI's policy (Exhibit X) is followed allowing the mileage for the FY's in question to be reimbursed at the governmental rate then there wouldn't be any amount owed back. The Department should not be able to decide that the co-owners should be paid at the same rate as an employee with a different job classification.

The other non-reimbursable questioned costs include costs that CEI feels are covered under the 4300 regulations such as work shirts and recruiting and retention expenses.

If the audit objective as described on page 4 of the draft report was to determine if the costs are allowable, reasonable and applicable to the program then it makes sense that all Providers should be held to the same standards. If CEI is treated how the other Providers in the state and local county are with respect to expenses and program functions then a lot of the questioned costs would be disappear. If one takes the amount of county units CEI treated over the 2 FY's at their original contract rate this would be close to 944,000.00. This is similar to the amount that the new company that was brought in to provide service is going to get paid if they have the same number of units as CEI at their contract rate. It appears that CEI was/is expected to do the same work in the same field as the other local providers for a significantly lower cost.

It seems contradictory that the Joinder is being acknowledged on Page 5 of the revised draft report for improving its contracting and monitoring functions when the Joinder brought in a company to replace CEI that is a related party as evidenced in the document. Furthermore, the Joinder didn't even have any cost allocation plans on file for the either of the EI providers as of March 3, 2010 for any fiscal year since July of 2008 per an open records request.

Conclusion:

CEI has always possessed a high quality work ethic and feels that they were unnecessarily forced out of business during the fieldwork portion of the audit due to the withholding of funds by the Joinder. CEI was issued a letter from the BFO that an audit would be taking place when this process started, however the process was more of an "investigation" in which the reasons were never clearly explained. CEI does not feel that a four and a half week "investigation" was justified. In the 09/10 budget negotiations with the Joinder, the main point of discussion was not about the kids getting serviced but what the co-owners salary would be. The focus was more on limiting their salaries and less on the provision of service for the families.

CEI had hoped to be a Provider for many years to come and would like the opportunity to be a Provider and provide service to the children in this community. CEI has a proven record of the high quality of care that they provided to the families in their community with their experienced and knowledgeable team of therapists. Additionally, the amount of therapists that they recruited in a rural area in just three years to meet the needs of the Joinder program is exemplary. CEI knows that they ran their business ethically and morally correct with high standards and did so in a cost effective manner as described in this response. CEI hopes that through a thorough review of the facts listed in this report that the final report from the State will show equal and honest treatment of CEI as is done with EI Providers in the State of Pennsylvania.

CHILDHOOD EARLY INTERVENTION
JOINDER RESPONSE TO THE DRAFT REPORT

APPENDIX C

Franklin/Fulton County Mental Health/Mental Retardation Program

Mental Health Program
425 Franklin Farm Lane
Chambersburg, PA 17202
(717) 264-5387
Fax: (717) 263-0469 / 264-6297

Toll Free 1-800-841-3593
TDD (717) 264-8474

MH/MR Administrator
Claire Hornberger

DD/EI Program
218 North Second Street
Chambersburg, PA 17201
(717) 709-4321
Fax: (717) 709-7222

Franklin County Commissioners:
Robert L. Thomas, Chairperson
David S. Keller
Robert G. Ziobrowski

Human Services Administrator:
Richard Wynn, Franklin County
Jean Snyder, Fulton County

Fulton County Commissioners:
Bonnie Mellott-Keefer, Chairperson
David R. Hoover, II
Craig C. Cutchall

Kelly Leighty, Audit Manager
DPW Bureau of Financial Operations
Division of Audit and Review, Central Field Office
PO Box 2675, Third Floor Bertolino Building
Harrisburg, PA 17105-2675

December 23, 2009

Dear Ms. Leighty,

Enclosed is the response to the audit of Childhood Early Intervention, LLC, which was conducted by your department at our request after we became aware of significant concerns related to their financial practices. During the audit, the BFO identified some findings in relation to Franklin/Fulton County's fiscal and contracting processes. As you are aware, I am recently new to MHMR and had begun the rather large task of reviewing and revamping the system within my first year of employment. As a result of that, these corrections were in the development stages prior to the audit by your department and are part of a larger project of clearly defining the entire contracting and fiscal processes within MHMR.

