COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
ROOM 525 HEALTH & WELFARE BUILDING
HARRISBURG, PA 17105-2675

KEVIN M. FRIEL
DIRECTOR

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FEB 18 2009

Mr. Richard Hager, CFO
Marion Community Hospital
100 Lincoln Avenue
Carbondale, Pennsylvania 18407

Dear Mr. Hager:

Enclosed is the final report of Tri County Human Services Center, Inc. which was completed by this office. Your response has been incorporated into the final report and labeled Appendix B. The Lackawanna/Susquehanna and Wayne Counties MH-MR Programs' response has also been incorporated into the final report and labeled Appendix C and D respectively.

The final report will be forwarded to the Department's Office of Developmental Programs (ODP) and to the Office of Mental Health and Substance Abuse Services (OMHSAS) to begin the Department's resolution process concerning the report contents. The staff from ODP and OMHSAS may be in contact with you to follow-up on the action taken to comply with the report's recommendations.

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

Please contact 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

Enclosure

cc: Mr. Kevin Casey
Ms. Joan Erney
Mr. Joseph Church
Mr. Philip Mader
Mr. Robert Conklin
Mr. Michael Orr

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FEB 18 2009

Mr. Stephen Arnone, Administrator
Lackawanna/Susquehanna Mental
Health/Mental Retardation Program
135 Jefferson Avenue, 3rd Floor
Scranton, Pennsylvania 18503

Dear Mr. Arnone:

I am enclosing the final audit report of Tri-County Human Services Center, Inc. as prepared by the Division of Audit and Review. Your response to the report has been labeled as Appendix C.

The Office of Developmental Programs and the Office of Mental Health and Substance Abuse Services are in the process of dealing with the report's findings and recommendations.

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

Sincerely,

Kevin M Friel

Kevin M. Friel

Enclosure

c: Mr. Joseph Church
Mr. Philip Mader
Mr. Robert Conklin
Mr. Michael Orr

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FEB 18 2009

Ms. Margaret Ennis, Administrator
Wayne County Mental Health/Mental
Retardation Program
Wayne County Park Street Complex
Honesdale, Pennsylvania 18431

Dear Ms. Ennis:

I am enclosing the final audit report of Tri-County Human Services Center, Inc. as prepared by the Division of Audit and Review. Your response to the report has been labeled as Appendix D.

The Office of Developmental Programs and the Office of Mental Health and Substance Abuse Services are in the process of dealing with the report's findings and recommendations.

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

Sincerely,

Kevin M. Friel

Enclosure

C: Mr. Joseph Church
Mr. Philip Mader
Mr. Robert Conklin
Mr. Michael Orr

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FEB 18 2009

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

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

Dear Mr. Casey and Ms. Erney:

In response to a request from the Secretary of the Department of Welfare, The Bureau of Financial Operations (BFO) performed an audit of Tri-County Human Services Center, Inc. (Tri-County). The audit was requested to determine the financial impact of the July 1, 2006 transfer of the Wayne County Base Service Unit (BSU) functions to the Wayne County MH-MR Program, and Tri-County's ability to remain as a viable provider of services. The audit was included in the DPW's 2005-06 Agency Annual Audit Plan.

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

Results in Brief

This report addresses seven issues and an observation. The issues are intertwined and at times complicated. A basic flaw impacting most issues is that expenses were not charged to the proper program and/or cost centers. The effect is that Tri-County shifted expenses between programs and received excess reimbursement from county programs and ultimately the DPW.

- The loss of Wayne County BSU services should not have a material effect on the ability of Tri-County to remain as a viable provider of services.

- The Fiscal Year 2004-05 Tri-County financial statements are materially inaccurate. The financial statements were found to include inappropriate allocations and

Results in Brief (Continued)

charges, and were skewed by a year-end cost shift. Use of the financial statements for settlement purposes resulted in Tri-County being overpaid $421,797 for MR services and $35,526 for MH services.

- The auditors were unable to determine if $517,700 in program funded services claimed were ever delivered. The accounting records did not segregate these expenses from those reimbursed on a fee for service basis.

- Tri-County is operating without a financial manager. The accounting deficiencies and reimbursement issues identified in this report support the need for a financial manager.

- The cost associated with psychiatric doctors are not being budgeted, charged or reported in the programs that receive these services. As a result, Tri-County's budgets and financial statements contain material misrepresentations. In the case of the partial hospitalization program no psychiatric time was charged, yet the staff rosters supplied to support the licensing requirements identify that $472,130 of psychiatric services would be provided.

- Tri-County's provision of contracted psychiatric inpatient service to a related party resulted in a loss of $117,535. Tri-County has charged the same amount for these services for a 19 year period, despite the increase in psychiatrist salaries and malpractice insurance over this time period.

- Tri-County needs to establish a written cost allocation plan to document the methodology used to allocate administrative costs as required by 55 PA Code Chapter 4300.94.

- A total of $218,160 of membership and management fees charged to Tri-County by CHE, the parent health care system, were not documented. Repeated requests to obtain support for these costs were not honored. As a result, these costs have been questioned.

Background

History and Structure of Organization

Tri-County is a 501(c) 3 non-profit organization with its main office located at 185 Fallbrook Street, Carbondale, Pennsylvania. Tri-County provides outpatient, partial hospitalization, and comprehensive diagnostic and treatment programs for persons in need of mental health and mental retardation services. These services are provided at

Background (Continued)

the main office, in homes, schools, and community settings located throughout Northeast Pennsylvania. The majority of Tri-County's clients are residents of upper Lackawanna, Susquehanna and Wayne Counties. Services have recently expanded into Monroe and Pike Counties. Tri-County also provided BSU functions for Lackawanna, Susquehanna and Wayne County residents. On July 1, 2006, the BSU functions and responsibilities for Wayne County residents were transferred to the Wayne County MH-MR Program.

Tri-County was incorporated in 1974 after a task force was asked to aid in the creation of a community mental health center for upper Lackawanna, Susquehanna and Wayne Counties. In December 1988, Tri-County joined with Marion Community Hospital to form The Maxis Health System (Maxis). Since then, Maxis has grown to include The Maxis Foundation, Complete Pharmacy Services, Maxis Medical Services and Carbondale Area Physicians Hospital Organization. Together, they work to perform health and human service care to residents residing in Lackawanna, Wayne and Susquehanna Counties. The Tri-County Executive Director is also the Maxis Vice-President of Behavioral Health Services. In 2004, Maxis became a member of Catholic Health East (CHE), which is one of the largest Health Care Systems in the eastern United States.

Funding of Services

For Fiscal Year 2004-05, Tri-County received revenue of $12.4 million, and earned operating net income of $273,603. By comparison, Fiscal Year 2003-04 revenues were $10.4 million, and net income was $69,200.

For Fiscal Year 2004-05, the MH Programs generated revenue of $9.6 million representing 77 percent of total revenues. The MR Programs generated revenue of $2.8 million representing 23 percent of total revenues. The largest programs, based on revenues, were Partial Hospitalization (PH) and Behavioral Health Rehabilitation Services (BHRS) with revenues of $2.6 and $2.2 million respectively.

The DPW Office of Medical Assistance Programs (OMAP) provided funding of $6.6 million. The Lackawanna-Susquehanna-Wayne MH-MR Program (LSW MH-MR Program) provided funding of $4.6 million. Combined, this represented 90 percent of revenues for Fiscal Year 2004-05.

The BHRS Program has significantly grown over the last two years. Revenues have increased from $805,000 to $2.2 million. The growth in the BHRS Program was the biggest contributor to the 19 percent increase in Fiscal Year 2004-05 revenues.

Background (Continued)

Change in BSU Responsibility

On October 12, 2004, DPW approved the dissolution of the LSW MH-MR Joinder. Effective July 1, 2005, Wayne County began operations as a separate MH-MR Program. For Fiscal Year 2005-06, Tri-County remained as the BSU provider for Wayne County residents.

Effective July 1, 2006, the BSU case management functions and responsibilities for Wayne County residents were transferred from Tri-County to the Wayne County MH-MR Program. According to Tri-County the transfer of the BSU services would result in approximately $200,000 in costs that would not be reimbursed. The primary reason for this loss was identified as a reduction in the County Joinder cost basis used to allocate indirect and/or administrative costs.

Objective, Scope and Methodology

The objective of the audit was:

> To review the organization and administrative structure of Tri-County Human Services and determine if the transfer of certain BSU functions to the Wayne County MH-MR Program will have an adverse affect on the entity and its ability to continue as a viable provider of services.

The scope of the audit was limited as we did not receive many of the requested documents related to the cost of contracted in-patient services, attendance and billing records of a PH Program, and source documents related to CHE administrative costs. Written requests for the documents were made on April 6, 2006, May 9, 2006 and August 22, 2006.

Additionally, the Tri-County financial records were not structured to allow us to identify the amount of psychiatrist time provided to various services, and the amount of time caseworkers and therapists spent in providing BSU administrative case management, case management, (CM) and outpatient (OP) services. The costs associated with these services were commingled in the accounting records. .

As a result of these scope limitations, the completion of our audit was significantly delayed. It also resulted in limiting our objective to determining the actual cost of Fiscal Year 2004-05 individual services, and ability of Tri-County to continue to be a viable provider of service.

Objective, Scope and Methodology (Continued)

In pursuing our objective, the BFO reviewed internal accounting and financial records, expenditure reports, correspondence, audited financial statements, and DPW and Department of Health licensing records. In addition, we conducted interviews and attended meetings with staff of Tri-County, the L-S and Wayne County MH-MR Programs, and DPW Regional OMHSAS and ODP offices. We also tested for compliance with applicable DPW Regulations, 55 PA Code Chapter 4300.

Government auditing standards require that the BFO obtain an understanding of management controls that are relevant to the audit objective described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of compliance with general accepted accounting principles. This report identifies the deficiencies that came to our attention.

The audit fieldwork was conducted intermittently between January 20, 2006 and March 31, 2006. From April 1, 2006 through September 2006, audit activities primarily consisted of attending meetings and conducting phone conferences with Tri-County representatives, and evaluating the work product prepared by a Tri-County consultant resulting from his review of BFO's preliminary audit issues and adjustments. The BFO's fieldwork was conducted in accordance with generally accepted government auditing standards. This report, when presented in its final form, is available for public inspection.

Results of Fieldwork

The results of our fieldwork are described in detail in the issues set forth below. Our recommendations are presented following the issues.

Issue No. 1 - The Loss of Wayne County BSU Services Should Not Affect Tri-County's Ability to Remain as a Viable Service Provider

Upon the dissolution of the LSW MH-MR Program, Tri-County publicly projected that the loss of the Wayne County BSU services would adversely affect their ability to continue to provide the same level of services. Our attempt to evaluate the accuracy of the projection and/or determine the actual effect of the transfer of Wayne County BSU services on Tri County's financial position was met with the following limitations:

- The Tri-County accounting system was not structured to track the time incurred by psychiatrists, case workers, and therapists that provide BSU case management, administrative case management, inpatient and outpatient services. The accounting records commingled the cost of these services.

