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

KEVIN M. FRIEL
DIRECTOR

TELEPHONE NUMBER
(717) 772-2231
FAX NUMBER
(717) 705-9094

OCT 14 2009

MAILING DATE

Vincent LaSorsa, Ph.D.
Children's Home of Reading
1010 Centre Avenue
Reading, Pennsylvania 19601

Dear Mr. LaSorsa:

Enclosed is the final report of your agency's Residential Treatment Facility Cost Report Schedule B for the fiscal year ended June 30, 2008 completed by this office. The report contents were discussed with you, your staff, and consulting firm representatives at an exit conference held on September 28, 2009. Your responses have been incorporated into the final report and labeled Appendices A and B.

The final report will be forwarded to the Department of Public Welfare's (DPW) Offices of Medical Assistance Programs and Mental Health and Substance Abuse Services to begin the DPW's resolution process concerning the report contents. The staff of the Offices of Medical Assistance Programs and Mental Health and Substance Abuse Services 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 fieldwork.

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

Sincerely,

Kevin M Friel

Kevin M. Friel

Enclosure

c: Mr. Michael P. Nardone
Ms. Joan L. Erney

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MAILING DATE

Ms. Joan L. Erney
Deputy Secretary for Mental Health and
Substance Abuse Services
Health & Welfare Building, Room 521
Harrisburg, Pennsylvania 17120

Mr. Michael P. Nardone
Deputy Secretary for Medical
Assistance Programs
Health & Welfare Building, Room 515
Harrisburg, Pennsylvania 17120

Dear Ms. Erney and Mr. Nardone:

The Bureau of Financial Operations (BFO) completed an audit of The Children's Home of Reading (CHOR) Cost Report Schedule B for their Residential Treatment Facility (RTF) for the fiscal year ended June 30, 2006. That report recommended a reduction in the RTF per diem from $323.08 to $288.40. CHOR agreed that the audited rate, with minor adjustment, represented the cost of services provided during the year audited but disagreed that the rate could appropriately be carried forward as significant changes had occurred at the facility. As a result of the disagreement and subsequent negotiations an interim rate of $311.50 was utilized to fund the services provided until an audit of the fiscal year ended June 30 2008 could be completed. This document presents the results of the BFO audit of the Fiscal Year end June 30, 2008.

The RTF payment process does not include a settlement of funding to allowable costs. As such, the audit was performed to determine a per diem reflective of the programs' actual allowable costs.

Results in Brief

The report questions audit reclassifications and audit adjustments which resulted in a net decrease in allowable costs of $207,294 (Exhibit A). Based on actual expenses as audited, a per diem of $301.85 accurately reflects allowable costs incurred in the provision of RTF client care (Exhibit C). This per diem is $.57 higher than the rate offered by OMHSAS at the conclusion of the June 30, 2006 BFO audit. The report also includes an observation that CHOR needs to continue to aggressively monitor and address its occupancy rate which was 67% during the May 2009 fieldwork. This represents a significant drop from the 92% occupancy during the 2007-08 audit period.

Background

CHOR is a 501(c)(3) not-for-profit corporation headquartered in Reading, Berks County, Pennsylvania. CHOR provides services for the treatment of children and families in crisis. The programs (services) provided by CHOR in addition to their RTF include: specialized foster care, acute partial hospitalization, Lehigh Valley Community program, Berks Parent Services Collaborative, Alternative Education, a Day Academy and an Adolescent Treatment Center (ATC). The education day programs are provided through a licensed private academic school funded by various school districts. CHOR's ATC program was discontinued in November of 2008, and was converted into 24 additional Specialized Residential Treatment Facility (SRTF) beds.

CHOR is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). Funding for a JCAHO RTF is through the Office of Medical Assistance Programs (OMAP) for both medically necessary mental health services and room and board costs.

CHOR's regular RTF program began operations as a 24 bed facility on September 1, 2001, and continued as such until January 2006. At that time 24 beds from CHOR's ATC were converted into the RTF as a specialized program. Effective November 17, 2008, an additional 24 ATC beds were converted to a specialized RTF unit. As a result CHOR now has 72 residential beds that are certified to receive payment through the Pennsylvania Medical Assistance Program. For the period July 1, 2007 through February 28, 2008, CHOR was reimbursed at a $323.08 per diem rate. Effective March 1, 2008, the rate was decreased to $301.28 based on a BFO audit of CHOR's actual costs for fiscal year 2005-06. Effective July 1, 2008, CHOR was provided with a $311.50 interim rate pending establishment of a 2007-08 audited per diem.