We agree with the findings regarding MHMR from the audit. These findings, from practices during that time period, were: 1) The Joinder's contracting process is fragmented. A central point of contact is needed and the policies and procedures specific to the contracting process should be documented, 2) There is no evidence that the service rates were negotiated. A budget increase was not documented by a budget revision, appendices are incomplete and some of the contract is not applicable for EI services, and 3) A lapse in fiscal monitoring and timely completion of cost settlements occurred. (It should be noted that CEI did not meet the threshold for audit submission until approximately the middle of the 2nd contract year (07/08), which would have been due roughly around January of 2009 or later). I would like to offer the following in relation to these findings specific to MHMR.

Finding No. 2: The Joinder Needs to Enhance Its Contracting Process

A. Contract Management and Execution:
"The Joinder lacks a centralized unit or individual to provide program and fiscal oversight for the contracting process."
The MHMR Administrator, Directors of DD/EI and MH, all program specialists, and all fiscal staff have held a series of meetings with the intention of clearly defining the contracting process. A flow sheet that defines who is responsible for what step of the process is near completion. The draft is attached. Once it is finalized, an MHMR Procedure Statement will be written to clearly define responsibilities.

"In addition, the Joinder lacks formal contracting policies and procedures for the management of this process."
Attached you will find the procedure statements that have been developed to date. As stated above, this is a work in process and will be completed prior to the initiation of the 2010/2011 contracts. The two attached procedure statements are: Contract-MHMR-2009-101 Appendix E Monitoring and Contract-MHMR-2009-100 Budget Review and Approval.

Prior to the initiation of this audit, human services contracted with an audit firm to develop a formalized process of sub recipient monitoring. This process was already completed and all categorical fiscal staff were in process of being trained. That training has been completed and is currently being adopted by each department. We also have begun to have all contracts reviewed by a contract specialist within the solicitor's department.

"Finally, the Joinder executed the contract with CEI with three incomplete appendices attached to the document, including Appendix C, Program Budget."
The completion of the contract and all appendices has been a topic of discussion at the above-mentioned meetings. Staff responsible for the contracts are now fully aware that all contracts must be completed from start to finish, with no blank or incomplete documents. All 2009/2010 contracts are complete, including all appendices.

B. Contract Negotiations
"As required in the 4300 regulations, the Joinder must negotiate rates based on actual costs in relationship to the units provided. In addition, 55 PA Code 4300.28(a) requires that negotiations should result in "the lowest possible rate...consistent with good program quality."
Although the MH department of MHMR had a system in place to properly review program budgets, that had not been done within the MR or EI departments prior to this fiscal year. When we discovered that the budget review was missing within these programs, we began to review the budgets as part of the 09/10 contract year process. It was this review of budgets that allowed our fiscal staff to identify some serious issues with one provider, leading to our request that BFO assist us in the audit of that provider. This budget review and approval

process is now clearly identified in the attached procedure statement and all staff will be required to follow it.

C. Contract Language

- Retained Revenue Provision: **"The Joinder's contract contains a provision for the allowance of retained revenue. However, the contract states that the provider can retain revenue in an amount not to exceed three percent of gross allowable expenses. This is not in compliance with 55 PA Code 4300.108(b), which requires retained revenue to be based upon total gross revenues applicable to the contract."**

The solicitor who handles contracts for MHMR was contacted regarding this. The response given was, "The County will modify the language in future contracts to change 'expenses' to 'revenue.' We will also review all other existing contracts and if this error exists, we will amend the contract."

"In addition, for rate development purposes, the budget inaccurately calculates retained revenue based on three percent of gross expenses."

The attached budget form has been redone in order to properly calculate retained revenue.