Results of Fieldwork (Continued)

- The fiscal information generated from the Tri-County accounting system did not allow preparation of budgets and financial statements that could identify the costs associated with the BSU functions.

- Plans and feasibility studies were not prepared and/or were not available for our review to assess Tri-Counties plans for reducing costs and developing alternative revenue sources to offset the loss of BSU services.

However, we were able to identify factors that were not, but should have been, considered by Tri-County in their projections. These include:

- The financial results achieved prior to the BSU transfer identify the agency earned an overall profit. Audited financial statements for fiscal year ended June 30, 2004 identify net income of $69,200. The profit increased to $273,603 for fiscal year ended June 30, 2005.

- BHRS revenues were increasing. Between 2003 and 2005 revenues rose by $2 million. Sustainability of this increase will more than offset the $1.1 million loss of BSU services to Wayne County. The expansion in BHRS would appear to provide an opportunity to allocate administrative costs that had previously been allocated to the Wayne County BSU.

- Tri-County knew that they were providing psychiatric services to a related party at a loss and did not act to adjust the deficiency.

  In summary, the absence of a documented analysis or plan limited our ability to assess the basis for Tri-County's claim. Based on our review of Tri-County operations we cannot agree that the loss of the Wayne County BSU will affect the level of services that Tri-County can provide and we believe that Tri-County can remain as a viable service provider.

Recommendations

The BFO recommends Tri-County develop a system to accurately track the time psychiatrists, caseworkers and therapists provide to various programs, including separate tracking of BSU and non-BSU CM, administrative CM, and OP service costs. The results of a time study or alternative methodology used to track time should be retained for audit purposes. The results should be used in development of internal and external budgets and financial statements.

Results of Fieldwork (Continued)

Issue No. 2 - The Tri-County Financial Statements Do Not Identify the True Cost to Provide MH and MR Services

The Tri-County Fiscal Year 2004-05 internal and external financial statements are based on inaccurate allocations, inappropriate charges, and unexplainable cost shifts. The statements presented for reimbursement do not represent the true costs incurred to provide various MH and MR services. As a result the LSW MH-MR Programs funding decisions have been flawed and Tri-County has been overpaid. Furthermore, this situation has limited Tri-County ability to make informed decisions that could ensure that services are delivered in a cost effective manner. A limited review of calendar year 2005 internal financial statements identifies a continuation of past practices.

Accounting System Not Structured to Support Accurate Preparation of Internal and External Financial Statements

We identified major deficiencies in the tracking and recording of expenses in the agency accounting system. The basis for manual adjustments to the general ledger were not documented as the preparation of the County I&E report relied largely on the former CFO's knowledge of program operations. These deficiencies resulted in the preparation of inaccurate internal and external financial reports, including the year-end I&E report submitted to the LSW MH-MR Program.

The following deficiencies in the accounting system were identified:

- The general ledger contained a limited number of cost centers, which did not include many programs/cost centers being funded through the LSW MH-MR Program. For example, the general ledger was limited to one MR cost center with expenses of $2.6 million. These expenses were then allocated to 11 cost centers necessary to prepare the County I&E report. The methodology used to convert the general ledger to the County I&E cost centers was not documented. The basis for the allocations appears to be the CFO's personal knowledge of the staff and percentage of time worked in each of the 11 programs. To a lesser extent, this practice also occurred for the MH Programs.

Results of Fieldwork (Continued)

- During the year operating expenses were charged to the established cost centers that benefited from the expenses. These direct charges were not considered in preparation of the County I&E report. After converting the general ledger cost center salaries to the I&E cost centers as described above, the operating costs were reallocated based on the percentage of salaries in each I&E cost center.

- Tri-County commingled the MH CM and OP cost centers for its internal and external financial reporting. For purposes of the County I&E and audit, the CM/OP cost center was split with 55 percent of the revenues and expenses allocated to CM and 45 percent allocated to OP. According to the Tri-County executive director, it is impossible to separately track these costs and they have been commingling them for years. This is primarily due to staff having multiple responsibilities and staff providing CM, OP, and administrative CM services. The executive director also responded the allocation method was based on staff interviews, history and experience, and was approved by the LSW MH-MR Program and Tri-County CPA firm. The basis for and documentation to support the 55/45 percent split was requested but not provided.

  Included in the CM/OP costs were $517,700 of program funded services. The $517,700 was funded for the provision of administrative case management and TANF services. There is no separate tracking of administrative case management and TANF costs in the agency accounting system. These program funded services were commingled with other BSU services including those reimbursed on a fee-for-service basis. The commingled costs were used as a basis for the LSW MH-MR I&E report. According to the Tri-County executive director these program funded services were delivered, but the costs are inter-twined with total CM and OP costs and cannot be separately identified by the staff that performed the services.

  Program funded services cannot be commingled with services funded through an established rate. Program funded services need to be separately tracked as payment is based on actual allowable costs incurred. As a result, Tri-County cannot prove that the $517,700 in services claimed had not been funded elsewhere. The BFO will request the OMHSAS to evaluate whether the Tri-County position is acceptable as related to these costs.

  Tri-County maintains a separate general ledger account for the BHRS program. With revenues of $2,175,154, this is Tri-County's second largest program for Fiscal Year 2004-05. The BHRS revenues and expenses are not identified as BHRS in the County I&E report and CPA audit. The revenues and expenses are first commingled

Results of Fieldwork (Continued)

with MH CM and OP cost, and then also split 55/45 percent between the two cost centers. The inclusion of these revenues and expenses further overstates the CM and OP cost center and compounds the issue presented in the prior paragraph.

According to OMHSAS, there are two options for providers and County Programs to report BHRS revenues and expenses. Neither option allows the reporting of BHRS results in the CM and OP cost center.

Tri-County Financial Statements Do Not Identify the True Cost of Services

The Tri-County Fiscal Year 2004-05 financial statements misrepresent the true cost to provide MH-MR services. As fully detailed in Exhibit A [1], the following examples identify variances between what was reported and what we calculated as actual.

Cost Center	Reported Costs	BFO Revised Costs	Variance
Partial Hospitalization	$1,845,828	$2,639,304	$ 793,476
BHRS	0	2,381,893	2,381,893
MH Case Management	2,530,192	1,091,083	(1,439,109)
MH Outpatient	2,070,156	892,704	(1,177,452)
Targeted Service Mgmt.	1,091,553	855,611	(235,942)
MR Case Management	304,969	163,988	(140,981)

BFO Calculation of Overpayments (See Exhibit A)

In order to establish the correct amount of costs that Tri-County should have reported to LSW MH-MR Program and DPW, we started with the costs reported on the County I&E report/CPA audit. (See Exhibit A). We then identified the costs to provide each individual service. No costs were disallowed as being eligible for County and DPW participation, rather, costs were reallocated and charged to the Program benefiting from the service or cost category. When we compared these amounts to the amounts Tri-County had passed on to the LSW MH-MR Program and DPW, we determined Tri-County had overcharged certain program funded services. The following overpayments were identified:

[1] In Exhibit A, we provide the basis for and detail the revenues and expenses by cost center reported per the June 30, 2005 certified audit, and the reclassifications by report issue resulting from our audit. Differences from net income or (loss) reported per CPA audit and revised net income or (loss) are listed by cost center.

Results of Fieldwork (Continued)

Cost Center	Net Income CPA Audit	Net Income BFO	Overpayment *
MR			
Case Management	$ (62,369)	$ 78,612	$ 78,612
Recreation/Companion	36	39,242	39,206
Community Services	99	17,577	17,478
Targeted Service Mgmt.	50,634 **	286,576	235,942
Total MR Cost Centers	$ (11,600)	$ 422,007	$ 371,238
MH			
Student Assistance	$ 4,564	31,467	26,903
Family Support	(7,673)	10,910	10,910
Sex Offender	3,117	830	(2,287)
Total MH Cost Centers	$ 8	$ 43,207	$ 35,526

* We calculated the difference in net income greater than $0 as comprising the overcharge.

** Only $75 of the $50,634 in Targeted Service Management revenue was reported to the DPW. The total amount of the recommended recovery has been increased by the net amount $50,559 ($50,634 - $75) to eliminate the possibility of an overpayment ($371,238 + $50,559 = $421,797).

CPA Audit Prepared From Inaccurate County I&E Report

The CPA audit certified the financial statements submitted to the County MH/MR Program. The audit only identified minor adjustments to the costs reported. These adjustments totaled $31,000 and were all posted to the partial hospitalization program irrespective of their impact on other programs. According to a representative from the accounting firm, all adjustments were made against the PH program due to the LSW MH-MR Program not allowing changes being submitted to the County I&E report. This is contrary to one purpose of the audit report. The audit report is to be used by the County as a verification or correction to previously submitted documents.

Tri-County Will Benefit Through Addition of Full-Time Fiscal Officer

The Tri-County Assistant Director/CFO position was eliminated on the day prior to the start of the BFO audit. Throughout most of calendar year 2006, Tri-County operated its fiscal department and $13 million budget without a full-time, in-house financial manager. Tri-County used a combination of part-time services provided through the Marion Community Hospital, the CHE, and outside consultants. Based on the findings in this report, along with observations made during our fieldwork it is our conclusion that a full time financial manager is needed.

Results of Fieldwork (Continued)

The current functions of the fiscal department is limited to providing accounts receivable, accounts payable, billing and payroll services. The full-time fiscal expertise needed to oversee the accounting system, provide accurate internal and external budgets and financial statements, participate in contract negotiations, and provide fiscal support to program managers and the executive director is currently not available. This report identifies significant internal control deficiencies and potential financial losses. We believe the benefits received from having a full-time, competent in-house fiscal officer who reports directly to the executive director would more than offset the cost of this position.

Recommendations

The BFO recommends the Tri-County accounting system and procedures used to prepare the County I&E report be enhanced to include:

- Cost centers should be established for all programs funded by the County MH-MR Programs and OMAP.

- Administrative CM, TANF and CHIPPS costs that are program funded by the County Programs should be separately tracked.

- Operating costs should be charged to the programs receiving the benefit on a monthly basis and not reallocated based on salary costs reported on the County I&E report.

- Cost centers should not be commingled. CM and OP revenues and expenses should be separately reported.

- BHRS revenues and expenses should not be reported in the CM or OP cost centers. Since this is a 100 percent MA funded service, the County MH-MR Programs may elect to not require Tri-County's reporting of BHRS financial results, or report the results in the cost center titled Children's Psychosocial Rehabilitation Services. In either circumstance, BHRS expenses and revenues should be separately tracked.

