[redacted]

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

JOHN H. BUNGO, CGFM, CFS
DIRECTOR

TELEPHONE NUMBER
(717) 787-9200
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MAY 14 2007

Mr. Joseph Pierangeli
Chief Executive Officer
United Rehabilitation Services, Inc.
287 North Pennsylvania Avenue
P.O. Box 1344
Wilkes-Barre, Pennsylvania 18703

Dear Mr. Pierangeli:

Enclosed is the final report of your program completed by this office. Your response has been incorporated into the final report and labeled Appendix A. Luzerne/Wyoming Counties MH-MR Program's response has also been incorporated into the final report and labeled Appendix B.

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 Mr. 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. Jule Wnorowski
Ms. Antoinette Cisowski

Some information has been redacted from this audit report. The redaction is indicated by magic marker highlight. If you want to request an unredacted copy of this audit report, you should submit a written Right to Know Law (RTKL) request to DPW's RTKL Office. The request should identify the audit report and ask for an unredacted copy. The RTKL Office will consider your request and respond in accordance with the RTKL (65 P.S. §§ 67.101 et seq.). The DPW RTKL Office can be contacted by email at: ra-dpwtkl@pa.gov.

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MAY 14 2007

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

Dear Mr. Casey:

In response to a request from the Northeast Regional Office of Developmental Programs (ODP), the Bureau of Financial Operations (BFO) completed an audit of United Rehabilitation Services, Inc. (URS). The audit was requested to determine the financial position of URS and its ability to remain as a viable provider of services.

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 six issues and one observation. In summary, the issues identify URS as an agency in financial trouble. The Board and management of URS, in light of the financial situation, have taken a proactive position to reduce costs and deficits, and improve financial controls in order for URS to continue to be a viable provider of vocational services.

- The URS financial condition is considered as very poor with cash flow severely strained. The Fiscal Year 2004-05 deficit was ($465,918), with the 2005-06 deficit anticipated to equal or exceed the prior year amount.

- A substantial increase in pension costs and losses incurred in the operation of programs that are not funded through the Luzerne/Wyoming Counties MH-MR Program (County) are the primary reasons for the deficits.

- The County's initial contracts with URS have been significantly less than the cost to operate the program. The full funding of actual costs is contingent on availability of year-end County allocation. This process does not promote an extensive annual evaluation of the URS cost structure and negotiation of reasonable per diems be completed by the beginning of the year.

Results in Brief (Continued)

- The primary reason for the poor cash flow resulted from the County's contracting process, which in the case of URS, delays payment of a significant amount of the expenses until months after the end of the fiscal year.

- The URS defined benefit pension plan was frozen on December 31, 2006 due to the high cost to fund the plan. The Fiscal Year 2004-05 pension expense of $492,720 represented 10.5 percent of the agency total expenses. URS has not been able to make monthly contributions to the plan. The June 30, 2006 pension liability is $808,508.

- The URS funds 100 percent of the cost of health care insurance, which comprises 15 percent of the agency total expenses. URS is in the process of soliciting bids to reduce health care costs which average $11,825 per employee.

- The year-end expenditure reports submitted to the County for the period ended June 30, 2006 included $182,219 of unallowable costs.

- Management and internal controls need to be improved. The accounting system must be automated and the Cost Allocation Plan must be revised.

Background

URS is a non-profit human service organization that provides individualized community vocational rehabilitation services to adults and students with disabilities who reside in Northeast Pennsylvania. URS was formed in 1958 as a result of the Wyoming Valley United Way's Community Services Study Commission Report that recommended the establishment of a complete rehabilitation center for the Wyoming Valley.

URS's headquarters are located at 287 North Pennsylvania Avenue, Wilkes-Barre, Pennsylvania. The agency operates its' programs from sites located in Wilkes-Barre, Hazleton and Tunkhannock. During Fiscal Year 2005-06, URS provided services to over 500 individuals from Luzerne, Wyoming and surrounding counties. Consumers with a mental retardation and mental health diagnosis comprise approximately 70 percent and 20 percent, respectively, of URS's population.

Program services include diagnostic and vocational evaluation, work activities, sheltered employment, and adult development training. In addition to vocational and supportive employment, URS also offers job search, job placement, transitional work, school to work, computer, clerical, cafeteria, mobile work force and an older worker program. The sheltered workshop program is operated through contracts with approximately 40 vendors. These contracts generated revenues of approximately $350,000 in Fiscal Year 2005-06. Four of these contracts represented $242,233 or 69 percent of total revenues.

Background (Continued)

The consumers in the sheltered workshop program performing the contract work earned wages of $395,120 for Fiscal Year 2005-06. URS also contracts with local companies to provide supportive employment services in which they offer on the job support and training.

For the fiscal year ended June 30, 2005, URS had support and revenues of approximately $4.4 million, with expenses exceeding revenues by $465,918. This is compared to the fiscal year ended June 30, 2004, in which URS had support and revenues of approximately $4.4 million, with expenses exceeding revenues by $264,662. The Luzerne/Wyoming MH/MR Program provides funding of approximately $2.7 million representing 61 percent of total revenues.

During Fiscal Years 2005-06 and 2006-07, URS experienced significant cash flow deficiencies and has had to draw on its $250,000 line of credit. The unaudited balance on the line of credit as of June 30, 2006 was approximately $172,000, and has remained at that amount as of January 2007. The URS is in the process of increasing its line of credit to $500,000.

Prior to January 1, 2007, URS provided a defined benefit plan for all employees. The URS Board of Directors voted to freeze this plan as of December 31, 2006, and is currently offering employees a defined contribution plan, in which the company is presently not contributing to on behalf of the employees.

Objectives, Scope and Methodology

The objectives of the audit were:

- To determine the current financial position of URS, the reasons for on-going deficits, and if strategic plans have been implemented to address deficits and ensure the future viability of URS.

- To determine the effectiveness of management controls related to the preparation and monitoring of budget and expenditure reports submitted to the funding sources, and determine if funds are expended in accordance with County MH-MR budgets and Chapter 4300 fiscal regulations.