- Other Provisions: **Although the Joinder modified its boilerplate MH/MR contract to fit the EI program, the contract document contains provisions that are not applicable to the EI program. In addition, some of the applicable regulations are not properly cited. The following was noted:**
  - **Section XV, Subsection B, relating to direct care workers, is written for care given to MH/MR consumers, rather than EI consumers.**
  - **Section XV, Subsection D, references 55 PA Code 4300.87(c)(2)(i) and (vii), but the verbiage in the contract is not consistent with what those regulations address.**
  - **Section XVI – Fixed Assets, Subsection 6, the provision does not distinguish between related and non-related parties.**

Again, the County solicitor was consulted on this one. Her response is, "The County has utilized the MH/MR Boilerplate and modified it to include EI program provisions. We have mutually agreed to remove inapplicable provisions via amendment when a provider has asked to do so. Because we cannot and would not enforce inapplicable provisions, we have not had any issues. Moving forward the solicitor's office will work with the administrator to create a separate contract for the EI program which eliminates the inapplicable provisions to the EI program, as well as make the citation changes noted in the draft report."

D. Fiscal Monitoring

"From February 2008 until January 2009, the Joinder did not complete fiscal monitoring of its providers."

The MHMR fiscal department was short staffed for almost a year. As of January 2009, we are fully staffed and all fiscal monitoring is being completed. We have one fiscal staff assigned to sub recipient monitoring. Also, per Appendix E, fiscal staff are assigned to regular monitoring of providers through various reports.

E. Cost Settlement

"The joinder has not completed cost settlements on CEI's contracts."
Cost settlement has been completed for all fiscal years through 07/08 for all departments within MHMR. Attached is a procedure statement written to ensure that cost settlement continues in a timely manner.

MHMR is committed to doing quality work and recognizes the importance of being fiscally responsible. We have been undergoing significant work internally to assure that we are doing that. This work includes developing a quality management committee and a workgroup to thoroughly review and revamp our contracting process.

We would ask, given that the initiation of this process was done by the County, that the following suggestion towards resolution occur. Once CEI's appeal process is complete and a final settlement payment figure is reached, that the County not be held liable for any amount above what we can reasonably collect from CEI. To date, we have withheld $99,114.14 in payments toward that goal. Any significant amount above what we have withheld may be difficult to obtain. One suggestion would be to allow CEI a five to seven year pay back option, in exchange for no future legal actions being taken. If the County would be required to make up any difference, it would have a profound impact on our future capacity to provide Early Intervention services. We thank you in advance for any consideration

We appreciate the assistance received by the BFO in this audit of our provider. Please let me know if you have any further questions or concerns in relation to the above response to your audit.

Sincerely,

Claire Hornberger, LCSW

Claire Hornberger, LCSW
MHMR Administrator

Cc: Harriett Dichter, OCDEL
Maureen Cronin, OCDEL
Frank Miller, OCDEL
Franklin County Commissioners
John Hart, Franklin County Chief Clerk
Rick Wynn, Franklin County Human Services Administrator
Teresa Beckner, Franklin County Fiscal Director
Jean Snyder, Fulton County Human Services Administrator
Carol Fix-Diller, Franklin County Controller

Contract Flow Sheet

CONTRACTS	
DIRECTOR	**PROGRAM SPECIALIST**
Communicate overall contract changes to the providers	Review work statement
Review of completed contracts prior to signatures	Review appendix E submissions
	Managing the tracking sheet
	Amendments
FISCAL	
Budget review and approval	**SECRETARIES**
Communicate fiscal changes/updates	Signature procurement
ADMINISTRATOR	
Template for boilerplate, spc, vendor contract	

** Initial submission of contract process
→ To Program Specialist
→ Put into tracking sheet (Program Specialist)
→ Program Specialist gives budget to Fiscal

** Review Work Statement

FRANKLIN-FULTON COUNTY
MENTAL HEALTH/MENTAL RETARDATION
425 Franklin Farm Lane
Chambersburg, PA 17202
(717) 264-5387

COUNTY MH/MR PROCEDURE STATEMENT

PROCEDURE NUMBER: Contract MHMEI-2009-101

FROM: Claire Hornberger, Administrator

TO: MH/DD/EI directors, program specialists, and fiscal staff

Subject: Appendix E Monitoring

Effective Date: October 23, 2009

Date Revised: October 23, 2009

INTRODUCTION:

MHMR has three distinct departments: Mental Health, Developmental Disabilities, and Early Intervention. While each department holds separate contracts with its providers, it is essential for the proper functioning of the overall department that all three departments follow the same policies and procedures for the contracting process.

