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

MAR 0 7 2007

TELEPHONE NUMBER
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JOHN H. BUNGO, CGFM, CFS
DIRECTOR

Mr. Robert Gordon, Vice President
Chief Financial Officer
St. Joseph's Center
2010 Adams Avenue
Scranton, Pennsylvania 18509

Dear Mr. Gordon:

Enclosed is the final audit report of the Early Intervention Program at St. Joseph's Center completed by this office. Your agency elected not to have an exit conference. Your revised written response as well as your original response has been incorporated into the final report as appendices.

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

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

Please contact Richard Polek of the Audit Resolution Section at (717) 787-8890 if you have any questions concerning this matter.

Sincerely,

John H. Bungo

John H. Bungo, CGFM, CFS

Enclosures

cc: Ms. Harriet Dichter
Mr. Todd Klunk
Ms. Maureen Cronin

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JOHN H. BUNGO, CGFM, CFS
DIRECTOR

Ms. Harriet Dichter, Deputy Secretary
Office of Child Development and Early Learning
Health and Welfare Building, Room 521
Harrisburg, Pennsylvania 17105

Dear Ms. Dichter:

In response to a request made by the Office of Child Development and Early Learning's (OCDEL) Northeast Regional Office, the Bureau of Financial Operations (BFO) conducted a performance audit of the Early Intervention (EI) Program at St. Joseph's Center (SJC) in Scranton, Pennsylvania. The purpose of this audit was to determine the impact of the Department of Public Welfare's Maximum Fee Schedule for State and County Funded EI Services (New Rate Structure or NRS) on SJC's EI operations.

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

Results in Brief

- SJC's costs of EI services exceed the reimbursement rates in the new maximum rate schedule. An application of the maximum rates in the State established Fee Schedule to the units of service provided in Fiscal Year 2004-05 would have resulted in a $25,486 loss for the year. Due to staff vacancies, the loss for Fiscal Year 2005-06 would be significantly lower.

- SJC's EI teachers and therapists sometimes spend a significant amount of time traveling. For the most part it appears that SJC has been able, on average, to absorb this cost.

- SJC's units of service have trended downward. This decrease would appear to be the result of a reduction in the number of Physical and Occupational Therapists available to SJC to provide services. The introduction of a new organizational service provider to the tri-county area could also be attributed to some of the reduction in units.

Results in Brief (Continued)

Background

The DPW's OCDEL rate schedule was changed during Fiscal Year 2005-06. Rates were substantially increased. This increase was due to a change in the way rates were developed rather than the customary increase to reflect rising costs. This change involved increasing the rate dramatically to cover travel costs as opposed to the previous policy, in which the Department of Public Welfare did not have a standard policy on travel payments by the counties for Early intervention. Prior to July 1, 2005, the Lackawanna-Susquehanna-Wayne Counties Mental Health/Mental Retardation Program (LSW) negotiated a separate-supplemental rate to cover travel costs associated with community based EI service.[1] This separate-supplemental travel rate provided SJC some $200,000 in additional EI revenue and SJC states that it was used to offset the costs of delivering EI services in sparsely populated outlying areas. The Mental Health/Mental Retardation Program requested and was granted a waiver in delaying its implementation of the NRS until December 31, 2005. This waiver was subsequently extended to March 31, 2006.

SJC service area includes 2,011 square miles of which 77 percent is rural. The primary service area for EI services is in Lackawanna and Susquehanna Counties. SJC also provides EI services to a limited number of clients in Wayne County. SJC also provides day program, residential, and home-based services. The EI services comprise roughly four percent of SJC's operations.

Objectives, Scope and Methodology

The objective of the audit was:

> To determine the impact the new rate schedule would have on the provider's Early Intervention Program.

The scope of the audit was limited to procedures necessary to satisfy this objective. The BFO examined accounting records, documents, reports, contracts, budgets and projections at SJC for Fiscal Years 2004-05 and 2005-06. The BFO also conducted interviews and discussions with SJC management as well as County Mental Health/Mental Retardation personnel and OCDEL Regional Office staff.