In pursuing our objectives, the BFO reviewed internal accounting and financial records, County contracts and expenditure reports, invoices, allocation methodologies, and the independent CPA audit report. We also held discussions and attended meetings with staff of URS, the Luzerne/Wyoming MH-MR Program, and DPW Regional ODP office. We also tested for compliance with applicable DPW Regulations, 55 PA Code Chapter 4300.

Objectives, Scope and Methodology (Continued)

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

The audit fieldwork was conducted intermittently between November 7, 2006 and January 16, 2007. On January 17, 2007, a closing conference was held with representatives of the Luzerne/Wyoming MH-MR Program to discuss the contents of this report. On January 24, 2007, a closing conference was held with URS management and the URS Board's executive committee. A meeting was also held with ODP regional staff to discuss the report.

The BFO's fieldwork was conducted in accordance with general accepted government auditing standards. The report, when presented in its final form, is available for public inspection.

Results of Fieldwork

Issue No. 1 – The URS Financial Condition is Very Poor

The URS financial condition is very poor. The Fiscal Year 2004-05 deficit was $465,918. The June 30, 2005 fund balance or net assets was $729,662. The net assets primarily represent the URS owned properties and equipment. The Fiscal Year 2005-06 unaudited deficit per internal financial statements is $169,000 with net assets of $560,662. The BFO believes the unaudited 2005-06 deficit is significantly higher then recorded on URS books and records. This is due to an over statement of County MH-MR revenues, and under statement of expenses, primarily pension. Once these adjustments are determined, the actual deficit is anticipated to equal or exceed the $465,918 prior year deficit. This will further reduce the net assets.

The ability of an organization to meet its required financial obligations is of utmost importance to the continued operation of an organization. If expenditures exceed revenues over an extended period of time, the organization will eventually fail. Unless URS eliminates the annual deficits and improves its financial condition, it will not be able to continue as a viable service provider.

Working Capital and Financial Ratios are Worsening

Financial ratios that identify financial viability such as working capital, current ratio, and debt to asset ratio are trending negative. Working capital has steadily decreased over the last four years, from $818,000 in Fiscal Year 2002-03 to $75,728 in Fiscal Year

Results of Fieldwork (Continued)

2005-06. Working capital is a measure of a company's ability to pay its bills. Working capital is calculated by subtracting its current liabilities (primarily accounts payable and accrued expenses) from current assets (primarily cash and accounts receivable). If interruptions occur in cash flow from its major source of revenue, the County, URS cannot pay its bills. This has occurred during the past three years. In order to continue to provide services, URS has had to maximize its line of credit, incur penalties for late payment of vendors and late submission of withholding payroll taxes, and not make payments to its pension plan.

County Contract Process is Primary Reason for Poor Cash Flow

The primary reason for the poor cash flow and lack of working capital resulted from the County's contracting process, which in the case of URS, delays payment of a significant amount of the expenses until months after the end of the fiscal year. This has severely strained cash flow to URS.

In Fiscal Year 2004-05, $651,398 or 24 percent of the County contract was not paid until March 17, 2006, eight and one-half months after the close of the fiscal year. In Fiscal Year 2005-06, $597,000 or 22.5 percent of the prior year contract amount was not negotiated and/or paid as of the end of January 2007.

County Contracts Not Finalized Until Well After Year-End

For the past four fiscal years (Fiscal Years 2003-04 through 2006-07), the initial contract began with a baseline of approximately $2 million. The final contract for Fiscal Year 2003-04 and 2004-05 was $2.7 million. The contract for Fiscal Year 2005-06 and 2006-07 was not finalized as of January 24, 2007. The following chart documents the dates and amounts of the last four year's contracts with the County:

Fiscal Year	Initial Contract	Amendment #1 Final Approval Date	Amendment #2 Final Approval Date	Final Contract
2003-04	1.8 million	305,665 6/21/04	624,808 1/20/05	2,730,456
2004-05	2.2 million	81,287 7/26/05	425,806 5/17/06	2,707,086
2005-06	2.28 million	53,497 6/29/06	Not Final	Not Final
2006-07	2 million	100,000 8/23/06	Not Final	Not Final

<u>Results of Fieldwork (Continued)</u>

URS operates its County funded programs under the premise the final contract amount will closely parallel the prior year contract amount plus COLA. Historically, the final contract has been $2.7 million. URS staffs and operates its programs in accordance with the anticipated $2.7 million.

<u>County Contract Process Does Not Result in Per Diems Negotiated by July 1st</u>

The per diems included in the initial contract are not representative of actual costs. Although the County does provide an advance payment, monthly payments to URS are based on the understated per diems. Through the amendment process, the initial contract is increased by up to 35 percent in an attempt to fund actual costs. This process does not promote the negotiation of fair and reasonable per diems by the beginning of the year. Rather, the process relies on an after-the-fact evaluation of actual costs, with full funding of actual costs contingent upon the availability of funding. It should be noted that the final state allocation was not provided to the County until after June 30th for Fiscal Years 2004-05 and 2005-06. This was a factor in the County not being able to complete the final URS amendments until after receipt of the state allocation.

URS has relied on the assumption that they would eventually receive full funding of actual expenses. This may have contributed to URS not performing an annual evaluation to determine if services are being delivered in an efficiently and economic manner. For example, health care and pension plans, whose costs could no longer be afforded, were retained until recent financial condition required significant cutbacks in these benefits. Additionally, URS financial statements do not segregate revenues and expenses for many agency programs, such as the sheltered workshop production program and other non-County funded programs. This has limited the County as a complete financial picture is not available and a thorough analysis and negotiation of the per diems cannot be completed.

For Fiscal Year 2006-07, the County has conducted an extensive up-front evaluation of services, with its intention to establish fair but maximum per diems that can be funded through the state allocations provided to the County.

The County and URS need to negotiate a contract by the beginning of the year that in consideration of available County allocations, results in establishment of reasonable per diems sufficient to deliver services in accordance with licensing regulations. The amendment process should be limited to changes in the number of clients, new initiatives, COLA's, etc. If the negotiated per diems result in a funding decrease from the prior year, it will provide URS with sufficient time to make changes to its service delivery model or make the cost reductions necessary to operate within its budget.

Results of Fieldwork (Continued)

Significant Causes of Deficits

Losses incurred in the production component of the sheltered workshop, a transitional work program funded by the Office of Vocational Rehabilitation (OVR), along with a substantial increase in pension costs were the significant causes of deficits incurred in Fiscal Year 2004-05 and 2005-06.

