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

MAY 30 2007

JOHN H. BUNGO, CGFM, CFS
DIRECTOR

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

Ms. Deborah M. Duffy, Administrator
Lycoming/Clinton MH-MR Program
Sharwell Building, 200 East Street
Williamsport, Pennsylvania 17701

Dear Ms. Duffy:

Enclosed is the final report of your program completed by this office. Your program's response has been incorporated into the final report and labeled Appendix A.

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

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

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

Sincerely,

John H. Bungo, CGFM, CFS

Enclosure

cc: Mr. Kevin T. Casey
Mr. Joseph Church
Ms. Patty McCool



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

Dear Mr. Casey:

In response to a request from the Office of Developmental Programs (ODP), Central Regional Office, the Bureau of Financial Operations (BFO) conducted a performance audit of the Lycoming-Clinton Mental Health and Mental Retardation Program (L-C MH/MR Program). The purpose of this audit was to determine if costs reported and charged as waiver eligible costs qualify for federal reimbursement.

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 services programs of the highest quality at the lowest cost with integrity.

Results in Brief

- During the Fiscal Years 2002-03 and 2003-04, the L-C MH/MR Program reported \$1,714,532 of waiver ineligible expenditures as waiver eligible. Of this total \$1,074,876 of misclassified expenses were incurred during Fiscal Year 2002-03 and \$639,656 were incurred in Fiscal Year 2003-04.
- The L-C MH/MR Program's reporting of waiver ineligible expenditures as waiver eligible resulted in an inflated federal claim and the receipt of \$956,760 in federal funding that the Program and DPW were not entitled to.

Background

The L-C MH/MR Program provides an array of services to individuals with developmental disabilities in Lycoming and Clinton counties. These services provide

Background (Continued)

the individuals and their families' assistance and support in daily living activities in their home communities. The MR Program's services include, but are not limited to, residential and in-home services as well as vocational, employment, occupational and recreational programs. The MR Program's operating budget for Fiscal Years 2002-03 and 2003-04 was approximately \$21 million per year.

These services are funded through numerous categorical state and federal appropriations and some local matching funds. Among the state and federal funding streams are several categorical 2176 Consolidated Waiver and the Person/Family Directed Support Waiver allocations. Federal waiver funding comes with spending guidelines which preclude the use of waiver funds for certain expenses, namely those associated with room and board type expenses.

During preparation of the Fiscal Year 2003-04 MR Income and Expenditure Report (I&E), L-C MH/MR's management become cognizant of errors in the current (2003-04) and previous (2002-03) year's reporting. Specifically, waiver ineligible costs were reported as waiver eligible. To their credit, L-C MH/MR management contacted both the Central Regional Office of ODP and the BFO's Financial Reporting and Payment Section to apprise them of the situation.

Objectives, Scope and Methodology

The objective of the audit was:

To determine if all costs reported and charged to waiver eligible funding qualify for federal reimbursement.

The scope of the audit was limited to procedures necessary to accomplish this objective. The BFO examined accounting records, documents, reports, contracts, budgets, I&E reports and annual waiver reports for Fiscal Years 2002-03 and 2003-04. We also reviewed the I&E reports for Fiscal Years 2001-02 and 2004-05 and conducted interviews with L-C MH/MR management and staff. Our findings were discussed with both L-C MH/MR management and the ODP Central Regional Office staff.

Government auditing standards require 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 general accepted accounting principles. Based on our understanding of the controls no significant deficiencies came to our attention other than those described in this report.

Objectives, Scope and Methodology (Continued)

The audit fieldwork, conducted intermittently between June 15, 2006 and June 29, 2006, was performed in accordance with generally accepted governmental auditing standards. This report, when presented in its final form, is available for public inspection.

A closing conference was conducted on June 29, 2006, to discuss the issues and information included in this report. The conference was attended by representatives of the L-C MH/MR Program.

Results of Fieldwork**Issue No. 1 - The L-C MH/MR Program Incorrectly Charged \$1,714,532 of Waiver Ineligible Expenditures as Waiver Eligible Between July 1, 2002 and June 30, 2004; These Errors Resulted in a \$956,760 Over Claim of Federal Funding**

At the conclusion of Fiscal Year 2002-03 the L-C MH/MR Program reported a \$1.5 million carryover in their MR program. This carryover included approximately \$700,000 of base funding and \$800,000 of waiver funding. The amount of the carryover raised concerns with officials of both the Program and the DPW. The concerns were somewhat explained/dismissed as a planned expansion of sites that did not occur until late in the fiscal year. When this carryover pattern appeared again during the Fiscal Year 2003-04 rebudget process, the L-C MH/MR Program's management suspected the problem was based in their expense tracking and reporting process. After some analysis, it was determined that the fiscal officer was inappropriately reporting waiver ineligible expenditures as waiver eligible. The fiscal officer was given a three day suspension after which he resigned. The L-C MH/MR Program then contacted ODP's Central Regional Office and BFO's Financial Reporting and Payment Section apprised them of the situation. At this point, it was too late to correct the errors and the Program's administrator was told to direct their corrective action to refining the cost reporting process for future periods.