Government auditing standards requires that we 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 generally accepted accounting principles. Based on our understanding of the controls, no significant deficiencies came to our attention.

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[1] As of July 1, 2005, Wayne County left the LSW joinder.

Objectives, Scope and Methodology (Continued)

The audit fieldwork, conducted intermittently between March 23, 2006 and May 25, 2006, was performed in accordance with generally accepted governmental auditing standards. This report, when presented in its final form, is available for public inspection.

Results of Fieldwork

Issue No. 1 - Implementation of the New Rate Schedule Will Have A Negative Financial Impact on SJC

Based on available data it would appear that with the assistance of a nine month waiver of the implementation date of the NRS, SJC will reach a break even point for Fiscal Year 2005-06. In an attempt to project the effect of the NRS on a full year of services the BFO utilized the data reported by SJC during Fiscal Year 2004-05 and applied the NRS. In summary, had the NRS been in effect during Fiscal Year 2004-05, SJC's EI program would have had an operating deficit of approximately $25,000.

The financial records at SJC do not provide the data needed to compare the actual cost of each service to the NRS. As a result it was necessary for us to project a "blended" rate (Special Instruction, PT, OT and Speech) for comparison purposes. The annualized figures produced a "blended" cost of $28.70 per unit. While this compares favorably with the new maximum therapy rate of $30.03, it is $2.24 higher than the new special instruction rate. SJC units of service are heavily skewed towards special instruction as such units accounted for 55.4 percent of all units in Fiscal Year 2004-05. This percentage is projected to increase to 67.4 percent in Fiscal Year 2005-06.

Given the probability that the application of the NRS would result in a deficit, the BFO analyzed SJC's costs. The individual expenses appeared to be reasonable given the service requirements and size of the budget. The scheduling and routing of therapy sessions appeared to be effective as efforts are directed to arrange sessions to maximize units. However, given the size and layout of the service area, some extreme outliers prevent teachers and/or therapists from furnishing their services in an economical manner. Units of service were down. While the introduction of a new service provider to the area can be attributed to some of the reduction in units, the reduction primarily appears to be related to vacancies in the SJC complement.

Thus in our opinion, travel would appear to be a factor that will adversely affect SJC's ability to provide services within the NRS. In support of this position we annualized nine trips that are indicative of the extreme outliers that SJC serves. The average distance traveled one way was 70 minutes in duration (the equivalent of five units of service). In review it would appear that an expanded use of lower cost contractors, or contractors located closer to the clients would have a significant reduction in costs.

Results of Fieldwork (Continued)

Since the State established maximum rates now include reimbursement for travel, any supplementation of the rate by DPW would violate the Medical Assistance limitation on supplementary payments for a compensable service. In accordance with 55 PA Code § 1101, providers will accept as payment in full the amounts paid by DPW plus any co-payment, if required. Co-payments are not allowable or applicable to EI services.

Recommendations

The BFO recommends that SJC explore different tactics to increase units of service. Such tactics may include re-establishing a full complement of occupational, physical and speech therapists to generate billable units at the higher $30.03 rate. SJC may also want to consider providing therapies to individuals over three years of age, especially in the remote areas. While such units would not be reimbursable with EI funding, reimbursement might be available under the recipient's health insurance or via private pay. If reimbursable units in outlying areas could be sufficiently increased, these trips could be cost effective.

The BFO also recommends that SJC expand its efforts to identify independent contractors that might be able to effectively and economically provide services to children that cannot, based on the location of their homes, be economically served by SJC staff.

If the financial projections based on the above recommendations do not appear to warrant an expansion, the BFO recommends SJC pursue a contraction strategy, including working with the county to achieve a better balance of families served.

Issue No. 2 - Units of Service Decreased For All Services Except Special Needs Instruction Between Fiscal Years 2004-05 and 2005-06

The following schedule compares SJC's units of service for Fiscal Year 2004-05 net of travel and projected units for Fiscal Year 2005-06. The 2005-06 projected units were calculated by dividing the units for the period of July 1, 2005 through February 28, 2006, by eight months and then multiplying by 12 months.