The BFO's review of the sheltered workshop production component identified a loss of $100,000 in Fiscal Year 2004-05, and a loss of $156,000 in Fiscal Year 2005-06.

The costs of client payroll comprise 83 percent of total production costs. The client payroll expense for Fiscal Year 2004-05 and 2005-06 was $395,867 and $421,911 respectively. The client payroll costs alone exceeded production revenues by $20,349 in Fiscal Year 2004-05 and $71,797 in Fiscal Year 2005-06. The remaining 13 percent of production costs represent the direct costs to operate the program, primarily supplies and transportation. Overhead costs are not allocated to the program.

The Job Coach Program Funded Through the OVR is Operating at an Annual Deficit of Approximately $121,500

URS operates a job coach program and is responsible for identifying clients and receiving referrals from other organizations. Beginning with Fiscal Year 2000-01, this program was funded by a five year $947,868 grant from the U.S. Department of Education with the funds flowing through OVR. The grant was not renewed in Fiscal Year 2005-06, but alternate funding was available through OVR. URS submitted a budget to OVR and a rate of $49.22 per hour was established. URS does not receive any other funding for this program.

In analyzing the program, the BFO developed a profit and loss schedule for Fiscal Year 2005-06, which projected the loss of approximately $121,500 after making the necessary salary adjustments addressed in Issue No. 5.

Budget Submitted to OVR for Rate Determination Was Inaccurate

After determining a loss was occurring in the program, the BFO researched the causes of the deficit. The number of full time equivalents utilized in developing the rate was found to be overstated by approximately 1.35, which would ultimately increase the billable rate by $10.80 per hour, from $49.22 to $60.02.

In addition to the rate issue, BFO inquired to the Administrator and Accountant whether staff was producing a sufficient amount of billable units. Both expressed concern the program may not be generating the minimum number of billable units to cover costs.

Results of Fieldwork (Continued)

Recommendations

The BFO recommends the County expedite finalizing the Fiscal Year 2005-06 and 2006-07 contracts. Payment should be immediately made to URS for the funds provided through the 2005-06 final amendment. The eligible costs included in the 2005-06 cost settlement should not include the $182,219 of unallowable costs identified in Issue No. 5. Based on the availability of funds, consideration should also be given to funding pension costs identified in Issue No. 3.

The BFO also recommends the County contract be negotiated and finalized by the start of each fiscal year. The per diems for all services should represent the actual cost intended to be funded by the County. The rates should be negotiated subject to both the state allocation available to the County, and be supported by a detailed budget based on reasonable costs that enable services be delivered economically in compliance with licensing standards.

The URS needs to monitor the cost and level of services being provided on an on-going basis. The provision of services above the level contracted for should be negotiated with the County or applicable funding source to ensure the provision of additional services do not result in a financial loss. The completion of rate negotiation by the start of the fiscal year will provide URS with sufficient time to make changes as needed to its service model, and cost structure. It will also improve cash flow needed for URS to make timely payment of bills.

The BFO also recommends that in regard to the sheltered workshop production component, the URS should:

- Relook at the process used to bid the reimbursement rates to determine if rates can be increased without loss of services. The current reimbursement rates are not sufficient to cover wages paid to clients. This should be completed for the four largest contractors.

- Meet with the County to determine whether any production costs, including overhead not currently being allocated to the program, may be eligible for County funding.

- Evaluate whether wages and rates paid to clients can be maintained at current levels.

- Include a separate reporting of the financial results of the sheltered workshop production program and all major vocational and transitional programs in the agency independent audit.

Results of Fieldwork (Continued)

The BFO further recommends that in regard to the transitional program funded through OVR, the URS should:

- Renegotiate the billable hourly rate with OVR based on the 6.15 full time equivalents, as opposed to 7.5, which was utilized in initial rate development.
- Closely monitor and analyze the billable units, and research other referral sources that may identify clients that are qualified to be served under this program. Monitoring the billable units may lead to a decrease in staffing requirements needed for adequate operation of this program.

Issue No. 2 - The Fiscal Year 2006-07 Vocational Rehabilitation Budgets Were Submitted Late and Overstated Costs By $211,583

URS was late in submitting its rate package for Fiscal Year 2006-07. In an attempt to ensure cash flow, the County is reimbursing URS on a $21.31 interim half-day rate to provide vocational rehabilitation services for MR clients.

The rate package was eventually submitted in October 2007. The cost of direct care staff reported on both the County's Request for Proposal (RFP) and the DPW Rate Package for MR vocational rehabilitation services was overstated by $211,583. While the County sponsored clients represent approximately 81 percent of the program, the cost of all of the direct care staff of this program were included in the computations. The remaining 19 percent of clients are funded through other sources such as United Way, Office of Community Development, City of Wilkes-Barre, etc.

Reason for Over Reporting of Costs

According to the URS administrative assistant, the MR vocational costs were over reported in error. The error was a result of the RFP including both MR and MH clients who comprise 79 percent and 21 percent respectively of County sponsored clients. When the DPW Rate Schedule for MR vocational rehabilitation services was subsequently prepared, the RFP costs were appropriately reduced by the 21 percent representing the population of MH clients. However, the beginning salary structure transferred from the RFP remained overstated due to the inclusion of costs for the non-County sponsored clients.

The BFO recalculated the Fiscal Year 2006-07 per diems and the adjusted half-day per diems were $22.86 based on a 2.5 hour program, and $27.47 based on a 3 hour program.

Results of Fieldwork (Continued)

A conversion of the half-day per diem to quarter hours produced a quarter hour rate of $2.29 for Fiscal Year 2006-07. As a comparison, the final County MH-MR Amendment No. 2 for Fiscal Year 2004-05 identified the MR vocational quarter hour rate as $2.31. The final rate for the Fiscal Year 2005-06 County contract cannot be completed until a final budget amount is provided.

The BFO also compared the URS half-day per diems of $22.86 and $27.47 to per diems of 10 agencies providing vocational rehabilitation services to two counties located in the Northeast Region. The average contract rate of these agencies was $23.00. However, we could not determine if the rates were calculated based on a two and one-half or three hour program.