CHOR's regular and specialized RTF programs are similar in their model and targeted population. Both programs treat males between the ages of 12 and 18. The only significant difference between the two programs, apart from their start dates and their physical location (first and second floors of the same building) is that the specialized RTF serves males diagnosed with a specific behavioral problem. For purposes of this report, we treated both programs as one and refer to them simply as the RTF program.

As addressed in the Cost Report Instructions, allowable costs are determined based on the Medicare Provider Reimbursement Manual (HIM-15). In addition, for situations that are not covered by the HIM-15, the PA Code Title 55, Chapter 6211 regulations, "Allowable Cost Reimbursement for Non-State Intermediate Care Facilities for the Mentally Retarded", are applied. For any situation not addressed by the above, generally accepted accounting principles will apply. These requirements and OMAP policies derived from Medical Assistance bulletins were used to determine allowable costs.

Objective, Scope and Methodology

The BFO audit focused on analyzing and testing CHOR's expenditures and cost allocation process. Accordingly, our specific audit objective was:

- To determine the actual allowable cost of services to RTF residents and to determine that the expenditures are reasonable, consistent with Medical Assistance cost principles and attributable to CHOR's RTF.

In pursuing our objectives, we interviewed representatives from CHOR's management. We also reviewed accounting records, financial documents, resident service and operating data, and applicable operational and administrative controls for the fiscal year ended June 30, 2008.

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

Fieldwork for this audit took place intermittently between April 7 and April 24, 2009 and was performed in accordance with generally accepted government auditing standards. The report, when presented in its final form, is available for public inspection.

Results of Fieldwork

Adjustments to cost report submitted by CHOR

In reviewing the cost report submitted by CHOR for the year ended June 30, 2008, we determined that census days reported on Schedule A were 25 days less than the 16,084 reported. The net result was approximately a $0.50 overstatement in the per diem.

Audit Reclassifications

Salaries and wages represent over half of CHOR's operating costs. Consequently, Line 1 of Schedule B (salaries and wages) was included as one of the line items to be tested as part of the audit. CHOR reported total salaries and wages of $7,640,749. This amount was traced to and agreed with the amount recorded in CHOR's General Ledger Detail Report. The General Ledger Detail Report's breakout of salaries and wages by department also agreed with the allocation of salaries and wages to the various cost categories (columns three through eleven of Schedule B). Subsequent to the completion of fieldwork, CHOR requested the BFO to address $45,660 of vacation expense initially reported as non reimbursable salary. Per HIM 15 Section 2146, vacation expense is an allowable cost; therefore the BFO reallocated the $45,660 from salary to other bringing total salaries to $7,595,089.

Our analysis of wages and salaries was extended to ascertain whether or not employees were charged to the proper cost category. This was accomplished by comparing Exhibit I of the cost report, which lists the salaries and wages for all CHOR employees by cost categories, with the ADP payroll distribution run. The analysis of Exhibit 1 indicates that it was not completed in accordance with Schedule C of the cost instructions. The employee name, title, and salary listed per the Exhibit 1 cost centers were not consistently charged to the Schedule B cost centers. For example, salary/wages by position on Exhibit 1 totaled $1,274,693 for the G & A cost center. This is $256,276 higher than the $1,018,417 carried into the G & A salary line item of Exhibit B. The positions comprising the $256,276 variance were not identified in the reporting to DPW. Future year submissions of Exhibit 1 need to ensure the individual positions and salary/wages reported per Exhibit 1 agree to the salaries charged per Schedule B.

After identification of the specific positions charged to the Exhibit B cost centers, the BFO found instances in which certain positions charged to the Residential Cost Center should have been charged to the General and Administrative or Other Programs cost centers. In order to correct these misclassifications, the BFO recommends the following adjustments to Line 1 of Schedule B:

- Decrease residential column seven by $99,181 for the admissions department salaries charged to the RTF Program. According to the cost reporting instructions, personnel costs for the admissions department are to be reported as general and administration in column number 4.

- Decrease residential column seven by $58,500 for the portion of Youth Care Worker (YCW) salaries charged to the RTF Program which relate to expenses that should be reimbursed by the school district per diems.