- Tri-County program managers should be provided with monthly financial statements by cost center/program to assist them in their oversight of the programs.

Results of Fieldwork (Continued)

The BFO also recommends that the independent CPA ensure that areas addressed in this report as being deficient are subjected to additional scrutiny prior to issuing the Fiscal Year 2005-06 audit. If the audit has been already issued, the effect of the issues addressed in this report should be assessed and if appropriate, revised financial statements should be issued to the County Programs and the DPW. Audit adjustments should be made to the applicable programs.

The BFO further recommends that the ODP adjust the LS MH-MR and Wayne County MH-MR Programs' carryovers by a total of $421,797. The OMHSAS should adjust the LS MH-MR and Wayne County MH-MR Programs' carryovers by a total of $35,526.

The County MH-MR Programs need to ensure the Tri-County Fiscal Year 2005-06 independent audit accurately reports the cost of services funded by the County Programs. If necessary, a revised audit should be requested to allow accurate settlement.

The BFO finally recommends Tri-County hire a full-time, in-house CFO/fiscal officer who reports directly to the executive director.

Issue No. 3 - The Cost of Psychiatric Doctors Is Not Being Budgeted, Charged and Reported in the Programs Receiving the Benefit of the Services

For Fiscal Year 2004-05, the costs associated with psychiatric doctors was not budgeted, charged and reported to the programs receiving the benefit of the services. Psychiatric costs were primarily charged to the MH CM and OP Programs on the I&E Report submitted to the LSW MH-MR Program. However, the documentation used to obtain the license to operate the programs identifies the psychiatrists as primarily working in the PH, OP, and a contracted psychiatric inpatient unit. A comparison of the expenses claimed on the I&E Report and the actual expenses incurred indicates that none of the costs associated with the psychiatrists were billed to the PH program or the contracted inpatient unit. All of these costs were charged to other service areas.

The following illustrates the amount each program is overcharged or undercharged based on a reallocation of psychiatric doctors to programs receiving the services. The amounts are comprised of salaries, benefits, operating expenses and administrative expenses.

Results of Fieldwork (Continued)

PSYCHIATRIC TIME OVERCHARGES/UNDERCHARGES

PROGRAM	OVERCHARGES	(UNDERCHARGES)
MH CM/OP	$ 640,308	$ -
Family Based In-Home	35,647	-
Intensive Case Management	42,488	-
Mobile Work Force	1,958	-
Student Assistance	15,746	-
Resource Coordination	7,430	-
Crisis Intervention	-	(4,823)
Wilderness	4,469	-
Partial Hospitalization	-	(472,130)
Inpatient Unit	-	(273,690)
SUB-TOTAL	$ 748,046	$ (750,643)
Programs Indirectly Impacted (Net)	2,597	-
TOTAL	$ 750,643	$ (750,643)

Partial Hospitalization Program Undercharged by $472,130 Related to Psychiatric Doctor Time

According to Tri-County financial records, the psychiatrists did not devote any time to the PH Program. The result of not charging psychiatric time to the PH Program is evident by the $742,596 net profit for PH reported in the 2004-05 CPA audit. The $742,596 represents 29 percent of program revenues. Using the psychiatric time identified in the Tri-County's licensing documents we determined that the PH Program was undercharged by $472,130 for psychiatric doctor time. This includes $320,847 in salary, $77,927 in benefits and $73,356 in allocated administration. A reallocation of these and $321,347 in other costs (See Exhibit A) back to the PH program turned the Fiscal Year 2004-05 reported profit of $742,596 to a ($50,880) loss.

The licensing document used to calculate the undercharge identified five psychiatrists as working 117 hours per week in the PH Programs. The 117 hours appears to be developed to support Tri-County's compliance with staffing requirements of the PH Chapter 5210 regulations.

The following example illustrates the undercharge of PH Program relating to psychiatric doctor time. A Tri-County psychiatrist is listed on the licensing documents as working 37 hours out of a 40 hour work week in PH Programs. None of the psychiatrist time was charged to the PH Program. This undercharge of the PH Program caused other programs to be overcharged.

Results of Fieldwork (Continued)

Partial Hospitalization Licensing Requirements and Tri-County Position

According to the Executive Director of Tri-County the 5210 regulations only require that psychiatric staffing and supervision be available to the program. As a result a doctor can be used to provide unlimited services to other programs (primarily outpatient) and only has to be available if needed in the partial program. This is the rational for charging no doctor time to the partial program. This position conflicts with 5210 regulations. Specifically, Title 55 Section 5210.21 states, "Adult partial hospitalization programs shall have a minimum of 2 hours of assigned psychiatric time per week for every five patients of program capacity." In addition, Section 5210.22 states "At a minimum, the psychiatric supervision of an adult partial hospitalization program shall be a psychiatrist who shall monitor each treatment plan on a regular basis.....and clinically supervise the treatment of patients."

The Regional OMHSAS office informed us the psychiatric staffing hours required per 5210 Regulations is the minimum time the psychiatrist is assigned/committed to the partial program and not just available. The psychiatrist is expected to review and sign all treatment plans and serve as a member of the treatment team and therefore must be assigned to the program. Additionally, the cost of psychiatric doctor time is included in the PH rate funded by OMAP.

Case Management/Outpatient Programs Overcharged by $573,623 Related to Psychiatric Doctor Time

As stated above, the psychiatric doctor time is primarily charged to the MH CM and OP Programs. The amount of hours contained in the OP licensing documents for the psychiatrists does not correspond to the cost charged on the I&E Report. For example, one psychiatrist was listed in the licensing documents as working 15 hours out of a 33 hour work week in the PH Program, with the remaining 18 hours in the OP Program. However, the entire $159,150 salary for Fiscal Year 2004-05 was charged to the OP Program. Fifty five percent of these costs were ultimately charged as case management costs on the I&E. In total, the OP Program was overcharged by $573,623 in relation to the psychiatric time of which $315,473 was allocated to case management.

Inpatient Unit Undercharge Related to Psychiatric Doctor Time

We identified the cost of psychiatrists charged to MH CM/OP but who worked in the Marion Community Hospital psychiatric inpatient unit as $273,690. None of these costs were recorded so to allow them to be identified with the inpatient unit. As a result Tri-County could not readily identify what this service was actually costing. This may have been a factor in a $117,535 loss to Tri-County in providing these services.

Results of Fieldwork (Continued)

Recommendations

The BFO recommends Tri-County thoroughly review the provision of psychiatric time to ensure it is accurately charged to the programs receiving the benefit. Internal budgets should be established that allocate doctor time to the programs where the services are being provided. Deviations to established hours should be adjusted in the internal budgets and accurately recorded in the general ledger. The costs charged for psychiatrist time in Fiscal Years 2005-06 and 2006-07 should be reviewed and adjustments should be made to the agency internal and external financial statements.

The BFO recommends the hours provided to the PH Programs meet the minimum hours required by licensing standards.

The BFO also recommends that an appropriate amount be charged Marion Community hospital for the provision of psychiatric doctor's time and overhead.

The BFO further recommends the Counties review the results of the Fiscal Year 2005-06 financial statements to determine if recovery of funds in program funded cost centers is warranted.

Issue No. 4 - Tri-County Was Overpaid $371,238 in MR Funds Due to Cost Shift and Inappropriate Charges

During FY 2004 -2005 Tri-County charged the time of psychologists, behavioral specialists and a psychiatrist that primarily worked in BHRS to the MR Program. As a result, Tri-County was overpaid $371,238 for MR services. The overpayment occurred in the following cost centers with the amounts previously identified in Issue No. 2.

Program Funded	Net Income CPA Audit	Net Income BFO	Overpayment
Case Management	$ (62,369)	$ 78,612	$ 78,612
Recreation/Companion	36	39,242	39,206
Community Services	99	17,577	17,478
Cost Settlement			
Targeted Service Management	50,634	286,576	235,942
Total Net Income	$ (11,600)	$422,007	$371,238

Results of Fieldwork (Continued)

Document Identifying Cost Shift

A year-end transfer shifted costs of $470,129 from BHRS, Outpatient, and Data Processing to MR program funded and cost settled programs. This had a significant effect on increasing MR expenses. Support for this adjustment was limited to a one-page, handwritten, non-dated document titled, "To MR". This document identified the transfer of, BHRS - $340,496; Outpatient - $60,320; and Data Processing - $69,313, or a total of $470,129 to MR programs. A further expatiation of this adjustment was never provided.

A reallocation of the costs to the appropriate cost centers resulted in the $371,238 overcharge detailed in the schedule above, and as previously noted, an additional $50,559 omission from the Medicaid cost settlement report for an overpayment of $421,797.

Background on BHRS and Outpatient Cost Shift

An analysis of the $400,816 transferred to MR from BHRS and Outpatient determined the costs represented 100 percent of the salaries of psychologists, behavior specialists, and a psychiatrist. Some of these positions were included in the MR budgets submitted to the County MH-MR Programs. We brought this to the attention of the Northeast Regional ODP staff and were informed that these positions would not customarily be used to deliver MR services. An exception would be the limited use of psychologists to perform testing to diagnose mental retardation. However, ODP policy requires the cost associated with the use of psychologists to perform testing to diagnose mental retardation in children and adults be funded through OMAP.

Through our interviews with the BHRS Director and the Director of Adult Services we obtained an understanding of the functions and job responsibilities of each psychologist and psychiatrist on staff. As a result we were able to determine that approximately 18 percent of their time during Fiscal Year 2004-05 was dedicated to MR funded services. This amount was used in computing the overpayment.

Partial Hospitalization Staff Charged to MR

Through staff interviews and review of staffing included in PH licensing documents, we identified five staff working at least 15 hours in a PH program, who were reported on the County MH I&E Report as working 100 percent in MR programs. Adjustments reducing the time and cost charged to MR programs for time worked in PH are included in the calculation of the overpayment. A document request for client attendance records and MA billing documents for the PH program were made but not provided by Tri-County.

Results of Fieldwork (Continued)

Recommendations

The BFO recommends any year-end adjustment or reclass to the general ledger expenses or revenues be fully explained and entered into the accounting system, with the documentation retained for audit purposes.

The BFO also recommends a time study be completed for staff working in the cited PH program who may be performing services for both MH and MR programs. The results of the study should be used to allocate the cost of these staff.

The BFO finally recommends that the Counties require Tri-County to justify the psychiatrist and psychologist costs that have been charged and/or budgeted to the MR funded cost centers for Fiscal Years 2005-06 and 2006-07. Any amount not justified should be recovered as an overpayment.

Issue No. 5 - Cost of Contracted Psychiatric Inpatient Services Exceeds Revenues By $117,535

The cost to provide 24-hour, 7 days a week psychiatric inpatient services to Marion Community Hospital, a related party, exceeds the amount charged by $117,535. Our analysis of the costs associated with the program indicates that the minimum cost to provide these services would be $273,690. The $156,155 that was charged in the Fiscal Year 2004-05 contract was developed based on a budget agreement dated March 1987. Tri-County has not changed the amount charged for 19 years, despite the significant increase in psychiatrist salaries and malpractice insurance cost over this time.