Costs associated with providing services under the waiver program must be sorted between eligible and ineligible costs. This break-out is required for proper accounting and reporting as waiver funding is restricted to waiver eligible defined expenditures. The identification of waiver eligible and waiver ineligible costs first appear during the contract proposal process and continue throughout budget negotiations, contracting, invoicing and conclude with a providers' audited financial statements.

Our review of the records revealed the former fiscal officer ignored these waiver eligible and waiver ineligible breakouts and erroneously treated the total cost of services

Results of Fieldwork (Continued)

provided as waiver eligible. This action appears to be rooted in the fiscal officer's inability to understand and work with the new accounting software that L-C MH/MR Program implemented in Fiscal Year 2002-03.

Upon determining when the problem occurred and how the costs were reported, we directed our efforts to identifying the impact. A complete reconstruction of the records for Fiscal Year 2002-03 and Fiscal Year 2003-04 was not possible nor was it feasible considering services were provided to upwards of 200 consumers at over 20 providers. As a result, we extrapolated the waiver ineligible expenditures using the data from the six largest providers. This sample represents over 80 percent of the waiver dollars within the population. We then used the waiver eligible and waiver ineligible rates identified in the service contracts to apportion the total costs reported into waiver eligible and waiver ineligible components. This procedure was tested and the results were determined as acceptable to identify the extent of the inappropriate billing. According to our computations, the joinder's expense reports had included \$1,074,876 of Fiscal Year 2002-03 and \$639,656 of Fiscal Year 2003-04 waiver ineligible costs as eligible.

Upon receipt of the applicable cost reports, the DPW submits claims for federal participation of eligible costs incurred. The misclassification of costs by the L-C MH/MR Program, as identified above, resulted in the receipt of \$956,760 in federal reimbursement for expenditures that do not qualify for such reimbursement.

Recommendations

The BFO recommends that the ODP accept the results of our review of the waiver costs in L-C MH/MR Program and reclassify \$1,074,876 of Fiscal Year 2002-03 and \$639,656 of Fiscal Year 2003-04 waiver eligible expenditures to waiver ineligible on the next federal submission. This adjustment will result in the return of \$956,760 in federal funds received in previous years.

The BFO also recommends that the L-C MH/MR Program petition the ODP to allow it to apply any available base and state portion of waiver funding to the reclassified waiver ineligible figures. Should ODP not sustain this petition, any shortfall in funding would be the L-C MH/MR Program's responsibility.

Observation

It is our opinion that the inappropriate reporting of waiver ineligible costs as waiver eligible was limited to the Fiscal Years 2002-03 and 2003-04. This time frame coincides with the implementation of the L-C MH/MR Program's new accounting software and the resignation of the fiscal officer.

Results of Fieldwork (Continued)

The present fiscal officer has a better command of the accounting software and computers in general than did her predecessor. This alone should help prevent accounting and reporting errors. Furthermore, the new fiscal officer has developed an excel-based spreadsheet and is tracking and monitoring contracts by provider and service on a monthly basis. This spreadsheet recognizes eligible and ineligible rates for waiver services. Consequently, the BFO believes the L-C MH/MR Program has taken the appropriate steps toward ensuring against a repetition of what happened to its accounting and reporting system in Fiscal Years 2002-03 and 2003-04. How, and more importantly, how often the L-C MH/MR Program's management chooses to use the information generated by its fiscal department will be the ultimate determining factor of the success in the prevention and/or detection of errors.

The BFO advises the L-C MH/MR Program to monitor contract expense and funding data on a monthly basis.

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

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

Sincerely,



John H. Bungo, CGFM, CFS

APPENDIX

**LYCOMING-CLINTON
MENTAL HEALTH/MENTAL RETARDATION PROGRAM**

SHARWELL BUILDING
200 EAST STREET
WILLIAMSPORT, PENNSYLVANIA 17701-6613

**PROGRAM
ADMINISTRATION**

ELLEN S. DIDOMENICO
Human Services Director

DEBORAH M. DUFFY
Administrator

570-326-7895
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CLINICAL SERVICES

JAMES E. WILKERSON
Director

April 9, 2007

Mr. John H. Bungo
Commonwealth of Pennsylvania
Department of Public Welfare
Bureau of Financial Operations
3rd Floor Bertolino Building
Harrisburg, PA 17105-2676

Dear Mr. Bungo:

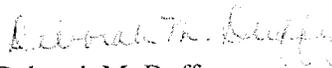
This letter is in response to your draft audit report related to the performance audit conducted by the Bureau of Financial Operations regarding waiver costs reported and charged as eligible by Lycoming-Clinton MH/MR in FY 2003-04 and FY 2004-05.

Lycoming-Clinton MH/MR is in agreement with your recommendations that ODP accept the results of your review of the waiver costs and reclassify \$1,074,876 for Fiscal Year 2002-03 and \$639,656 for Fiscal Year 2003-04 waiver eligible expenditures to waiver ineligible on the next Federal submission. This adjustment will result in the return of \$956,760 in Federal funds received by ODP in previous years.

We further understand that the recommended reclassification of expenditures does not indicate any liability on the part of Lycoming-Clinton MH/MR for the waiver costs. Based on this finding, we do not see a need for an exit conference at this time.

Please keep our office informed of any further steps that need to be taken to resolve this matter. Thank you.

Sincerely,


Deborah M. Duffy
MH/MR Administrator

DMD/cb