Appendix E of the contracts requires providers to submit various reports to the appropriate program office. It is important to have a systematic method of receipt and retention of the provider reports. The program reports will be reviewed by the program specialists to ensure contract compliance and quality assurance. The financial reports will be reviewed and compared to the budgets as submitted to ascertain a reasonable assessment of the financial operations. Subsequent timely review of the submitted provider reports may allow for early detection of potential concerns with the current operations of the providers that, if not detected, may result in mismanagement of County resources.

DEFINITIONS:

Program Staff – this includes the MHMR Administrator, MH or DD/EI director (as appropriate), and the Program Specialists in the MH, MR, and EI program (as appropriate)

Fiscal Staff – MHMR fiscal officers

PROCEDURE:

1. MHMR program staff will remind providers in each provider meeting at the County office of Appendix E and a review of the upcoming reporting requirements will be done.
2. The program specialist responsible for overseeing the provider contract is responsible for reviewing Appendix E on a regular basis and monitoring that providers are remaining in compliance with the designated time line for report submission. He/she will send out an email to the providers reminding them of the report due dates as those dates approach.
3. The providers shall send each required report to the program specialist who is responsible for that contract.
4. The report will be reviewed by the appropriate County staff within a week of receipt. That County staff will then sign off on the report as proof of review and approval/acceptance.
5. Upon receipt of the report from the provider, the program specialist will keep and review the program reports to assure compliance with County and State regulations and/or give the fiscal reports to the fiscal officer for review. The financial reports will be reviewed and compared to the budget. If there are questions or concerns, a meeting will be held with fiscal and program staff and the provider to clarify these. This meeting does not have to occur within the above listed one week time frame, but it will be set up within that week. At this point, if necessary and possible, an amendment will be made to adjust the contract encumbrance. These reports will not be signed/approved until this process is complete.
6. All provider reports will then be scanned in to laserfiche by the appropriate MHMR secretary to be kept with the contract. The hard copy of all reports will be returned to the program specialist for filing/storage.

County Appendix E
List of Reports and Due Dates During the Fiscal Year

Due Date	Program	Report	Reference
Oct. 15th	MH	Unusual Incident Report (Jul – Sep)	CPS MH/MR/EI 2009-402 Sect. VIII-C
Oct. 15th	MH	Quarterly Individual Psychiatric Admissions Report (Jul – Sep)	Appendix B.1 CPS MHMREI-2009-402
Oct. 30th	MH/MR/EI	Progress report on Outcomes in work statement (Jul – Sep)	
Nov. 15th	MH/MR	Quarterly Expenditure Report (Jul – Sep)	Appendix I CPS MHMREI-2009-402,XVII B
Dec. 31st	MH/MR/EI	Audit Reports (For Fiscal Year ending June 30)	CPS MHMREI-2009-402, XIX C CPS MHMREI-2009-402, XIX F CPS MHMREI-2009-402, XIX E
Jan. 15th	MH	Quarterly Individual Psychiatric Admissions Report (Oct – Dec)	Appendix B.1 CPS MHMREI-2009-402
Feb. 15th	MH/MR	Quarterly Expenditure Report (Oct – Dec)	Appendix I CPS MHMREI-2009-402,XVII B
	EI	Semi-Annual Report (Jul – Dec)	Appendix L OCD-EL ANNOUNCEMENT: EI-08 #07
Jan. 15th	MH	Unusual Incident Report (Jul – Dec)	CPS MH/MR/EI 2009-402 Sect. VIII-C
Mar. 1st	MH/MR/EI	Work Statement	Appendix A
	MH/MR/EI	Property Listings and Appraisals	Appendix H CPS MHMREI-2009-402, XV D
	MH/MR/EI	Real Estate Owned or Leased	Appendix H CPS MHMREI-2009-402, XV D
	MH/MR/EI	Advisory Board Member List (If any changes)	CPS MHMREI-2009-402, XVII C
Apr. 15th	MH	Quarterly Individual Psychiatric Admissions Report (Jan – Mar)	Appendix B.1 CPS MHMREI-2009-402, Appendix B.1
	MH	Unusual Incident Report (Jan – Mar)	CPS MH/MR/EI 2009-402 Sect. VIII-C
Apr. 30th	MH/MR/EI	Progress report on Outcomes in work statement (Jan – Mar)	
May 15th	MH/MR	Quarterly Expenditure Report (Jan – Mar)	Appendix I CPS MHMREI-2009-402,XVII B