Tri-County does not track the cost of psychiatric inpatient service in their accounting system. The cost of psychiatrist time and associated costs provided for inpatient services is recorded in the outpatient cost center in the accounting system. Based on information obtained from interviews with the Tri-County Medical Director and other psychiatric inpatient staff and staffing hours included in a Department of Health licensing document of the hospital's inpatient unit, we determined the average weekly hours provided for the contract and calculated the minimum cost to provide these services as $273,690. Confirmation of the $273,690 cost was requested but not provided by Tri-County.

While seemingly not related the loss of revenue on this contract is significant to the issue on the transfer of the Wayne County BSU services. Tri-County projected that the transfer of BSU services would result in a $200,000 loss. If this projection were accurate the renegotiation of just this contract alone would enable Tri-County to recover 59 percent of the loss.

Results of Fieldwork (Continued)

Recommendations

The BFO recommends Tri-County track and identify the psychiatric hours and total cost to provide these services in their accounting system.

The BFO also recommends the contract be renegotiated to ensure that the charges for the inpatient unit services covers, at a minimum, the actual cost to provide these services. The additional revenue can be used to offset any loss of funding that might occur from transfer of the BSU services.

Issue No. 6 - Tri-County Needs to Establish a Written Cost Allocation Plan

Tri-County does not have a written cost allocation plan (CAP). Excluding the costs of the data processing department, administrative expenses are generally allocated in proportion of an individual program operating costs to operating costs of all programs. This is an acceptable method for allocating administrative expenses; however, for the DPW to participate in an agency's indirect or administrative costs, the agency must have a documented CAP.

PA Code Title 55, Chapter 4300.94 requires the agency maintain a complete file regarding the CAP and supporting documentation. It also requires an opinion from a public accounting firm on the equitableness of the CAP. The Tri-County CPA firm did provide an opinion the CAP was in compliance with 4300 regulations. We believe Tri-County needs to develop a written CAP, and include the method used to allocate administrative costs, including data processing, to be in compliance with Regulation 4300.94.

Data Processing Costs of $275,392 Were Direct Charged to a Limited Number of Programs

For Fiscal Year 2004-05, data processing salary costs of $88,977 and operating costs of $117,102 or total of $206,079 were direct charged to the CM/OP cost center. In addition, $69,313 of data processing salary costs were direct charged to three MR cost centers; MR Case Management, Targeted Service Management and Community Options. These four programs receiving a direct charge for data processing represents only 40 percent of total program costs. The remaining programs representing 60 percent of costs were allocated no data processing costs.

Through analysis and interviews with the data processing director and managers, it was determined that all programs receive the benefit of this department. The data processing costs should be charged to the administrative cost center and allocated by the same methodology, which are individual program costs to total program costs.

Results of Fieldwork (Continued)

The Tri-County executive director believes certain programs benefit more than other programs from the data processing department. For example, the data processing department has devoted extensive time preparing and supporting the Home and Community Services Information System (HCSIS) for the ODP, and certain MH programs required additional data processing services related to billings through the DPW Promise system. Tri-County has not retained support to document the additional time provided to specific programs. Based on available information, adjustments were made to include data processing costs in the administrative cost pool, with costs allocated proportionally to all programs.

Tri-County disagreed with this methodology and responded 100 percent of the data processing costs should be allocated to the MH, CM and OP programs for Fiscal Year 2004-05. This was a change from the methodology used to prepare Fiscal Year 2004-05 certified financial statements, and would result in zero data processing costs charged to MR Programs.

Recommendations

The BFO recommends Tri-County develop a written CAP. A description of the methodology used to allocate administrative costs should be documented in the narrative of the CAP.

The BFO also recommends Tri-County include data processing costs in the administrative cost pool, with these costs allocated proportionately to all programs. If a program receives a more proportional benefit than others, the deviation in allocation should be documented in the CAP file.

The BFO finally recommends the CPA firm auditing the CAP ensure a written CAP is developed with the description and methodology documented in the CAP file.

Issue No. 7 - Documentation Is Needed to Support the Cost of Parent Company Allocated Fees

The basis for the $218,160 of membership and management fees charged to Tri-County by CHE, the parent health care system, was not documented and not available for our review. These costs are charged to the Tri-County administrative cost center pool and then allocated to all Tri-County programs including County MH-MR funded fee-for-service and program funded services.

In order to understand the nature of these costs, how Tri-County benefits from the services, if the costs are reasonable and do not duplicate services provided by Tri-County management, and are allowable under 4300 fiscal regulations, we requested

Results of Fieldwork (Continued)

documentation to support these costs. The request for contracts and agreements to identify the specific services being provided, and invoices to support the CHE fees and CEO costs for the sample month of February 2006 was made in April, May and June 2006. The documentation was not provided. The Tri-County executive director agreed to provide a written description of the CHE services. The services were described as various management services including financial, cash management, insurance, purchasing, in-service training, technical assistance and internal audit. The cost associated with the specific services was not provided.

The BFO is questioning the allowability of these costs pending receipt of the requested documents.

Background on CHE Fees

Beginning in November 2004, CHE, the parent health care system, began allocating member dues of $8,300 per month, or approximately $100,000 per year to Tri-County. Effective January 2006, the monthly amount was reduced to $6,680. Also during Fiscal Year 2005-06, the CHE began charging CEO and management fees to Tri-County. An allocation worksheet for January 2006 identifies Tri-County was charged CEO fees of $8,774 and miscellaneous management and internal audit fees of $2,726 or total of $11,500. The combined membership, CEO, and miscellaneous fees for January 2006 were $18,180, which annualizes to $218,160.

Applicable Chapter 4300 Fiscal Regulations Requirements

The DPW's financial participation in the CHE management fees is subject to fiscal regulations 4300.28, 4300.83 and 4300.84. These regulations require costs to be reasonable and necessary for operation of the program, limit CEO compensation, and require written agreements including the rate of compensation.

Recommendations

The BFO recommends Tri-County provide the documentation requested to support the cost of CHE management services for Fiscal Year 2004-05 and 2005-06. The CHE costs charged to the administrative cost center should be identified by both fiscal years. Pending receipt of this information, the allowability of these costs is being questioned. If the information is not provided, the County MH-MR Programs, ODP and OMHSAS need to make a determination on the allowability of these costs.

The BFO also recommends a detailed accounting and description of these costs be presented to the County MH-MR Programs as part of the Fiscal Year 2007-08 rate negotiation process.

Results of Fieldwork (Continued)

The BFO further recommends if Tri-County adds an in-house CFO position, the management services provided by CHE be reevaluated to determine if the CHE costs can be reduced through direct provision by the Tri-County CFO.

Observation - Tri-County Is Requesting Consideration of a Continuing Participation Allowance

Tri-County has requested an eight percent continuing participation allowance for use of space in Tri-County owned, debt-free buildings be included as an allowable cost in the BFO audit. Regulation 4300.87 (vii) allows reimbursement of a continuing participation allowance for the use of space in debt-free buildings. The allowance may not exceed an 8 percent rate of return on the property value as determined by the lesser of cost or fair market at the time of original purchase.

Prior to Fiscal Year 2006-07, Tri-County had not requested funding for a continuing participation allowance from the LSW MH-MR Program, and the LSW MH-MR Program had not funded a participation allowance. Per written correspondence dated September 11, 2006, Tri-County informed BFO that it "has pursued with the Lackawanna and Susquehanna MH-MR the 8 percent use allowance and both parties agreed it is acceptable".

The Tri-County Fiscal Year 2004-05 audit identifies $22,117 of depreciation expense related to buildings. The building depreciation expense is being allocated to all Tri-County programs and is not an allowable cost. The County MH-MR Programs should not participate in this cost. Confirmation has been requested for the location and debt free status of the buildings included in depreciation expense. This information has not been provided.

If the LS MH-MR, Wayne County MH-MR, ODP and OMHSAS elects to consider the Tri-County request to include a participation allowance as an allowable cost, Tri-County should provide the requested information, and the cost and fair value of the buildings at the time of original purchase to the LS MH-MR Program in order to calculate a participation allowance cost in accordance with fiscal regulation 4300.87.

An exit conference was not held with Tri-County officials. Three scheduled exit conferences were postponed by Tri-County. In lieu of an exit conference, Tri-County legal counsel requested and entered into settlement discussions with DPW to resolve the audit issues. These meetings and discussions occurred between March 2007 and November 2008. The results of the meetings did not result in settlement with DPW, and no changes have been made to the draft report dated December 12, 2006.

Tri-County's written response dated November 12, 2008 has been incorporated into the final report and is labeled Appendix B. The Lackawanna/Susquehanna and Wayne County MH-MR Program responses to the report are incorporated and labeled Appendix C and Appendix D.

Tri-County's response takes issue with a number of audit issues including the scope of the audit and recovery of overpayments. To assure clarity, the BFO feels it is necessary to include an Auditor's Commentary to address certain comments made in the Tri-County November 12, 2008 response. The Auditor's Commentary is included and labeled as Appendix A.