Recommendations

The BFO recommends the County reduce URS costs submitted through the DPW Rate Package for MR services by $211,583 when developing the Fiscal Year 2006-07 MR vocational rehabilitation rates. The cost reduction should be considered in conjunction with the information developed from the extensive evaluation already completed of URS's 2006-07 vocational services.

The BFO also recommends the Fiscal Year 2006-07 URS contract be finalized as expeditiously as possible.

Issue No. 3 - The URS Board Has Frozen the Defined Benefit Pension Plan as of December 31, 2006

During the past two years URS has found it impossible to make the monthly payments to the pension fund. The Board of Directors, upon recognition of the increasing pension liabilities, determined that URS would not be able to continue with the current plan. In response, the Board acted to freeze the plan. The minutes of the November 15, 2006 board meeting identify that in accordance with board approval on September 20, 2006; URS timely signed and submitted the documents required to freeze the pension plan as of December 31, 2006.

Per the June 30, 2005 independent audit, the current liability of accrued pension is $808,508. This was a $383,147 increase from the June 30, 2004 balance of $425,361. The liability is expected to be substantially higher as of December 31, 2006. Per correspondence dated November 9, 2006 from the pension plan actuary, the URS Administrator was notified that if the plan was to terminate as of December 2006 and annuities were purchased for each participant, URS would have to provide funding of $1,552,885.

Results of Fieldwork (Continued)

Pension Plan Description and Requirements

A freeze on a pension plan is the first step toward elimination of the plan. After a pension plan is frozen, an organization is still required to fully fund the deficit in the plan. Although there are a number of rules associated with a "frozen plan", the organization must fully fund the plan within seven years, at which time the plan would terminate and annuities would be purchased for all employees.

Pension benefits stopped accruing on the employees' behalf as of December 31, 2006. URS has replaced the defined benefit pension plan with a defined contribution plan, in which only the employee's make contributions. However, URS hopes to contribute to the new plan in the future.

Cost and Funding of the Pension Plan

Pension expense for the Fiscal Year 2004-05 totaled $492,720 representing 10.5 percent of the agency total expenses. Although $339,550 of this total should have been charged to the County, the County was only charged $176,184. The charge was based on the County share of the required annual funding of the plan prepared by the actuary and not actual pension expense. The variance of $163,366 was not identified until the completion of the annual audit.

For the Fiscal Year 2005-06, URS charged the County $181,200 of the $216,000 pension expense booked per internal financial statements. The actual pension expense is $286,302 (see Subsequent Event on Page 19). Based on the prior year 69 percent applicable to the County, the County pension expense would be $197,548. The pension amount funded by the County is $151,039 ($181,200 less $30,161 unallowable per Issue No. 5). The variance of $46,509 was not identified until notification of actual expense was received from URS on March 5, 2007. The BFO informed the County of a pension undercharge for their consideration in making final cost settlement for Fiscal Year 2005-06.

Recommendations

The BFO recommends the County consider the pension undercharge for Fiscal Year 2004-05 and 2005-06 when determining the funds available to URS in making cost settlement for Fiscal Year 2005-06.

The BFO also recommends URS develop a long term plan for funding the pension liability with all available funding options pursued.

Results of Fieldwork (Continued)

The BFO further recommends pension expense submitted to the County as part of the Fiscal Year 2007-08 rate negotiation process be representative of the significantly lower cost which would result from the change to the defined contribution plan.

Issue No. 4 - The Cost of Health Care Represents 15 Percent of the URS Total Expenses

URS funds 100 percent of the costs associated with employee health care insurance. For Fiscal Year 2005-06, health care costs totaled $667,120. This is approximately 15 percent of agency total expenses. The County was charged approximately $569,000 or 85 percent of the total. Considering the County share should have been 75 percent, the County was overcharged $70,892.

For Fiscal Year 2006-07, health care costs are projected to increase to $709,500. This represents 44 percent of gross payroll costs and 15 percent of agency total expenses. On average, URS is incurring health care costs of $11,825 for each of the 60 employees accepting health care. In addition, seven employees receive payments in lieu of receiving health care benefits. These payments average $5,700 per employee. The cost of payment in lieu of health benefits was $27,040 for Fiscal Year 2005-06. The cost was projected to increase to $40,802 for Fiscal Year 2006-07.

URS Is Soliciting Bids for More Economic Health Care Insurance Plans

The URS Board is currently examining the health care plans offered to employees as a means to reduce costs and improve the financial condition of the agency. URS currently provides employees with the option to choose traditional Blue Cross/Blue Shield/Major Medical or HMO insurance. URS has recently solicited proposals from its two current carriers that would reduce the cost of health insurance, primarily through the elimination of separate prescription drug plans. Our analysis of the two proposals identified each would produce annual savings of approximately $63,000.

Lack of a Policy Regarding Annual Leave Carryover is a Significant Factor in Building a $226,991 Accrued Vacation Liability

There is no written policy for management staff regarding maximum leave balances for vacation, sick and personal leave. Two management staff currently have vacation leave balances exceeding 1,000 hours. For union employees, carryover for unused vacation leave is limited to 30 days or 225 hours.

Long term employees earn up to 35 days of vacation per year. The lack of a policy to limit vacation carryover for management staff, along with the 35 days earned by long term employees is the biggest factor in accruing a vacation liability of $226,991 as of June 30, 2006.

Results of Fieldwork (Continued)

The $226,991 balance is net of calendar 2004 accrued vacation time payments of $106,461 made to four management employees. The payments were made in an attempt to reduce the liability. One employee receiving a $36,339 payment has a current balance of 1,077 hours valued at $31,167. A second employee receiving a $35,931 payment has a current balance of 1,349 hours valued at $37,138. This payment also had a significant effect on the pension plans for these individuals as the payments were considered as additional compensation.

Recommendations

The BFO recommends URS continue to negotiate with the current health care carriers and solicit bids from additional carriers in order to maximize savings. The limited review of the two plans identified a potential $63,000 savings. The URS should consider the options of increasing co-pays and/or having employees contribute a percentage of salary to further reduce costs.

The BFO also recommends URS evaluate the payment provided to employees waiving the health care benefit and consider reducing the percentage of reimbursement.