While the below dates are after the contract end date, they relate to this contract year and MUST be adhered to.

Due Date	Program	Report	Reference
July 10th	MH/MR/EI	Audit Engagement or Extension Letter (For Fiscal Year ending June 30)	CPS MHMREI-2009-402, XIX C CPS MHMREI-2009-402, XIX F CPS MHMREI-2009-402, XIX E
July 15th	MH	Quarterly Individual Psychiatric Admissions Report (Apr – Jun)	Appendix B.1 CPS MHMREI-2009-402
	MH	Unusual Incident Report (Apr – Jun)	CPS MH/MR/EI 2009-402 Sect.VIII-C
Aug. 15th	MH/MR/EI	Salary Review (For Fiscal Year ending June 30)	Appendix G CPS MHMREI-2009-402, XVII C
	MH/MR	Quarterly Expenditure Report (Apr – Jun)	Appendix I CPS MHMREI-2009-402, XVII B
	EI	Semi-Annual Report (Jan – Jun)	Appendix L OCD-EL ANNOUNCEMENT: EI-08 #07

FRANKLIN-FULTON COUNTY
MENTAL HEALTH/MENTAL RETARDATION
425 Franklin Farm Lane
Chambersburg, PA 17202
(717) 264-5387

COUNTY MH/MR PROCEDURE STATEMENT

PROCEDURE NUMBER: Contract-MHMREI-2009-100

FROM: Claire Hornberger, Administrator

TO: MH/DD/EI directors, program specialists, and fiscal staff

Subject: Budget review and approval

Effective Date: October 23, 2009

Date Revised: October 23, 2009

INTRODUCTION:

MHMR has three distinct departments: Mental Health, Developmental Disabilities, and Early Intervention. While each department holds separate contracts with its providers, it is essential for the proper functioning of the overall department that all three departments follow the same policies and procedures for the contracting process.

Budgets are an essential part of all contracts held by the County, so it is important that time and effort is put in to seeing that the budget is properly reviewed and approved by MHMR fiscal staff, MHMR program staff, and each provider. All provider budgets and per unit rates will be reviewed for accuracy, completeness, and reasonableness from both a fiscal and program perspective. A budget review along with per unit rate negotiations ensure a certain level of due diligence that County funds are utilized in a responsible manner.

DEFINITIONS:

Program Staff – this includes the MHMR Administrator, MH or DD/EI director (as appropriate), and the Program Specialists in the MH, MR, and EI program (as appropriate)

Fiscal Staff – MHMR fiscal officers

PROCEDURE:

1. Due to the necessity to have the contract finalized and in place by the beginning of each fiscal year (July 1st), it is essential that this process begin as early in the calendar year as is possible.
2. As the contract process begins, the program and fiscal staff will meet to discuss the available dollars (through the State allocation) and needed units for this type of service. This will determine the amount of money available for the budgeting process.
3. The provider will be sent the budget spreadsheet to enter their data and return to MHMR for review.
4. The provider shall send (typically through email) their budget to the appropriate MHMR fiscal officer, who will review it with the program staff.
5. The fiscal officer will communicate with the provider regarding any questions, issues, and/or concerns.
6. If there are questions/concerns deemed to be of a "significant" nature by MHMR or provider staff, a meeting will be held with the provider, fiscal, and program staff to discuss these in more detail.
7. If no issue of a "significant" nature is identified, this communication can happen via email or telephone until all questions of all parties are answered.
8. Once all parties agree to the budget, the provider shall sign and forward the original signature to the appropriate MHMR fiscal officer. It will then be signed by the County fiscal officer, initialed by the fiscal consultant, signed by the MHMR administrator, and given to the program specialist to place in the contract.
9. The program specialist will assure that all necessary documents are included in the contract and all necessary signatures are obtained prior to forwarding each contract on for further review and signatures.