Service	2004-05 Units		2005-06 Projected Units	
Special Instruction	12,344	55.35%	12,476	67.44%
Collateral	915	4.10%	542	2.93%
Physical Therapy	4,171	18.70%	2,616	14.14%
Occupational Therapy	1,932	8.66%	1,335	7.22%
Speech Therapy	2,938	13.17%	1,530	8.27%
Total	22,300	100.00%	18,499	100.00%

Results of Fieldwork (Continued)

As shown above, four of five service types will experience significant decreases in the number of units provided. The lone exception is Special Instruction, which actually shows a small increase. Some of the decrease in units can be explained by staff vacancies. The remainder, SJC managers attributed to lack of referrals.

Consequently, SJC has started to pursue, albeit inadvertently, the contraction strategy, which is the alternative recommendation to Issue No. 1 of this report. The projected annual loss, given costs and units provided, supports this strategy. SJC should complete projections that consider an expansion strategy and grow its way out of these deficit positions. Such a strategy would include increasing unit volume and a better balancing of its service type mix. Of course, SJC should focus on increasing units close to the office or the homes of their therapists, where the reimbursement fees would have a positive affect on the EI Program's contribution margin. An expansion in the area of independent contractors will also improve upon the bottom line.

Recommendations

The BFO recommends that SJC look outside its traditional market to increase units. One way would be to solicit units from the Luzerne-Wyoming Counties Mental Health-Mental Retardation EI Program in border areas or in Wyoming County. By picking up units in border areas of neighboring counties, SJC may be able to increase units sufficiently to offset losses incurred in serving outlying areas. One example would be a trip for services in Lawton, PA, Susquehanna County, could also include a session or two in Wyoming County as the teacher/therapist would or could travel Route 6 through Wyoming County en route to Lawton, PA.

Based on our review and consideration of the comments made by management of SJC and the OCDEL, the initial draft report was revised and reissued. The primary change was the removal of a recommendation related to the cost of providing services to children in distant locations. SJC provided written responses to both draft reports and requested that both responses be attached to the report. The responses are identified as Appendix A and Appendix B. An exit conference was not requested by SJC.

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 Richard Polek of the Audit Resolution Section at (717) 787-8890 if you have any questions concerning the audit or if we can be of any further assistance.

Sincerely,

John H. Bungo

John H. Bungo, CGFM, CFS

Attachments

cc: Mr. Todd Klunk
Ms. Maureen Cronin
Mr. Robert Gordon

AUDITEE'S RESPONSES
APPENDIX A AND APPENDIX B

SAINT JOSEPH'S
CENTER

A second century of care, concern, compassion and commitment.

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MAR 05 2007
BUREAU OF
FINANCIAL OPERATIONS

February 28, 2007

Mr. John Bugno, Director
Bureau of Financial Operations
Bertolino Building – 3rd Floor
Harrisburg, PA 17105-2675

Dear Mr. Bugno:

I am writing in response to the revised "draft" audit report of the Early Intervention program at St. Joseph's Center issued by your office on January 3, 2007.

As noted in your cover letter, the primary change in the revised report is the elimination of the recommendation that St. Joseph's petition the OCD for financial relief due to the additional costs incurred in providing EI services in remote rural areas. Apparently to support this change, your letter further notes that the rates established by OCD and which created this problem, are all inclusive, are utilized to request reimbursement under the Medical Assistance program, are considered to be full payment and cannot be supplemented by DPW. While all of this may be true, it is unlikely that OCD or DPW would be prohibited by Medical Assistance regulations from implementing some system of providing for an "outline" or rate modification to address the problems created by the new rate schedule, as long as such items were developed and applied uniformly and consistently.

In that the remaining portions of the "draft" report remain substantially the same as the initial "draft" report, our previous response to the "draft" report (July, 29, 2006) remains pertinent and I am requesting that this response be included with the current response.

Sincerely,

Robert Gordon
Vice-President/CFO

RG/kk

Appendix A
Page 1 of 1

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SAINT JOSEPH'S CENTER

A second century of care, concern, compassion and commitment.