The BFO further recommends URS develop a leave carryover policy for management employees. The policy followed by union covered employees that allows a maximum 30 day carryover should be considered. The Board should also review whether the earning of up to 35 days of vacation per year should be reduced considering the financial condition of the agency.

Issue No. 5 - Unallowable Costs of $182,219 Were Reported on the County's Income and Expenditure Report

The BFO identified $182,219 of unallowable costs which were included on the Fiscal Year 2005-06 Income and Expenditure (I&E) Report submitted to the County. The costs should be considered unallowable due to non-compliance with DPW Chapter 4300 Regulations, Office of Management and Budget Circular A-87 Cost Principles, or due to over reporting and allocation errors.

Salary and Benefits - Vocational - $45,721

The County was overcharged $45,721 for services that should have been charged to the OVR. The payroll costs of two rehabilitation counselors working 100 percent and 15 percent, respectively, in a job coach placement program funded by OVR were included in a vocational rehabilitation cost pool, 81 percent of which was funded by the County.

Results of Fieldwork (Continued)

The employee working 100 percent in the OVR program earned $51,101 of salary and benefits. This amount was then allocated 81 percent to the County resulting in $41,392 of unallowable costs. The second employee working 15 percent in the OVR program earned $35,260 of salary and benefits. As a result, the County was charged $4,329 of unallowable costs.

Client FICA and Client Workmen's Compensation – Transitional Work - $23,412

The County was charged $159,808 for client wages and $23,412 for client FICA and workmen's compensation expense for the Transitional Work Program. The County does not fund client wages in the Transitional Work Program.

The County excluded the $159,808 in client wages in determining allowable payments. However, they were not aware the "Insurance and other benefit" line item included $11,187 of client workers compensation expense and the "Social Security" line item included $12,225 of client FICA tax expense. The $23,412 should also be considered an unallowable cost.

Fundraising Activities – Vocational - $10,180

The County was charged $10,180 for fundraising expenses. OMB Circular No. A-87, Section 21, Fund Raising and Investment Management Costs, states "Costs of organized fund raising, including financial campaigns, are unallowable, regardless of the purpose for which the funds will be used". The $10,180 should be considered an unallowable cost.

Fines and Penalties – Vocational - $1,853

The County was charged $1,853 for IRS fines and penalties related to late submission of payroll taxes. OMB Circular No. A-87, Section 20, Fines and Penalties, states, "Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with federal, state, or local or Indian tribal laws and regulations are unallowable…" The $1,853 should be considered an unallowable cost. An additional $6,000 of IRS fines and penalties was incurred for Fiscal Year 2005-06. The $6,000 was not charged to the County due to the expense not being known prior to submission of the I&E. The $6,000 should not be included as an allowable County funded cost in the 2005-06 independent audit. A written request made by URS to abate the fines and penalties was denied by the IRS.

URS also incurred IRS fines and penalties totaling $8,423 for late submission of payroll taxes for Fiscal Year 2003-04. Our review did not extend to whether the expense may have unknowingly been reimbursed by the County.

Results of Fieldwork (Continued)

URS also incurred late fees associated with utility bills for the fiscal year ended June 30, 2006. The late fees are charged directly to the "utilities" expense accounts and then allocated to all programs. All late fees should be posted to a separate fines and penalties account with the cost not charged to the County.

Insurance and Other Benefits – All County Programs –$101,053

Benefit costs were over-reported to the County. The URS financial books were only posted through May 2006 at the time the County I&E report was filed in August 2006. For purpose of reporting the cost of health benefits, URS annualized the cost of May 2006 health care invoices. The actual costs from July 2005 through May 2006 were not considered. This caused the County to be overcharged by $70,892. The $70,892 overcharge consisted of the following amounts by program:

Vocational Rehabilitation	$56,763
Transitional Work	7,474
Job Coach	3,558
Adult Day Care	3,097
Total	**$70,892**

Pension – Vocational – $30,161

Pension expense allocated to the County's vocational rehabilitation program was overstated by $30,161. The County I&E report for vocational rehabilitation included retirement expense of $150,808, while the URS internal cost allocation worksheet identified the expense as $120,647. The variance was caused by an error in transferring the amount calculated on the cost allocation worksheet to the County I&E report.

Subsequent Event

On March 5, 2007, the BFO received notification from URS that the actual pension expense for Fiscal Year 2005-06 was $286,302. This is a $70,302 increase to the $216,000 booked per internal financial statements. Based on the prior year 69 percent County share, the amount applicable to the County is $197,548. The $181,200 originally reported to the County, net of the $30,161 unallowable cost adjustment per Issue No. 5, results in $151,039 County share. Provided the revised $286,302 pension expense is verified through audit, an adjustment to increase pension costs by $46,509 ($197,548 - $151,039) should be considered for funding by the County Program.

Results of Fieldwork (Continued)

Recommendations

The BFO recommends, for purpose of making Fiscal Year 2005-06 cost settlement, the County decrease the allowable costs by $182,219 from the following programs:

Vocational Rehabilitation	$ 144,678
Transitional Work	30,886
Job Coach	3,558
Adult Day Care	3,097
Total	**$ 182,219**

The BFO also recommends URS establish a separate account for fines, penalties, and late fees and exclude this line item from being allocated to the County.

The BFO finally recommends URS make every effort to ensure the books and records are timely closed before submission of the County I&E report. The submission of 12 month actual expenses should improve the accuracy of the I&E reports and cost settlement process.

Issue No. 6 - Management and Internal Controls Need to Be Improved

Internal control is defined as the plan of organization and all of the coordinate methods and measures adopted within an entity to safeguard its assets, check the reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. We identified a number of management and internal controls that were either inadequate or inappropriate. These deficiencies, combined with the poor financial condition of URS, have adversely impacted the operation of the organization.

The Accounting System Needs to Be Automated

URS currently utilizes a manual accounting system. Information related to the financial condition of the organization is consistently one or two months behind due to the extensive amount of time required to maintain the manual system. The accounting system plays a vital role in the day to day operations of an organization. Current information must be available to employees in decision making positions. An automated system would significantly increase the time available to the accountant to evaluate the organization's performance and prepare management reports.