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

Please contact Alex Matolyak, 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

Enclosure

C: Mr. Richard Hager
Mr. Joseph Church
Mr. Robert Conklin
Mr. Michael Orr
Mr. Philip Mader

EXHIBIT

Tri-County Schedule of Audit Adjustments
Fiscal Year 2004-05

	Case Mgt / OP	TANF	CHIPPS	Family Based In-Home	Intensive Case Mgt.	Training & Social Rehab	Mobile Work Force	Student Assistance Program	Family Supports Services
Total Expenses - Original I &E / Audit	$ 4,600,348	$ 33,687	$ 15,898	$ 850,263	$629,048	$ 48,446	$50,067	$232,536	$90,972
Adjustments:									
Allocation of Psychiatric Doctor Time	(640,308)	-	-	(35,647)	(42,488)	-	(1,958)	(15,746)	-
Cost Shift From MH to MR	(100,921)	-	-	-	-	-	-	-	-
PH Charged to MR	-	-	-	-	-	-	-	-	-
CHIPPS Case Management	15,629	-	4,411	-	(18,151)	-	-	-	-
BHRS & Other Adjustments	(1,890,961)	(33,687)	-	(36,819)	(52,731)	-	(5,585)	(11,157)	(18,583)
Total Adjustments	(2,616,561)	(33,687)	4,411	(72,466)	(113,370)	-	(7,543)	(26,903)	(18,583)
Operating Expenses	-	-	-	-	-	135	-	-	-
Admin Expenses	-	-	-	-	-	900	-	-	-
Total Changes in Admin & Operating	-	-	-	-	-	1,035	-	-	-
Total Expenses - Revised	1,983,787	0	20,309	777,797	515,678	49,481	42,524	205,633	72,389
Revenue	1,831,584	33,700	15,900	882,164	601,409	48,500	51,500	237,100	83,299
Revised Net Income / (Loss)	($152,203)	$33,700	($4,409)	$104,367	$85,731	($981)	$8,976	$31,467	$10,910
Overpayment/ (Underpayment)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**$26,903**	**$10,910**

EXHIBIT A

Tri-County Schedule of Audit Adjustments
Fiscal Year 2004-05

	Supportive Employment	Resource Coordination	Crisis Intervention	Consumer Group	Appren-ticeship	Sex Offender	Wilder-Ness	Disaster Program
Total Expenses – Original I &E / Audit	$10,733	$ 443,551	$ 264,234	$ 21,917	$ 17,742	$ 105,883	$ 27,815	$ 14,436
Adjustments:								
Allocation of Psychiatric Doctor Time	-	(7,430)	4,823	-	-	-	(4,469)	-
Cost Shift From MH to MR	-	-	-	-	-	-	-	-
PH Charged to MR	-	-	-	-	-	-	-	-
CHIPPS Case Management	-	-	-	-	-	-	-	-
BHRS & Other Adjustments	(7,413)	(31,747)	-	-	(6,242)	-	-	-
Total Adjustments	(7,413)	(39,177)	4,823	-	(6,242)		(4,469)	-
Operating Expenses	-	-	-	62	-	312	-	42
Admin Expenses	-	-	-	407	-	1,975	-	265
Total Changes in Operating & Admin	-	-	-	469	-	2,287	-	307
Total Expenses – Revised	3,320	404,374	269,057	22,386	11,500	108,170	23,346	14,743
Revenue	4,300	435,395	255,731	22,000	11,100	109,000	27,648	14,500
Revised Net Income / (Loss)	$980	$31,021	($13,326)	($386)	($400)	$830	$4,302	($243)
Overpayment/ (Underpayment)	N/A	N/A	N/A	N/A	N/A	**$(2,287)**	N/A	N/A

EXHIBIT A

Tri-County Schedule of Audit Adjustments
Fiscal Year 2004-05

	BHRS	MR Case Mgt	Commty. Svc.	Supportive Emplyt.	Targeted Service Mgt.	Adult Day Trmt.	Recreation / Companion	Mobile Work Force
Total Expenses – Original I &E / Audit	$ -	$ 304,969	$ 50,501	$ 20,353	$1,091,553	$183,502	$ 167,864	$99,882
Adjustments:								
Allocation of Psychiatric Doctor Time	-	-	-	-	-	-	-	-
Cost Shift From MH to MR	276,522	(140,981)	(17,478)	-	(235,942)	-	(3,645)	-
PH Charged to MR	-	-	-	-	-	(28,119)	(35,561)	-
CHIPPS Case Management	-	-	-	-	-	-	-	-
BHRS & Other Adjustments	2,105,371	-	-	-	-	-	-	-
Total Adjustments	2,381,893	(140,981)	(17,478)	-	(235,942)	(28,119)	(39,206)	-
Operating Expenses	-	-	-	529	-	-	-	(2,945)
Admin Expenses	-	-	-	519	-	-	-	5,572
Total Change in Operating & Admin	-	-	-	1,048	-	-	-	2,627
Total Expenses – Revised	2,381,893	163,988	33,023	21,401	855,611	155,383	128,658	102,509
Revenue	2,175,154	242,600	50,600	20,900	1,142,187	246,518	167,900	93,464
Revised Net Income / (Loss)	($206,739)	$78,612	$17,577	($501)	$286,576	$91,135	$39,242	($9,045)
Underpayment/ (Overpayment)	N/A	**$78,612**	**$17,478**	N/A	**$235,942**	N/A	**$39,206**	N/A

EXHIBIT A

Tri-County Schedule of Audit Adjustments
Fiscal Year 2004-05

	Core Team	Family Driven	Early Intervention	Community Options	Appren-ticeship	Partial Hospitalization	Inpatient Unit	Total
Total Expenses – Original I &E / Audit	$ 108,148	$ 318,013	$ 124,506	$ 311,686	$ 76,455	$ 1,845,827	$0	$12,160,835
Adjustments:								
Allocation of Psychiatric Doctor Time	-	-	-	-	-	472,130	273,690	2,597
Cost Shift From MH to MR	(24,468)	-	-	(21,649)	-	94,860	-	(173,702)
PH Charged to MR	-	-	-	(33,935)	-	119,695	-	22,080
CHIPPS Case Management	-	-	-	-	-	-	-	1,889
BHRS & Other Adjustments	-	-	-	-	-	106,792	-	117,238
Total Adjustments	(24,468)	-	-	(55,584)	-	793,477	273,690	(29,898)
Operating Expenses	-	-	2,889	-	1,969	-	-	2,993
Admin Expenses	-	12,203	3,118	-	1,946	-	-	26,905
Total Change in Operating & Admin	-	12,203	6,007	-	3,915	-	-	29,898
Total Expenses – Revised	$83,680	$330,216	$130,513	$256,102	$80,370	$2,639,304	$273,690	12,160,835
Revenue	129,445	297,515	107,399	310,719	40,627	2,588,424	156,155	12,434,437
Revised Net Income / (Loss)	$45,765	($32,701)	($23,114)	$54,617	($39,743)	($50,880)	($117,535)	$273,602
Underpayment/ (Overpayment)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**$406,764**

EXHIBIT A

APPENDIX A
Auditor's Commentary

Tri-County
Auditor Commentary to Tri-County Audit Response

Response Page 1, Footnote #1

The response contends that the auditors independently expanded the original audit objective to focus on cost allocation practices without explanation or authorization.

BFO Comment

The scope of the audit was not expanded as the audit objectives required the identification of the cost of BSU function which would include the cost of allocated administrative costs. Additionally, the audit was conducted in accordance with generally accepted government auditing standards which requires review of management controls including review of cost allocation practices.

Response Page 2 and 3 – Improvements to Financial Infrastructure

The response identifies audit recommendations on improvements to the CAP and general ledger were completed by July 1, 2008.

BFO Comment

The BFO performed a follow up visit in May 2008 to document the status of corrective actions. We agree that Tri-County has revised its general ledger to include 160 cost centers. However we believe the decision to continue using, and not replace, the accounting system software, which was designed for hospitals to produce calendar year financial data, limits Tri- County's ability to generate timely and accurate fiscal year budgets and financial statements.

Response Page 4 – Issue No. 1 and Footnote #2

The response asserts that the BFO concluded that a loss of over $1 million in Wayne County BSU revenues should not adversely affect Tri-County's viability. Footnote #2 reports contrary to BFO's prognostication, the loss of Wayne County revenues exceeded the BHRS revenue increase by $300,000 in fiscal year 2005-06.

BFO Comment

The BFO audit identified a number of opportunities to offset the Wayne revenue loss including the expansion of BHRS revenues to replace the loss of Wayne BSU revenues. Tri-County's concern as reported to DPW was the transfer of $1 million in services (and associated costs) to Wayne that would result in $200,000 of unreimbursed costs due to an inability to fully allocate indirect costs. The 2005-06 CPA audit does not report revenue by source to substantiate the $300,000 net loss. However the audit identifies Fiscal Year total revenues increased by $533,242 which would allow the opportunity to further allocate indirect costs.

The 2005-06 Tri-County Certified Financial Statements include a payable to DPW in the amount of **$406,764**. This amount represents overpayments incurred in program funded and cost settled cost centers identified in Appendix A of the BFO audit. It should be noted that a significant portion (approximately 39.1%) of the loss incurred in 2005-06 is the result of Tri County management's recognition of this overpayment.

<u>Response Page 5 – Issue No. 2</u>

The response identifies "BFO without citation, states that program funded services need to be separately tracked" and "BFO fails to reference any applicable regulation in support of its overpayment claim." The only regulation Tri-County and the Counties (not identified) are aware of regarding programs funding is 55 Pa. Code, Chapter 4300.27 which is limited to a definition of program funding without reference to separate tracking of expenses.

<u>BFO Comment</u>

The reference to program funding and overpayments are not limited to the definition of program funding cited within the Tri-County response. For example, PA Code, Chapter 4300, Section 4300.116 (d) requires payments based on negotiated rates to be adjusted for audited actual costs. Section 4300.146 (a) requires agencies to adhere to accepted concepts of generally accepted accounting principles and establish those funds, groups, or crosswalks necessary for proper reporting; section 4300.152 (b) requires payments to program funded services be based on invoices for actual cost of the service; and section 4300.155 (a) refers to categorical funding and restriction on funds to be used for specific programs.

The agency 2005-06 CPA audit supports BFO's position with a finding that cites the program for failing to separately track expenses and notes that employee salaries are apportioned to programs without supporting documentation which could lead "to overstatement or understatement of net income for specific programs."

<u>Response Page 5, Footnote #3</u>

The footnote states "the cost allocation method utilized by Tri-County in 2004-05 was known to and endorsed by its County payors" and "BFO concedes the Tri-County CPA firm did provide an opinion that the CAP was in compliance with 4300 regulations."

<u>BFO Comment</u>

The Lackawanna/Susquehanna MH-MR Program (LS) response to the BFO audit (included as attachment A to the Tri-County response) is silent on whether the LS endorsed the 2004-05 CAP. The Wayne MH-MR Program response which was not attached identifies requested time and cost allocation studies for fiscal years 2004-05 and 2005-06, which were not provided to the County.

The CPA audit of 2005-06 states "The center's written CAP does not have supporting documentation" and "lack of a documented CAP could lead to disallowance of all indirect costs charged to the center's various programs."

Response Page 7 - Issue 4

The Tri-County requests that Issue 4 be removed from the report due to BFO not disclosing or sharing the results of interviews, conversations and documents which formed the basis for the finding. Tri-County also asserts that the issue relates to an alleged mistake on how expenditures were recorded. Additionally, Tri-County asserts on page 8 that "there is no claim of fraud or poor performance or intent to circumvent applicable regulations."

BFO Comment

Management of Tri-County was informed of the results of the interviews conducted. The audit also identifies, by position, the two Tri-County BHRS and Adult Service Directors who were interviewed. Management of Tri-County and Executive Management of Maxis Health System attended a number of meetings and two closing conferences to discuss the audit issues. Work papers were made available to management and the Tri-County consultant hired to review the support for the audit findings. This issue represents $371,238 of the $406,764 total overpayment per Audit Exhibit A.

Regarding the assertion that the audit contains no claims of fraud, poor performance or intent to circumvent applicable regulations, the facts clearly demonstrate that deficient management controls resulted in a year end adjusting entry to cost shift $470,129 from MH and MA fee for service cost centers, to MR program funded or cost settled programs, which is not within the realm of applicable regulations (PA Code, Chapter 4300.152 and 4300.155).