FRANKLIN-FULTON COUNTY
MENTAL HEALTH/MENTAL RETARDATION
425 Franklin Farm Lane
Chambersburg, PA 17202
(717) 264-5387

COUNTY MH/MR PROCEDURE STATEMENT

PROCEDURE NUMBER: Contract MHMREI-2009-102

FROM: Claire Hornberger, Administrator

TO: MH/DD/EI directors, program specialists, and fiscal staff

Subject: Cost Settlement

Effective Date: October 23, 2009

Date Revised: October 23, 2009

INTRODUCTION:

MHMR has three distinct departments: Mental Health, Developmental Disabilities, and Early Intervention. While each department holds separate contracts with its providers, it is essential for the proper functioning of the overall department that all three departments follow the same policies and procedures for the contracting process.

The cost settlement process will be completed for all providers in a timely manner, including the accompanying funds receipt or disbursement. This timely process will ensure providers the opportunity to utilize retained revenue as intended and approved for in the fiscal year immediately following the fiscal year the retained revenue was earned. This will also allow the County to determine if there are funds available to assist providers that have experienced an operating deficit for the fiscal year. Disbursement of funds is dependent upon the availability of funds for that fiscal year.

DEFINITIONS:

Program Staff – this includes the MHMR Administrator, MH or DD/EI director (as appropriate), and the Program Specialists in the MH, MR, and EI program (as appropriate)

Fiscal Staff – MHMR fiscal officers

PROCEDURE:

1. Per Appendix E, providers are responsible for submitting their prior year fiscal year ending audit by December 31st.
2. MHMR fiscal staff will review each audit within one week of receipt.
3. Due to the need for occasional extensions and extenuating circumstances, this cost settlement process will be completed by MHMR staff no later than March 31st of the following fiscal year.
4. If a provider receives payment from cost settlement, they will be sent a letter from the MHMR administrator explaining how much was calculated for payment to them.
5. In addition, if the provider requests retained revenue, that letter will request that they submit a plan to the MHMR administrator as to their intent to use the funds.
6. Once a provider submits the plan for use of the cost settlement and/or retained revenue funds, the program specialist responsible for that contract will set up a schedule for monitoring the proper expenditure of those funds. The provider will be given that schedule.

APPENDIX C
PROGRAM BUDGET
PROGRAM: Early Intervention
COUNTY: FRANKLIN/FULTON
PERIOD COVERED BY THIS BUDGET: FROM: 07/01/09 TO: 06/30/10

(Provider)

(Address)

PART-1 PROGRAM

100	**PERSONNEL SERVICES**			
110	**WAGES & SALARIES**			
111	Wages and Salaries			
120	**EMPLOYEE BENEFITS**			
121	Social Security	#DIV/0!		
122	Retirement	#DIV/0!		
123	Insurance & Other Benefits			
	Health & Welfare Insurance	#DIV/0!		
	Unemployment Insurance	#DIV/0!		
	Disability	#DIV/0!		
	Workman's Comp.	#DIV/0!		
130	**MISC. PERS. EXP**			
131	Staff Development			
132	Other Personnel Expenses			
			$ -	
			$ -	
	TOTAL PERSONNEL EXPENSES (100's)			$ -
300	**OPERATING EXPENSES**			
310	**OCCUPANCY**			
311	Rent			
312	Utilities			
313	Insurance			
314	Housekeeping			
320	**COMMUNICATIONS**			
321	Communications - Office			
322	Comm - Cell Phones			
323	Internet			
324	Other Comm Expense			
330	**OFFICE EXPENSES**			
331	Office Supplies			
332	Postage, Etc.			
333	Other Office Expenses			
340	**SUPPORTIVE SVCS**			$ -
341	Medical Supplies		$ -	
342	Drugs		$ -	
343	Food & Clothing		$ -	
344	Rehab Supplies		$ -	
346	Developmental Supplies/Equip		$ -	
347	Recreational Supplies/Equip		$ -	