July 24, 2006

Mr. Thomas Crofcheck
Department of Public Welfare
Northeast Field Office
Bureau of Financial Operations
Room 325 Scranton State Office Bldg.
100 Lackawanna Avenue
Scranton, PA 18503

Dear Mr. Crofcheck:

I am writing in response to the "draft" audit report we received on July 17, 2006 issued by your office as a result of the performance audit of the St. Joseph's Center Early Intervention Program. There are a few minor items I would like to comment on, and there are, in my view, some serious misstatements included with the Recommendations. Each of these will be addressed separately.

In the first paragraph of the Background section of the report there is a sentence that reads "Ostensibly, this supplemental travel rate was to offset the increased marginal costs of delivering EI services in sparsely populated outlying areas." I think this statement would be fine if the words ostensibly and marginal were eliminated.

The 1st sentence on page 3 should be corrected to read "staff" instead of therapists. In the next to last paragraph on page 3, the last sentence includes the phrase "other than those described in the report", referring to control deficiencies. I don't believe any such control deficiencies were referred to anywhere in the report, thus this statement should be deleted.

The critical content of this report is, I believe, the Recommendations that begin on page 5 of the report. The first recommendation, that we petition OCD to reconsider the financial hardship imposed on St. Joseph's Center, we most certainly will do.

The second recommendation is that St. Joseph's Center should explore different tactics to increase units of service. While I understand the underlying accounting rationale for such a recommendation (increase volume, decrease unit cost), the recommendation is seriously flawed in that St. Joseph's Center does not control the flow of referrals and cannot guarantee a consistent level or volume of work by any of the disciplines involved in the EI services, except perhaps Special Instruction. This is a critical consideration that is only lightly noted elsewhere in the report.

Another part of the recommendation to increase units of service suggests providing therapy to children over the age of 3. St. Joseph's Center does, and has for a number of years, served the broader population of the area with an Outpatient Therapy department, with the therapists who provide the services to the Early Intervention population also serving individuals in the Outpatient Department. While this service is not provided in the home, but rather at our facility, it does allow us to utilize staff most efficiently and

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effectively. The unfortunate reality is that many of the therapy services provided, particularly to children, are only covered by Medical Assistance, and such reimbursements do not even cover the direct cost of staff providing the services. Moreover, these services and reimbursements, regardless of the pay source, do not alleviate the fundamental problem that has evolved in the new EI pay rates developed and implemented last year by OCD.

The third recommendation offered is that St. Joseph's Center pursues a "contraction" strategy thereby limiting our service area to minimize the impact on the Center of the new rate schedule. We do recognize this as an available option, but recognize that to implement such a plan would, in all likelihood, result in the most rural elements of the population (and in some cases the most needy) going unserved. Such an action, on our part, we also think would be a disservice and unfair to the respective County programs that St. Joseph's Center contracts with to provide these services.

St. Joseph's Center has advocated for the development of something on the order of an "outlier" provision in the rate schedule to provide for the type of service area and situation that we have encountered. This would seem to be a relatively simple solution to this problem, which it would also seem that OCD could limit quite readily by how the "outliers" are defined. Frankly, I had expected that one of the BFO recommendations to be included in the report was going to be a recommendation to OCD that they consider development of some type of modifier or "outlier" to address this type of situation.

There is no reason for St. Joseph's Center to operate the Early Intervention Services it provides at a loss; there is ample dollars in the system to support all of the EI services currently needed. The statement included in the report (last paragraph on page 6) that "neither deficit was of such a magnitude to be considered critical" is simply not true. For St. Joseph's Center to operate the EI Program at a deficit of $25,000 per year or more is critical; beyond that, as already stated, it is unnecessary since the problem is not due to systemic funding shortages, as exists in some other parts of the MH/MR service system.

St. Joseph's Center appreciates the time and effort of the Bureau of Financial Operations in examining this issue as well as being provided an opportunity to respond to this draft report.

Sincerely,

Robert Gordon
Vice-President/CFO

RG/kk