Response Page 7 and 8 - Issue No. 7

The response identifies there is no claim in the audit that payment of $218,760 for membership and management fees to Catholic Health East were not necessary or were inconsistent with or were in excess of usual and customary charges for such services.

BFO Comment

The failure to produce requested documentation to support the $218,760 of membership and management fees prohibited the auditors from making any determination on the necessity and allowability of these costs.

APPENDIX B
Tri County Response to Draft Report

KELLEY & MURPHY LLP, Attorneys and Counsellors

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November 12, 2008

Mr. Kevin Friel
Director
Bureau of Financial Operations
Department of Public Welfare
Third Floor, Bertolino Building
1401 N. 7th St.
PO Box 2675
Harrisburg, PA 17110-2675

Re: Tri-County Human Services

Dear Mr. Friel:

I am writing to you on behalf of my client, Tri-County Human Services ("Tri-County") regarding a Draft Audit Report ("Report") prepared by the Bureau of Financial Operations ("BFO"), Department of Public Welfare ("Department"), that focused on revenues and expenditures recorded by Tri-County for Fiscal Year 2004-05. The revenues and expenditures relate to behavioral health services rendered by Tri-County to persons who were eligible for such services under programs funded by the Department.

At the direction of the Secretary of Public Welfare, BFO initiated an audit of Tri-County for the limited purpose of assisting Tri-County in assessing the financial consequences resulting from Wayne County's decision to transfer the functions of its Base Service Unit ("BSU") from Tri-County to Wayne County. During the course of their review, the auditors independently expanded the original objective of the audit to focus on Tri-County's cost allocation practices.[1] Since the release of the Report, I have had discussions about the auditors' findings and recommendations with the Department's counsel and BFO representatives as part of Tri-County's efforts to address those findings and recommendations. This response represents Tri-County's formal response to the findings and recommendations contained in the Report.

[1] The Report does not explain the source of authorization to expand the scope of the audit.

I. REVISIONS TO COST ALLOCATION PLAN AND GENERAL LEDGER

In response to the Recommendations relating to Findings No. 1-6 in the Draft Audit Report, Tri-County revised its Cost Allocation Plan and General Ledger to more accurately identify and distribute revenues and expenditures of the agency to its various cost centers. Specifically, Tri-County revised its financial infrastructure so that, effective July 1, 2008, it more precisely can accomplish the following tasks:

1. process charges and collect payments in a more timely and accurate manner;
2. account more accurately for revenue and expenses;
3. allocate more precisely revenue and expenses to appropriate cost centers;
4. improve the accuracy and efficiency of payroll systems;
5. improve controls to manage financial operations; and
6. produce financial and statistical reports required for contract sources, regulatory bodies and management decision making.

As part of the effort to more accurately identify and distribute costs, Tri-County completed a time study of its programs to verify the personnel and hours allocated to each program. Once the time study was completed, indirect costs were allocated as follows: (a) total agency expenses were divided into Mental Health (MH) and Mental Retardation (MR) Programs; and (b) indirect costs were allocated to each MH and MR Program based on percentage of salary expense. For example, if Program A was responsible for 8% of the total salaries for MH, it received an allocation equal to 8% of MH indirect costs.

Tri-County also revised its General Ledger to include over 160 cost centers so that more expense is charged directly to the appropriate cost center. This effort reduced the overall expense that is characterized as "indirect." The remaining expense will be distributed according to accepted accounting principles so that the actual benefits accrue to the relevant cost center.

II. REVISIONS TO TRI-COUNTY FINANCIAL INFRASTRUCTURE

1. Staff – Division of Responsibilities

    (a) Manager of Financial Operations (new position)
    (b) Billing Manager (new position)
    (c) Accountant
    (d) Payroll
    (e) IT

2. Accounting

    (a) General Ledger now includes 160 cost centers that accomplish the following:

i. identify more clearly costs and revenue by program;
ii. identify the production of P&L statements by program;
iii. assure more efficient and accurate production of County "Income and Expense" Reports (each contract is tracked monthly and has a unique cost center);
iv. promote the ability to budget and analyze by program;
v. facilitate the establishment of position controls; and
vi. allow for the production of detailed reports to county, state, internal and external auditors.

(b) Implementation of a plan to assure that revenue and expenses are coded for new cost centers and sub-accounts:

i. Modified forms: Charge Master, etc. to match new cost centers and sub-accounts.
ii. Developed policies and procedures for coding to ensure that information is coded to correct account.
iii. Trained staff in use of new General Ledger, coding systems and forms.

(c) Revision of the ADP payroll system including:

i. interviewed managers to more accurately identify the time and location of work hours for each employee;
ii. allocation of employee time in Payroll system;
iii. direct interface with the general ledger; and
iv. initiation of position control.

(d) Adoption of a purchase order system that results in coding expenses directly to appropriate Cost Center(s).

(e) Creation of a written indirect expense allocation method based on accepted accounting principles.

III. AUDIT FINDINGS

BFO's Report identifies seven audit "Issues." The first Issue addresses the impact on Tri-County from the loss of $1.1 million in revenue from the termination of its contract to serve as the Wayne County BSU. The next five Issues generally reflect BFO's findings that Tri-County's Cost Allocation Plan was inadequate in assigning costs and revenues to an appropriate program or cost center within the agency. The final Issue involves the allocation of fees charged to Tri-County by its parent organization for administrative support. We address these Issues below.

<u>Issue No. 1</u> The Loss of Wayne County BSU Revenues Should Not Affect Tri-County's Ability To Remain as a Viable Service Provider.

Tri-County Response:

BFO presumes and so projects that Tri-County will likely experience increased revenue relating to the delivery of BHRS Services that "will more than offset the $1.1 million loss" of BSU's "revenues" previously earned under the contract with Wayne County. Further, BFO contends that "the expansion [by Tri-County] in BHRS would appear to provide an opportunity to allocate administrative costs that previously had been allocated to the Wayne County BSU." Despite insisting that the loss of actual Wayne County BSU revenues should not adversely affect Tri-County's viability because of anticipated but uncertain increases in other types of revenues, BFO nonetheless states that fiscal information generated from Tri-County's accounting system did not allow for preparation of budgets and financial statements that could identify the costs associated with the [Wayne County] BSU functions or track the time incurred by employees that provide BSU functions. Report at pp. 5-6.

So, while criticizing Tri-County's cost allocation and financial infrastructure as inadequate to provide reliable cost data, BFO boldly proceeds to conclude and confidently assert, on the basis of the same allegedly "inadequate" data, that the loss of over $1 million in annual revenue will not adversely impact Tri-County. There obviously is a fundamental inconsistency in faulting Tri-County's cost allocation and financial management while otherwise insisting that data is sufficient to conclude that a loss of over $1 million in annual revenue will essentially prove harmless to Tri-County.

The auditors' unconditioned conclusion that the loss of such a significant and dependable revenue stream by a provider operating in one of the more rural areas of the Commonwealth is seriously flawed. The economic vagaries inherent in the provision of BHRS services cannot reasonably be considered as comparable to retaining a $1 million contract for BSU services. Certainly, few, if any, providers of human services or their creditors would agree with BFO that a loss of a million dollars in annual revenue from a long-term financially solvent client, especially with operating margins as thin as those of Tri-County, would not seriously compromise Tri-County's on-going viability.[2]

Issue No. 2. The Tri-County Financial Statements Do Not Identify The True Cost To Provide MH and MR Services.

Tri-County Response:

BFO argues that Tri-County's Fiscal Year 2004-05 internal and external financial statements are based on "inaccurate allocations, inappropriate charges, and unexplainable cost shifts." Consequently, according to BFO, "LSW MH – MR Programs funding decisions have been flawed and Tri-County has been overpaid." Report at p. 7.

BFO's conclusion regarding overpayments proceeds entirely from the auditors' opinion of how costs must be allocated and their preliminary opinion regarding

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[2] Indeed, contrary to BFO's prognostication, Tri-County suffered a loss of $300,000 in total revenue in 2005-06 when comparing the loss of the Wayne County BSU contract to an increase in BHRS revenue.

OMHSAS payment policies.[3] Notably, BFO fails to reference any applicable regulation in support of its overpayment claim or regulatory or rational support for any payment recovery. The fact that revenues and expenses may not always have been allocated as suggested by BFO does not evidence or establish that Tri-County was "overpaid." Indeed, facts do not even remotely suggest that any of the funding received by Tri-County was not devoted entirely to providing services and administering its programs.[4]

Perhaps most critically, and fatal to BFO's overpayment conclusion, is that BFO accepts the total revenues and expenses reported by Tri-County in 2004-05. BFO suggests, however, that (subject to interpretation of program regulations and policies by Department and county staff) the modest surplus ($275,000.00) recorded should be transformed into an overpayment, the calculation of which cannot be understood from the text of the Report.[5] Even assuming the accuracy of the "surplus," that Tri-County's actual and unrefuted costs of providing services and the revenues it received nearly match in 2004-05, the ambiguity regarding the application of OMHSAS policies conceded by the auditors, and the longstanding knowledge and acceptance of Tri-County's cost allocation practices and program funding by the countries belie BFO's conclusions about overpayments and applicable regulations do not authorize or contemplate a disallowance under such circumstances.

BFO, without citation, states that program funded services need to be separately tracked. Without reference to any support for its position, it obviously is impossible for Tri-County to respond to BFO's assertion. Nonetheless, the applicable regulation that Tri-County and the counties are aware of regarding program funding appears at 55 Pa. Code § 4300.27 and states as follows:

> Program funding is the procedure used to fund the total eligible expenditures for a publically or privately administered and staffed facility as predetermined by the

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[3] Prior to BFO's findings, neither the Department nor any county MH/MR program had previously raised any concerns or objections about the manner and method of Tri-County's allocation of revenues and expenditures or distribution of indirect costs. At no time did any payor dispute the fairness or equitable distribution of costs by the agency. Indeed, the cost allocation method utilized by Tri-County in 2004-05 was known to and endorsed by its county payors. BFO concedes that "Tri-County's CPA firm did provide an opinion that the CAP [Cost Allocation Plan] was in compliance with [the] 4300 regulations." Report at p. 18.

[4] In the event that BFO identifies activity that actually violates applicable regulations and receives written opinions from OMHSAS regarding the interpretation and application of OMHSAS regulations that would support any overpayment claim, it must provide Tri-County an opportunity to address those alleged regulatory violations <u>before</u> issuing a final Report.

[5] The Report contains multiple references to assumptions by the auditors regarding the interpretation and application of applicable payment policies and procedures and fails to identify the regulatory basis for its reallocation of Tri-County's costs. Before the issuance of any final Report, Tri-County demands the opportunity to be more fully informed of the auditors' rationale and regulatory support for its reallocation of costs.

county authority. The funding may apply to the total agency operation or to a portion thereof.