348	Household Goods	$ -	
349	Other Supportive Svcs	$ -	
350	**TRANSPORTATION**		
351	Staff Transportation		
352	Client Transportation		
353	Vehicle Related Expenses		
360	**PURCHASED DEV. SVC**		
361	Purchased Services - Provider		
362	Purchased Services - Facility		
363	Purchased Services - Other		
370	**MISC. EXPENSES**		
371	Library		
372	Interest Expense	$ -	
373	Other Misc. Expenses	$ -	
	TOTAL OPERATING EXPENSES (300's)		$ -
400	**EQUIPMENT & OTHER FIXED ASSETS**		
410	**PURCHASE OF ASSETS**		
411	Buildings and Land	$ -	
412	Office Equipment		
413	Medical Equipment		
414	Other Equip & Furnishings		
415	Motor Vehicles		
420	**REP. & IMPROVEMENTS**		
421	Building repairs		
422	Office Equipment		
423	Medical Equipment		
424	Other Equip & Furnishings		
425	Motor Vehicles		
430	**DEPRECIATION**		
431	Buildings		
432	Equipment & Other		
	TOTAL EQUIPMENT & OTHER (400's)		$ -
	TOTAL PART I- PROGRAM (100's + 300's + 400's)		$ -

ADMINISTRATION*

* Note: Budget section - Administration, must be completed for all contracts. Administrative expenditures are authorized up to 15% in this budget section.

Max Admin Costs (15% of Total Program Expenses) $ -

ADMINISTRATION COSTS MUST BE BASED ON A COST ALLOCATION PLAN

	PART II- ADMINISTRATION			
A110	**WAGES & SALARIES**			
A120	**EMPLOYEE BENEFITS**			
A121	Social Security	#DIV/0!		
A122	Retirement	#DIV/0!		
A123	Insurance & Other Benefits			
	Hospital Insurance	#DIV/0!		
	Unemployment Comp.	#DIV/0!		
	Disability	#DIV/0!		
	Workman's Comp.	#DIV/0!		$ -
A130	**MISC. PERS. EXP**			
A131	Staff Development		$ -	
A132	Other Personnel Expenses			
			$ -	
			$ -	
A150	**PROFESSIONAL SERVICES**			
A151	Audit			
A152	Legal			
A153	Accounting			
A310	**OFFICE EXPENSES**			
A311	Office Rent			
A312	Office Utilities/Housekeeping			
A321	Office Communication			
A331	Office Supplies			
A333	Other Office Expenses		$ -	
A370	**OTHER ADMIN EXPENSES**			
A372	Interest Expense			
A373	Other Admin Expenses			

BUDGETED ADMINISTRATION EXPENSES $ -

TOTAL PART II- ALLOWABLE ADMIN EXPENSES $ -

TOTAL BUDGET (PART I + PART II) $ -

FOR INFORMATIONAL PURPOSES ONLY
Retained Revenue 3% (.03 x County Allotment) #DIV/0!

Contracted Units/Encumbrance Amounts for Base Services

A. Net unit cost from attached worksheet #DIV/0! / unit

B. Total number units contracted by MH/MR
Occupational Therapy
Physical Therapy
Speech Therapy
Special Instruction (DT) 0.00 units

C. Maximum County Encumbrance #DIV/0!
(line A multiplied by line B)

D. Number of Clients to be served ____________ clients

Contract Payment Provisions

County participation in payments based upon negotiated rates shall be adjusted for reported or actual unit costs, or both, and for compliance with allowable cost standards in sections 4300.82 through 4300.108, and section 4300.158 of MH/MR Fiscal egulations, and shall not exceed the rate for unit of service in the contract, and maximum reimbursement allowed in the contract.

Provider shall bill at gross unit cost less any non-MH/MR allotted monies received that offset operating costs as per attached worksheet. MH/MR will review all invoices for appropriateness.