URS does not maintain an agency-wide budget and individual program budgets including non-county funded programs. Additionally, monthly and/or quarterly financial statements and budget comparisons for individual programs are not prepared. It would be very time consuming to create and monitor actual expenses to budgets with a manual accounting

Results of Fieldwork (Continued)

system. An automated accounting system would allow URS to provide managers with timely individual program and agency-wide actual and budget information. It would also allow more informed decisions be made on staffing, available resources, and performance.

An automated system would also allow URS to submit 12 month actual expense information on the County I&E reports. URS's books are not closed at the time these reports are submitted to the County, which causes URS to estimate various expenses for the final one to two months of the fiscal year. For example, the books for the fiscal year ended June 30, 2006 were not closed until November 2006.

County I&E Report Not Prepared from General Ledger

The general ledger expenditure accounts are not utilized in preparing the County I&E reports. To prepare the I&E reports, the URS accountant, based on internal program knowledge, allocates all employee salaries and benefits to the programs they worked in throughout the year. Operating expenses are then allocated in the same percentage amount as the individual program salaries to total salaries. The time devoted to manually post the ledger by line item and program throughout the year is not efficiently used. Additionally, the URS does not retain documentation on the crosswalk of administrative costs from the general ledger to the direct charging of these costs on the County I&E reports.

Lack of Segregation of Duties

The URS administrative assistant functions in the role as an accountant and is responsible for nearly all financial facets of the organization. For example, the administrative assistant reconciles the bank accounts and is also responsible for cash receipts, cash disbursements, and cash custody. This practice violates internal control standards. Although it is difficult for a small organization to distribute the financial duties due to lack of staff, common business practice dictates that no one individual should be allowed to control all key aspects of a transaction or event. The URS should identify a second employee who can be cross trained to perform some of the key accounting functions.

The URS does not have an updated accounting procedures manual that documents the process and procedures used to perform all functions of the accounting/business department. The administrative assistant responsible for nearly all accounting functions has been working at URS for 43 years. In the event this key employee retires or takes a leave of absence due to unforeseen circumstances, the organization must be prepared to

Results of Fieldwork (Continued)

have someone take over her duties on short notice. In this event, the availability of an accounting manual would assist the interim employee or contractor to continue to operate the department.

Agency Cost Allocation Plan Is Not Being Followed

The URS's Cost Allocation Plan (CAP) requires all identifiable program costs be direct charged to the program receiving the benefit. Indirect/administrative costs, excluding occupancy, are allocated to programs based on total client population. We determined client population was not used as the basis to allocate administrative costs on the County I&E reports for Fiscal Year 2005-06. Rather, administrative costs were generally 100 percent direct charged to the vocational rehabilitation program. This resulted in over allocation of administrative costs to the vocational rehabilitation programs and under allocation to the adult development, community employment, transitional, and industrial programs. If URS has an acceptable basis for direct charging, then it should be clearly documented in the CAP. Otherwise, a more common systematic approach such as a simplified method should be utilized. The simplified method requires administrative costs be allocated to each program based on the percentage of operating costs of each program to total operating costs of all programs.

The administrative costs reported per the independent audit and internal financial statements varied widely over the past three years. For Fiscal Year 2003-04, administrative costs per independent audit were $1,162,938. For Fiscal Year 2004-05, administrative costs per audit were $580,020. The internal financial statements for Fiscal Year 2005-06 identified administrative costs as $1,427,842. The wide fluctuations in administrative costs were not due to a change in full time equivalent positions or cost structure, rather due to classification of costs. Our limited review of positions included in the administration cost pool identified positions that could be direct charged to individual programs.

Recommendations

The BFO recommends URS move forward in automating the accounting system by July 1, 2007. The organization should research various systems and obtain opinions from similar service providers utilizing the systems to determine the most suitable one for URS. In addition, URS should require key employees receive adequate training in operating the system to ensure a smooth transition from manual to automated books.

The BFO also recommends URS prepare the County I&E reports from the general ledger. This will eliminate the need for a separate, time consuming process to prepare the County I&E report. Documentation should be retained on the crosswalk of administrative costs from the general ledger to the County I&E reports.

Results of Fieldwork (Continued)

The BFO further recommends URS develop an updated accounting manual that addresses all policies and procedures followed by the accounting department. URS should also cross train another staff member who can perform some of the accounting functions.

The BFO finally recommends URS revise its CAP to accurately document the methodologies used to allocate administrative costs. The URS should consider allocating indirect/administrative costs using the simplified method. URS should obtain an opinion from their public accounting firm on the equitableness of the revised CAP.

Observation – Occupancy Costs Is Not a Significant Contributor to Deficits

Occupancy costs, as compared to benefits, represent a very small percentage of per diem costs and are not a significant cause of agency deficits. We defined occupancy costs as space, heat, electric, water and refuse removal. There is no building/space charges included in occupancy since the three URS owned buildings are mortgage free.

Occupancy costs for Fiscal Year 2004-05 total $175,780. The County was allocated 73 percent or $129,876. This represents only 2.6 percent of agency expenses. Occupancy costs for Fiscal Year 2005-06 were $188,279. The County was allocated 79 percent or $149,262. This represents 3.2 percent of agency expenses.

The agency records occupancy by the Wilkes-Barre, Hazleton and Tunkhannock sites. Our analysis of occupancy using costs and square feet identified the Wilkes-Barre building had the lowest percent of costs compared to square feet as follows:

	Sq. Ft.	% Total	Costs	% of Total
Wilkes-Barre	52,812	60	$ 95,772	54.5
Hazleton	23,453	27	47,532	27.0
Tunkhannock	11,900	13	32,476	18.5
Total	88,165	100%	$ 175,780	100%

The occupancy costs reported to the County on the I&E report are significantly higher than above due to the County uses a more expansive definition of occupancy. The County definition includes various insurances, supplies, housekeeping, etc.

For Fiscal Year 2004-05, the more expansive occupancy definition resulted in occupancy costs of $300,737. This compares to the $129,876 incurred for pure building and utility costs.

URS elected not to have an exit conference. URS's response is attached to the report and labeled Appendix A. The Luzerne/Wyoming Counties MH-MR Program did respond to the issues that directly impacted them and their response is also attached to the report and labeled Appendix B.