Thus, according to the plain text of the regulation, the counties and providers, not BFO or the Department, negotiate and agree on the nature and amount of program funding. There is no assertion by BFO that the funding agreements and understandings between Tri-County and its county contract partners were breached by Tri-County. BFO cannot properly intercede into the contract relationship between Tri-County and its county contractors.

There is a recommendation by BFO under Issue #2 that ODP and OMHSAS should adjust the "carryover" by the Tri-County contract counties. That recommendation is deeply flawed. BFO must ask what purpose would be served by such an adjustment other than as a punitive measure? Services were provided by Tri-County and BFO concedes that costs and revenues for 2004-05 practically match. So, if services were provided and the funding available to support the provision and delivery of services was devoted exclusively to that purpose and not, for example, siphoned away for unrelated purposes, what is the objective now BFO seeks? Where do the equities lie? Why is BFO insisting that Tri-County, having provided the services, or the counties, having funded Tri-County, be financially penalized due to a dispute not over whether services were delivered and costs incurred, but how costs and revenues were allocated?

Issue No. 3 The Cost of Psychiatric Doctors Is Not Being Budgeted Charged and Reported in the Programs Receiving the Benefit of the Services.

Tri-County's Response:

Similar to the criticisms BFO raises in Issue No. 2, it again faults how Tri-County recorded costs and revenues.[6] The revisions to the Cost Allocation Plan, General Ledger and agency financial infrastructure discussed in Sections I and II, supra, will avoid any future disagreement over the charging and reporting of these costs. Once again, although BFO challenges how the agency recorded expenditures and revenues, it presents no facts to establish or even suggest that services were not provided or that costs were not incurred by Tri-County.[7] The auditors noted that the agency's cost allocation practices reflected practices known and accepted by the county MH/MR Programs as well as the

[6] BFO, throughout the draft audit, readily concedes the need for clarification and interpretation of applicable regulations and policy by Department and/or county staff. For example, BFO, in reallocating time relating to psychiatric services, utilized the licensed capacity of the agency's clinic as opposed to utilizing the clinic's average daily census as was done by Tri-County under its reasonable understanding of applicable policy.

[7] BFO refers to undocumented conversations with unidentified "Regional OMHSAS Office" staff regarding the interpretation and application of certain OMHSAS regulations. The reference to and any reliance by BFO on such hearsay is entirely inappropriate and contrary to applicable auditing protocol. If and to the extent there is confusion or questions regarding the interpretation and application of a regulation, the auditors should refer the matter to OMHSAS which, in turn, may address the issue directly with the agency or address the matter in writing to BFO so that all parties may be informed about the agency's interpretation and respond accordingly.

realities of assuring and managing the delivery of services by a dedicated small staff that assumed multiple responsibilities. Report at p. 8.

Issue No. 4 **Tri-County Was Overpaid $371,238. in MR Funds Due to Cost Shift and Inappropriate Charges.**

Tri-County's Response:

BFO faults Tri-County for allegedly shifting unfunded costs relating to the delivery of outpatient behavioral services to the agency's MR Program. Again, as with Issues Nos. 2 and 3, there is no question relating to the delivery of and need for the services provided by Tri-County. The alleged mistake relates to how Tri-County recorded its expenditures and how it accounted for staff serving clients in both the MH and MR Programs. BFO did not share the "interviews" that formed the basis for its finding nor any documents disclosing the nature and extent of its "conversations" with "Regional Staff" about the delivery of MR and BHRS Services. Tri-County obviously cannot rebut or respond to assertions about which it has no knowledge and this Issue No. 4 should be withdrawn on that basis alone. It is simply unfair and a denial of basic due process for BFO to make assertions regarding Tri-County's allocation practices and to issue even a draft report without providing Tri-County the documents and access to DPW staff that apparently provide the basis for BFO's allegations and recommendations.

Issue No. 5 **The Cost of Contracted Psychiatric Inpatient Service Exceeds Revenues By $117,535.**

Tri-County's Response:

Tri-County adopted the recommendations by BFO that the cost of providing psychiatric services be more fully indentified in the revised cost allocation system and that the contract for psychiatric services with Marion Community Hospital be renegotiated.

Issue No. 6 **Tri-County Need To Establish a Written Cost Allocation Plan.**

Tri-County's Response:

This Issue is addressed in Section I of the Response, supra.

Issue No. 7 **Documentation Is Needed To Support the Cost of a Parent Company Allocated Fees.**

Tri-County's Response:

Tri-County is a wholly-owned subsidiary of Catholic Health East ("CHE"), a non-profit corporation, from which it obtains a significant amount of essential management and administrative support services including the following: financial services, cash management, insurance coverage (except health), purchasing, IT, legal and audits. BFO identified Tri-County expenses of $12,160,835 in 2004-05 and total revenues of $12,434,437. Exhibit A to the Report. The total cost of essential management services provided to Tri-County was $218,760. BFO does not dispute the necessity for these support services and there is no claim by BFO that the amount of the payment is inconsistent with or in excess of usual and customary charges for such services.

IV. CONCLUSION

Tri-County has devoted considerable financial resources to developing and implementing revisions to its cost accounting practices and procedures to address the core concern raised in the Draft Audit Report. Indeed, the cost to Tri-County to revise its accounting practices actually exceeds the amount of the so-called "overpayments" formulated by the auditors. The agency's efforts certainly minimize, if not actually eliminate, future misunderstandings or questions regarding the identification and allocation of revenues and expenditures. The county programs have endorsed Tri-County's actions and clearly do not endorse BFO's overpayment recommendations. See Attachment A.

Tri-County has for many years provided and continues to provide quality behavioral healthcare services to a challenging population in one of the more remote sections of the Commonwealth. It acted swiftly and at significant cost to revise its accounting and finance systems to incorporate the auditors' recommendations. There is no claim of fraud or poor performance or intent to circumvent applicable regulations, and the undisputed facts plainly demonstrate that agency expenditures and revenue in 2004-2005 nearly match. Also, notwithstanding the severe deficits that Tri-County experienced in 2005-2006, 2006-2007, and 2007-2008, which deficits Tri-County's parent organizations absorbed and which deficits BFO has confirmed, Tri-County remained dedicated to its mission of providing high quality care to the community and maintaining its workforce.

Accordingly, for all of these reasons, adoption of the auditors' repayment recommendations would serve no legitimate public purpose but would, instead, reflect unjustified and wholly punitive action against Tri-County. Services were provided and costs were incurred by the agency. Tri-County requests that BFO withdraw its repayment recommendations.

Respectfully submitted,

JOHN A. KANE

JAK/sas
Attachment

March 8, 2007

Mr. Daniel Higgins, Audit Manager
Division of Audit and Review
Bureau of Financial Operations
Department of Public Welfare
325 Scranton State Office Building
100 Lackawanna Avenue
Scranton, P.A. 18503

Re: Tri-County Human Services Center "Draft Audit Report" prepared by the Bureau of Financial Operations, Division of Audit and Review.

Dear Mr. Higgins:

On behalf of the Lackawanna / Susquehanna County Mental Health / Mental Retardation Program, I would like to thank you for this opportunity to review the "Draft Audit Report" as prepared by your Office of the Tri-County Human Services Center's operations for our Joinder Program for Fiscal Year 2004-2005.

In your letter sent to our Program Office dated December 12, 2006 you requested that our Office respond to four (4) specific issues raised during the Bureau of Financial Operations (BFO) review of Tri-County Human Services Center operations. Below is our Programs response to those issues identified:

1. ***<u>Continuing Participation Allowance on Tri-County Human Services Center Debt- Free Property</u>*** – The Lackawanna / Susquehanna County Mental Health / Mental Retardation Program has accepted the continuing participation option as a viable expenditure of funds to support retention of real estate thereby fostering program stability. The continuing participation allowance expense billable by a provider does not involve a cash outlay by the provider and therefore has always been one of the last expenses considered by our Program for reimbursement. Prior to honoring this expense, the Program examines the calculations submitted by the provider to insure that they are eligible under the Department of Public Welfare Fiscal Regulations specifically, 4300.87 Section VII. The expenditure of funds to support these expenses are contingent upon the availability of local, state and federal dollars. The position of the Joinder Program to support the continuing participation allowance option is done to encourage the purchase and retention of real estate. This practice is generally recognized as the most cost efficient method of securing necessary facilities to support the delivery of needed services and supports to persons with disabilities.

Page 2 – Cont.
Tri-County Human Services Center
Draft Audit Report Response

2. ***Counties to ensure that the Fiscal Year 2005-2006 Independent Audit appears appropriate given the information addressed in the Bureau of Financial Operation (BFO) Report.*** Our Office has confirmed that Tri-County Human Services Center has provided a copy of the Bureau of Financial Operation (BFO) "Draft Audit Report" to the Independent Auditing firm of Parente Randolph. Our Office has communicated our concern to the senior auditor in charge of this audit so that the audit being prepared for Tri-County Human Services consider the findings as contained within the Bureau of Financial Operations (BFO) "Draft Audit Report".

3. ***Counties to recover Fiscal Year 2005-2006 overpayments.*** As a result of the Bureau of Financial Operations (BFO) Draft Audit Report", and the consideration given to those recommendations and findings by both Tri County Human Services Center and our office in the preparation and approval of the Fiscal Year 2005-2006 Income and Expenditure reports, it is not anticipated that there will be any Fiscal Year 2005-2006 overpayments. If however ineligible expenses are later discovered, the program will initiate actions to secure a full recovery from Tri County Human Services Center for those ineligible expenses identified.

4. ***Counties to obtain justification of Psychiatrist and Psychologist cost that have been charged to the Mental Retardation funded cost centers for Fiscal Year 2005-2006 and Fiscal Year 2006-2007***- Our Office has reviewed Tri-County Human Services Center Income Expenditure Reports for Fiscal Year 2005-2006 and have requested a justification of the Psychologist cost documented within the Targeted Case Management (TSM) Cost Center. There was $19,307.00 of Psychologist cost and no Psychiatric cost identified within this cost center for fiscal year 2005-2006. The amount of $19,307.00 in Psychologist cost represents a reduction of approximately 82% when compared to the amount of Psychologist cost reported in the TSM Cost Center in fiscal year 2004-2005. In addition to the reduction of Psychologist cost in the TSM cost Center, Tri-County Human Services Center provided a justification for the inclusion of Psychologist cost in the TSM Cost Center for Fiscal Year 2005-2006. After review by County Program and Fiscal staff the position of the County Program is that the justification submitted seemed reasonable based upon the rationale provided. In addition, no Psychologist cost or Psychiatrist cost were identified within other Mental Retardation Cost Centers in fiscal year 2005-2006. For fiscal year 2006-2007 Tri-County has included $12,800.00 dollars for Psychologist time within the TSM Cost Center and has not included any Psychologist or Psychiatrist Cost within any other Mental Retardation Program Cost Center.