Budget Review and Approval

The budget and attachment were reviewed and approved for the Franklin/Fulton MH/MR Program

County Fiscal Staff

County Administrator

This budget was reviewed and approved for PROVIDER by:

Director, PROVIDER

Franklin/Fulton MH/MR - C.1
Staff Roster for Budget Submission
Program: Early Intervention

Direct Care Costs*									
Name	Title/Position	Hrs/wk	Prod %	Est Units	Direct Hrs	Rate	Annual Wage	Prog %	Allocated to Program
							$ -	#DIV/0!	#DIV/0!
							$ -	100.00%	$ -
							$ -	100.00%	$ -
							$ -		$ -
							$ -		$ -
							$ -		$ -
	Total Direct Admin	0.00	#DIV/0!	0	0.0	#DIV/0!	$ -	#DIV/0!	#DIV/0!
							$ -	100.00%	$ -
							$ -		$ -
							$ -		$ -
							$ -		$ -
							$ -		$ -
							$ -		$ -
	Total OT	0.00	#DIV/0!	0	0.0	#DIV/0!	$ -	#DIV/0!	$ -
							$ -	#DIV/0!	#DIV/0!
							$ -		$ -
							$ -		$ -
							$ -		$ -
							$ -		$ -
							$ -		$ -
	Total PT	0.00	#DIV/0!	0	0.0	#DIV/0!	$ -	#DIV/0!	#DIV/0!
							$ -	100.00%	$ -
							$ -	100.00%	$ -
							$ -		$ -
							$ -		$ -
							$ -		$ -
							$ -		$ -
	Total PT	0.00	#DIV/0!	0	0.0	#DIV/0!	$ -	#DIV/0!	$ -
							$ -	100.00%	$ -
							$ -	100.00%	$ -
							$ -	100.00%	$ -
							$ -		$ -
							$ -		$ -
	Total PT	0.00	#DIV/0!	0	0.0	#DIV/0!	$ -	#DIV/0!	$ -
Total*		0.00		0					#DIV/0!

* The total must equal the budgeted program wages and salaries expense line

Administration Allocation**									
Name	Title/Position	Hrs/wk				Rate	Annual Wage	Admin %	Allocated to Program
							$ -	#DIV/0!	#DIV/0!
							$ -	#DIV/0!	#DIV/0!
							$ -	#DIV/0!	#DIV/0!
							$ -	#DIV/0!	#DIV/0!
							$ -	#DIV/0!	#DIV/0!
							$ -	#DIV/0!	#DIV/0!
							$ -	#DIV/0!	#DIV/0!
							$ -	#DIV/0!	#DIV/0!
							$ -	#DIV/0!	#DIV/0!
							$ -	#DIV/0!	#DIV/0!
							$ -		$ -
							$ -		$ -
							$ -		$ -
							$ -		$ -
							$ -		$ -
Total**									#DIV/0!

** The total must equal the budgeted Administration salaries and expense line

Other Expenses

Units Provided

Description	Units in FY 08-09	Percent Change	Est Units FY 09-10	Inc LIU Medicaid Units	Total Est Units	Provided by Staff	Provided by Cont	Contract Hours	Contract Rate	Total Contract
Base OT		0.00%	0							
Waiver OT		0.00%	0							
Total OT			0			0	0	0		$0.00
Base PT		0.00%	0							
Waiver PT		0.00%	0							
Total PT			0			0	0	0		$0.00
Base Speech		0.00%	0							
Waiver Speech		0.00%	0							
Total ST			0			0	0	0		$0.00
Base DT		0.00%	0							
Waiver DT		0.00%	0							
Total DT			0			0	0	0		$0.00
Grand Total			0			0	0	0		$0.00

Units Provided

Description	Units in Jul-Sep	Units in Oct	Est Units Oct-Jun	Total Est Units
Base OT				
Waiver OT				
Total OT				
Base PT				
Waiver PT				
Total PT				
Base Speech				
Waiver Speech				
Total ST				
Base DT				
Waiver DT				
Total DT				
Grand Total	0	0	0	0