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

Sincerely,

John H. Bungo, CGFM, CFS

Attachments

cc: Mr. Joseph Church
Ms. Jule Wnorowski
Ms. Antoinette Cisowski
Mr. Joseph Pierangeli

AUDITEE RESPONSE

APPENDIX A

UNITED
REHABILITATION
SERVICES, INC.

287 North Pennsylvania Avenue
P.O. Box 1344
Wilkes-Barre, PA 18703-1344
(570) 829-3681 • Fax: (570) 829-7029
web site: www.ursweb.org
Joseph A. Pierangeli
Chief Executive Officer

April 12, 2007

Mr. Thomas P. Crofcheck, Director
Division of Audit and Review
Bureau of Financial Operations
Department of Public Welfare
Room 325 Scranton State Office Building
100 Lackawanna Avenue
Scranton, PA 18503

Dear Mr. Crofcheck:

We wish to express our sincerest thanks to the BFO and extend particular gratitude to Jack Hoover and Leah Rosenkrans for the valuable information, suggestions and guidance provided during the most recent audit conducted at our agency.

We do not believe an exit conference is necessary due to the extensive and thorough closing conference which was conducted on January 24, 2007.

Outlined below you will find our response to the audit findings and recommendations:

ISSUE NO. 1 – The URS Financial Condition is Very Poor

- **Sheltered Workshop Production Component**

  URS has reviewed its existing level of reimbursement for subcontracting work and has found that the majority of rates for work performed were bid at the highest level we believe possible to charge without facing the possibility of work loss. We are of the opinion that work loss would be detrimental to the overall quality of programming and would simultaneously cause financial hardship to our consumers. Be assured URS has reevaluated its subcontracting bidding process and will continue to do so to insure reimbursement adequacy.

  URS also reviewed the subcontracting process of all major jobs and has made some alterations which will have a positive impact on the bottom line.

According to our discussions regarding the 2005/06 fiscal year, the County MH/MR Program is not currently in a position to financially support any production costs that may be in excess of revenue. However, since the industrial program is a critical component of quality programming, we ask that the County reevaluate its financial position for possible funding support of this program.

It would not be URS' desire to adjust consumer earning levels downward and we strongly believe that existing rates can be maintained. A review of the process for determining wages levels for accuracy is underway.

The URS CEO contacted the agency's accounting firm and discussed the reporting outline recommended in the BFO report. The accounting firm will incorporate into the independent audit a report reflecting individual program results. URS is also aggressively seeking additional subcontract work to supplement the income stream.

Transitional Work Program

The URS CEO met with the Administrator of the Office of Vocational Rehabilitation to discuss a renegotiated service rate for the Employment Services Program that would more accurately reflect the existing staffing pattern. At that time, URS was advised that service dollars within the Office of Vocational Rehabilitation have been capped and that a rate adjustment at this time would not be feasible. However, URS will rework its rate for accuracy and submit it to the Office of Vocational Rehabilitation for future rate setting purposes.

Concurrently, URS implemented a closely monitored system to assure that billable units are being maximized and that all avenues of alternate funding possibilities are being explored. Staff is cognizant of the fact that maximization of billing time is crucial in insuring continued successful operation of the program. Additionally, the CEO meets with program staff on a regular basis to review progress and results.

Should it be found that the program revenue is insufficient to adequately maintain the programs operational costs, the CEO will initiate action steps necessary to curtail expenses and contain costs.

ISSUE 2. The Fiscal Year 2006/07 Vocational Rehabilitation Budgets Were Submitted Late and Overstated Costs by $211,583

URS costs were overstated by $211,583 as a result of including 100% of staff salaries in the budget whereas only 80% of those costs should have been charged with the remaining 20% covered by other sources. It is assumed that a reduction of costs occurred, or will occur during the development of the finalized 2006/07 fiscal year rate.

URS is looking forward at the earliest opportunity to meet with representatives of the County Office, Regional Office and the BFO to discuss and finalize a just and accurate 2006/07 fiscal year rate for providing quality prevocational services.

ISSUE No. 3 – The URS Board has frozen the Defined Benefit Pension Plan as of December 31, 2006

The URS Defined Pension Benefit Plan was frozen effective December 31, 2006. As an alternate, URS researched and implemented a 403B plan for employee participation. The plan is an employee only contribution plan although we hope that sometime in the future an employer match will be possible should fiscal soundness allow. Currently, 11 URS employees are participating in the 403B Plan.

URS Board and administration has formed a committee that is developing a long term plan to reduce and eventually eliminate the agency's outstanding pension deficit liability and we are pleased that the BFO recommended the County MH/MR office pick up some of the unknown pension costs which occurred during the 2004/05 fiscal year.

We are grateful that the County office has identified $141,110 of pension costs for fiscal year 2004/2005 and $46,509 for fiscal year 2005/2006 in the cost reconciliation process.

ISSUE NO. 4 – The Cost of Health Care Represents 15 Percent of the URS Total Expenses

URS is continuing to explore alternate but comparable health care coverage for existing employees. Through the assistance of a URS board member, we were able to engage the assistance of an independent benefits researcher to further explore health care coverage possibilities. Upon search completion, a review of alternate coverage will occur with the intent to propose cost savings changes to the covered bargaining unit staffing complement.

We would also like to add that, since the salaries of URS employees are well below those of other social service providers, the benefits package offered by URS is representative of an offset to lower wages, and has proven to be an attraction in engaging and maintaining the employment of qualified direct care staff. The current annual entry level salary URS offers to direct care staff is $14,800, which is well below Regional and State standards.

Since URS employees are covered under a collective bargaining unit agreement, the agency is locked into its existing benefit payment formula for waived health care coverage until June 30, 2008. Currently, a 50% of annual premium reimbursement rate exists which represents waived benefits payment to 7 employees. Additionally, the payout of benefits also returns to URS a savings of $40,802 in annual health care costs. This recommendation, however, will be taken under advisement for future collective bargaining unit negotiations.

Members of the URS Executive Committee are in the process of developing a policy to limit the amount of annual leave non union employees can carry over from year to year. Annual leave time will be capped for all new employees effective July 1, 2007 with ongoing review of existing long term employees. The policy has not yet been developed but when complete, the BFO will be provided with a copy of said policy.