Tri-County Human Services Center has been a key provider of services to persons with mental disabilities within our Joinder Program. Our Office is looking forward to working closely with your Office, the Office of Mental Health and Substance Abuse Services (OMHSAS), Office of Mental Retardation (OMR) and Tri-County Human Services Center to resolve identified issues contained within the "Draft Audit" Report issued by your Office. As indicated from our review of the Tri-County Human Services Center Income and Expenditure Reports for fiscal Year 2005-2006 it is apparent that Tri-County Human Services Center has internalized and operationalized the recommendations as contained within the Bureau of Financial Operations (BFO) "Draft Audit Report" producing documents that address cost allocation issues raised.

Page 3 – Cont.
Tri-County Human Services Center
Draft Audit Report Response

If the Department should decide to seek financial recovery based upon the findings within the Tri-County Human Services Center Audit Report as prepared by the Bureau of financial Operations (BFO), the Lackawanna / Susquehanna County Mental Health / Mental Retardation Program would have no recourse other than to seek financial recovery in the amount prescribed by the Commonwealth from Tri-County Human Services Center.

Again, on behalf of the Lackawanna / Susquehanna County Mental Health / Mental Retardation Program thank you for providing our Office with the opportunity to respond to the questions identified during your review process conducted with Tri-County Human Services Center. If you should need any additional information regarding this matter please do not hesitate to contact me.

Sincerely,

Stephen Arnone
Administrator

Cc: Mr. John H. Bungo
Mr. Michael Orr
Ms. Jule Wnorowski

APPENDIX C
Lackawanna/Susquehanna Response to Draft Report

MENTAL HEALTH
MENTAL RETARDATION
PROGRAM

RECEIVED
MAR 13 2007
Administrator's Office

March 8, 2007

Mr. Daniel Higgins, Audit Manager
Division of Audit and Review
Bureau of Financial Operations
Department of Public Welfare
325 Scranton State Office Building
100 Lackawanna Avenue
Scranton, P.A. 18503

Re: Tri-County Human Services Center "Draft Audit Report" prepared by the Bureau of Financial Operations, Division of Audit and Review.

Dear Mr. Higgins: Dan

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2. ***Counties to ensure that the Fiscal Year 2005-2006 Independent Audit appears appropriate given the information addressed in the Bureau of Financial Operation (BFO) Report.*** Our Office has confirmed that Tri-County Human Services Center has provided a copy of the Bureau of Financial Operation (BFO) "Draft Audit Report" to the Independent Auditing firm of Parente Randolph. Our Office has communicated our concern to the senior auditor in charge of this audit so that the audit being prepared for Tri-County Human Services consider the findings as contained within the Bureau of Financial Operations (BFO) "Draft Audit Report".

3. ***Counties to recover Fiscal Year 2005-2006 overpayments.*** As a result of the Bureau of Financial Operations (BFO) Draft Audit Report", and the consideration given to those recommendations and findings by both Tri County Human Services Center and our office in the preparation and approval of the Fiscal Year 2005-2006 Income and Expenditure reports, it is not anticipated that there will be any Fiscal Year 2005-2006 overpayments. If however ineligible expenses are later discovered, the program will initiate actions to secure a full recovery from Tri County Human Services Center for those ineligible expenses identified.

4. ***Counties to obtain justification of Psychiatrist and Psychologist cost that have been charged to the Mental Retardation funded cost centers for Fiscal Year 2005-2006 and Fiscal Year 2006-2007-*** Our Office has reviewed Tri-County Human Services Center Income Expenditure Reports for Fiscal Year 2005-2006 and have requested a justification of the Psychologist cost documented within the Targeted Case Management (TSM) Cost Center. There was $19,307.00 of Psychologist cost and no Psychiatric cost identified within this cost center for fiscal year 2005-2006. The amount of $19,307.00 in Psychologist cost represents a reduction of approximately 82% when compared to the amount of Psychologist cost reported in the TSM Cost Center in fiscal year 2004-2005. In addition to the reduction of Psychologist cost in the TSM cost Center, Tri-County Human Services Center provided a justification for the inclusion of Psychologist cost in the TSM Cost Center for Fiscal Year 2005-2006. After review by County Program and Fiscal staff the position of the County Program is that the justification submitted seemed reasonable based upon the rationale provided. In addition, no Psychologist cost or Psychiatrist cost were identified within other Mental Retardation Cost Centers in fiscal year 2005-2006. For fiscal year 2006-2007 Tri-County has included $12,800.00 dollars for Psychologist time within the TSM Cost Center and has not included any Psychologist or Psychiatrist Cost within any other Mental Retardation Program Cost Center.

Tri-County Human Services Center has been a key provider of services to persons with mental disabilities within our Joinder Program. Our Office is looking forward to working closely with your Office, the Office of Mental Health and Substance Abuse Services (OMHSAS), Office of Mental Retardation (OMR) and Tri-County Human Services Center to resolve identified issues contained within the "Draft Audit" Report issued by your Office. As indicated from our review of the Tri-County Human Services Center Income and Expenditure Reports for fiscal Year 2005-2006 it is apparent that Tri-County Human Services Center has internalized and operationalized the recommendations as contained within the Bureau of Financial Operations (BFO) "Draft Audit Report" producing documents that address cost allocation issues raised.

If the Department should decide to seek financial recovery based upon the findings within the Tri-County Human Services Center Audit Report as prepared by the Bureau of financial Operations (BFO), the Lackawanna / Susquehanna County Mental Health / Mental Retardation Program would have no recourse other than to seek financial recovery in the amount prescribed by the Commonwealth from Tri-County Human Services Center.

Again, on behalf of the Lackawanna / Susquehanna County Mental Health / Mental Retardation Program thank you for providing our Office with the opportunity to respond to the questions identified during your review process conducted with Tri-County Human Services Center. If you should need any additional information regarding this matter please do not hesitate to contact me.

Sincerely,

Stephen Arnone
Administrator

Cc: Mr. John H. Bungo
Mr. Michael Orr
Ms. Jule Wnorowski

APPENDIX D
Wayne County Response to Draft Report

WAYNE COUNTY COMMISSIONERS
ANTHONY V. HERZOG, CHAIRMAN
DONALD E. OLSOMMER SR
ROBERT V. CARMODY

HUMAN SERVICES DIRECTOR
ANDREA C. WHYTE

MH/MR ADMINISTRATOR
MARGARET ENNIS

Wayne County Office of Mental Health & Mental Retardation
Wayne County Park Street Complex
648 Park Street, Honesdale, PA 18431
Telephone (570) 253-9200 Fax (570) 647-0268

March 13, 2007

Mr. Daniel Higgins, Audit Manager
Division F Audit and Review
Bureau of Financial Operations
Department of Public Welfare
325 Scranton State Office Building
100 Lackawanna Avenue
Scranton, PA 18503

Dear Mr. Higgins:

The following is Wayne County Office of Mental Health/Mental Retardation formal response to the draft audit report of Tri County Human Services dated December 12, 2006.

In preparation for this response, a letter was hand delivered to Mr. George Dermody of Tri County Human Services requesting five (5) pieces of information. A copy of that letter is attached. In a letter dated February 1, 2007, Mr. Dermody provided Wayne County Office of Mental Health/Mental Retardation the following:

- The audit for FY 2004/2005 but no management letter or informal comments. Mr. Dermody reported that those documents do not exist.
- A Cost Allocation Plan for FY 2005/2006.
- Documentation of the psychiatric and psychological billable units to all sources.

Wayne County Office of Mental Health/Mental Retardation did NOT receive:

- The 2005/2006 audit or any management letter or informal comments thereto;
- Time and cost allocation studies for Mental Health and Mental Retardation personnel and cost centers under the contract for 2004/2005 and 2005/2006.
- Any information to support the method for the Cost Allocation Plan.

Based on the lack of detailed information presented by Tri County Human Services, Wayne County Office of Mental Health/Mental Retardation's response requested by the Burea of Financial Operations is limited as it relates to the issues outlined in the Audit Report dated December 12, 2006.

Wayne County Office of Mental Health/Mental Retardation is pleased to know that a formal assessment of Tri County Human Services has concurred with Wayne County's positio that the loss of Wayne County BSU Services should not have a material effect on the ability of Tri County Human Services to remain as a viable provider of services.

As to Issue No.2: Mr. Dermody has repeatedly informed this agency that the 2005/2006 audit does not exist. Wayne County has nothing from Tri County Human Services against whi to measure the information contained in the draft audit report for 2005/2006.

Issue No.3: Wayne County has yet to receive final numbers from Tri County Human Services to ascertain 2005/2006 overpayments. Wayne County Office of Mental Health/Mental Retardation Fiscal Officer has been requesting final numbers for FY 2005/2006 from Tri Count Human Services for the past two months.

Issue No. 4: On February 23, 2007, Tri County Human Services provided a107 page document reflecting psychiatrist and psychologist expenses for 2005/2006 and a 50 page document covering July 1, 2006 to December 31, 2006. These psychiatric and psychological costs seem to be assigned to correct sources for payment.

It is the position of the Wayne County Office of Mental Health/Mental Retardation that the Wayne County Commissioners are NOT liable for negative findings issued in the draft audit report nor are they liable to absorb any financial loss which may result to Tri County Human Services from these findings. The time frame covered in this audit is FY 2004/2005. Fiduciary responsibility of the Tri County Human Services contract rested with the administrative offices of Lackawanna/Susquehanna/Wayne County MH/MR, located at 135 Jefferson Avenue, Scranton.

In addition, Wayne County Office of Mental Health/Mental Retardation is a relatively new program. From its inception (July1, 2005), Wayne County MH/MR has requested supporting documentation for the billing. Mr. Dermody's position was that there was no need for supporting documentation and no way for the Tri County Human Services Agency to extrapolate such data. Over the past eighteen (18) months, it has been a challenging and most often, an unsuccessful process to ascertain from Tri County Human Services, information which can be applied to correct accounting principles.

Wayne County Office of Mental Health/Mental Retardation has operated in good faith in paying expenses billed by Tri County Human Services on behalf of Wayne County consumers. Wayne County Office of Mental Health/Mental Retardation is not in a financial position to absorb any of the financial loss to the PA Department of Public Welfare due to the accounting principles applied to MH/MR services for Wayne County in FY 204/2005.

If you have any questions or need clarification on any of the above matters, please contact Margaret Ennis, Wayne County Office of Mental Health/Mental Retardation, Administrator (570) 253-5900 or e mail: mennis@co.wayne.pa.us.

Sincerely,

Margaret Ennis

Margaret Ennis
Administrator

Cc: Michael Orr
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Wayne County Commissioners
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Jane Teeple