ISSUE NO. 5 – Unallowable Costs of $182,219 were reported on the County's Income and Expenditure Report

The recommendation of the BFO to decrease cost settlement charges by $182,219 for the 2005/06 fiscal year occurred in accordance with the programmatical adjustments reflected in the BFO report.

URS has established a separate account for the purpose of recording fines, penalties and late fees. Such charges will not be reflected as costs to the County MH/MR Program.

ISSUE NO. 6 – Management and Internal Controls Need to be Improved

URS has engaged the services of [redacted] for the purpose of assisting with the automation of our accounting system. Initial activity consisted of an analysis of software systems and obtaining input from other service providers to determine the most suitable system for URS. It was determined that Peachtree Accounting System is the best suited for our needs at this time.

[redacted] scope of work includes but is not limited to the following: install software; build and set up chart of accounts, as well as accounts receivable/payable; determine starting date and enter balances from prior fiscal year as well as current fiscal year budget figures; enter outstanding accounts receivable and accounts payable; generate a working trial balance as of a start date and compare to existing balances; create statement of activities by program/location; enter transactions from start date to present; and train key employees in operating the system to ensure a smooth transition from a manual to an automated system. [redacted] has developed a sample chart of accounts and is currently downloading fiscal data into the respective categories.

URS is confident that through the engagement of [redacted] services and the automation of our fiscal accountability, this process will allow timelier reporting as well as provide the tools necessary to monitor cost effectiveness and profitability of all URS programs.

URS will prepare the County Income and Expenditures reports from the general ledger.

URS will develop an updated accounting manual that addresses all policies and procedures followed by the accounting department. Furthermore, URS will cross train one (1) additional employee who can perform accounting functions. Once this activity is initiated it will be ongoing.

URS will obtain the opinion of our public accounting firm on the equitableness of revising the agency's Cost Allocation Plan. URS will then proceed to revise the Cost Allocation Plan to accurately document the methodologies used to allocate administrative costs.

If you have any questions or need additional information, please feel free to contact me. We look forward to meeting with you soon.

Sincerely,

Joseph A. Pierangeli

Joseph A. Pierangeli
Chief Executive Officer

JAP/adm

LUZERNE/WYOMING COUNTIES
RESPONSE

APPENDIX B

LUZERNE-WYOMING COUNTIES
MENTAL HEALTH/MENTAL RETARDATION PROGRAM

Antoinette Cisowski, M.H.A
Administrator

April 25, 2007

Mr. Thomas P. Crofcheck
Director
Division of Audit and Review
Bureau of Financial Operations
Department of Public Welfare
Room 325 Scranton State Office Building
100 Lackawanna Avenue
Scranton, PA 18503

Re: Response to Bureau of Financial Operations (BFO) Draft Audit Report of United Rehabilitation Services, Inc.

Dear Mr. Crofcheck:

The following represents the response of the Luzerne/Wyoming Counties Mental Health/Mental Retardation Program ("MH/MR") to the issues outlined in your draft audit report of United Rehabilitation Services, Inc. ("URS"):

Issue No. 1 – The URS Financial Report is Very Poor

Based on this report we believe you would like MH/MR to help, where possible, alleviate the reasons for URS's apparent poor financial condition. Your report addresses MH/MR's delay in making final payments until months after the end of the fiscal year. It should be noted however that URS did not submit final invoices until two months after the close of the year and that when submitted they were all ready a month past due and contained errors that needed correction. In addition, during our exit interview we discussed how the State's final 2005-06 allocation to MH/MR was received seven months after the close of the fiscal year which further delayed our final contracting/payment process.

We do provide advance funding to URS at the beginning of each fiscal year to help their cash flow problems. This past June MH/MR's advance exceeded $300,000. For the close of this current fiscal year we will make every effort to reconcile URS's final reports earlier and make cost settlement of eligible, incurred costs as quickly as we can afford.

MH/MR Program Office
111 N. Pennsylvania Ave., Suite 200
Wilkes-Barre, PA 18701-3511
(570) 825-9441 • Toll Free: (800) 732-6330
fax (570) 825-6820 • TTY: (570) 825-9441

e-mail: mhmr@mhmr.luzerne.pa.us

MR Administrative and Support Coordination Unit
111 N. Pennsylvania Ave., Suite 300
Wilkes-Barre, PA 18701-3510
(570) 826-3030 • Toll Free: (800) 816-1880
MR Administrative fax: (570) 831-7299
Support Coordination fax: (570) 826-3045

Our plan for 2007-08 is to give URS an allocation both parties can work with before the year begins and to negotiate a rate for payment that is based on accurate as well as fair cost causation factors.

We have in the past and continue to offer URS any technical assistance they may feel useful to their agency.

Issue No. 2 – Vocational Rehabilitation budgets were submitted Late and Overstated Costs by $211,583

We feel URS cannot improve on this issue without a more accurate financial record keeping system. They need to institute a financial system(s) that will allow them to accurately account for expenses and revenues in a more timely fashion. This will allow them to know where they stand financially at all times as well as which of their programs are financially stable/viable and which are not.

We have spoken with URS administrative staff as well as their auditors many times over this issue. It is our understanding they are now pursuing help to get a computerized financial system in place.

Issue No. 3 – The URS Board has frozen the Pension Plan

This is troublesome. It was our understanding URS included all eligible expenditures in their year cost settlement reports to MH/MR including pension costs. MH/MR is taking BFO's recommendation to recognize as much of the 2004-05 and 2005-06 non reported eligible pension costs, as possible, in the final settlement of 2005-06.

Issue No. 5 Unallowable costs of $182,219 were reported on the County's Income and Expenditure Report

These were expenses reported to the County MH/MR Program but were not reported on the county's Income and Expenditure Report to the State.

Based on the information in the BFO's draft report and since we had not finalized payment to URS, MH/MR has adjusted these expenses out of our final payment to URS. Hopefully, their auditors corrected this when completing URS's June 30, 2006 audit.

URS provides many services to both our mental health and mental retardation client populations and is an integral part of the success of our entire service delivery system. We are and will continue to be proactive in keeping URS as such for now and in the future.

If you need additional information or clarification from this office please advise.

Sincerely,

Antoinette Cisowski

Antoinette Cisowski, M.H.A.
Administrator