The $58,500 representing 2.2 YCW FTE's is calculated by assigning 1 YCW at an average $13 hourly rate to each of 5 classrooms for 5 hours per day during the 180 day school year. The basis for the $58,500 charge to the RTF considered the following factors:

- At CHOR's Day Academy, each classroom is staffed with a teacher and teacher assistant funded by the school district.

- Per CHOR's program description for its residential education program, "YCW's support the teachers in the implementation of the client's individual treatment plan while they are attending CHOR's on grounds classroom." The school district funding for a teacher and YCW is similar to the staffing at the CHOR day academy.

- The Berks School District provides a per diem to cover education expenses for residential children. A line item staffing budget is not prepared to identify the funding associated with the teacher and two (2) YCW's that are usually assigned to each classroom. According to our calculations the school district per diem enabled the RTF/SRTF to generate a 30% or $387,619 profit on the educational component of the RTF. The allocation of $58,500 of YCW salaries and $14,543 benefits to the RTF educational component leaves CHOR with a $314,576 profit in the RTF educational component.

- The DPW cost reporting instruction states "for any situation not addressed by the above, generally accepted accounting principles (GAAP) will apply." GAAP requires expenses to be recognized when obligations are offset against recognized revenues which were generated from the expense. The offset of a portion of YCW salary and benefits associated with the revenues from the school district is in accordance with GAAP.

The effect of the above admissions department and YCW adjustments results in a net decrease of $157,681 in salaries and $35,879 in benefits charged to the RTF program or a total reduction of $197,405.

Audit Adjustments:

Additional Revenue – Decrease $42,020

CHOR received revenue from various County Agencies to fund expenses associated with residents of the RTF program. Analysis of CHOR's independent auditors' report disclosed $42,020 in County Children and Youth funding was not reported on the cost report Schedule B. Since Medical Assistance (MA) is the payor of last resort reported RTF costs should be reduced by any augmenting revenue. CHOR has responded the revenue was received when a client(s) had no MA or managed care benefits. However, CHOR has not removed the costs associated with the client(s) from Schedule B. The BFO increased the Schedule B other income by $42,020 and allocated the revenue to residential services in column seven.

Medical Costs – Decrease $3,657

Medical costs in the amount of $3,657, which relate to prescription drug costs, were charged to the RTF cost center. Per Chapter 6211.17(d) the per diem rate is not to include services reimbursed directly by OMAP to the corresponding provider. Those services include dental services, prescription drugs, emergency room visits, ambulance services, etc. Therefore, the BFO reclassified $3,657 of prescription drug costs from the RTF cost center to the unallowable cost center.

Utilization Review Costs – Decrease $4,771

CHOR included $4,771 of utilization review expense in the RTF cost center. Per the cost reporting instructions, reportable administrative costs include compensation of administration, finance, utilization review, etc., and all associated costs with those cost centers. CHOR total expense for utilization review of $6,440 was allocated to the RTF and other program cost center. Therefore, BFO reallocated $4,771 of expenses from the RTF cost center and $1,669 of expenses from the other cost center to the general and administrative cost center.

Depreciation Expense – Decrease $292,116

CHOR reported depreciation expense in the amount of $292,116 in the RTF cost center. Per cost reporting instructions, depreciation is required to be allocated based on square footage unless the building for which the program utilizes is a stand-alone building. PA Code Title 55, Chapter 6211.42 (d) also requires if there is more than one method of handling a cost item, the method initially elected by the provider shall be followed consistently in subsequent reporting periods unless there is prior written justification and approval from the Department. In our prior audit, CHOR reported deprecation within occupancy, which then allocated the cost based upon square footage. Therefore, the BFO reclassified the depreciation expense from the RTF cost center to the occupancy cost center.

Occupancy Allocation – Increase $230,985

CHOR uses an outside consultant to prepare their cost report. In allocating square footage, the consultant allocated the educational square feet of space based upon a ratio of 65% RTF and 35% for education. The cost reporting instructions require GAAP be used for areas not covered by regulations. The school districts provide CHOR with a daily per diem for 180 days to cover the expense of providing education. Therefore, the BFO allocated educational space based upon the criteria that education covers the cost of the space for 180 days to coincide with GAAP criteria of matching revenues with expenses.

A second issue was the allocation of shared space. The BFO reallocated the shared space based upon the overall total campus, after the allocation for education space was completed. As a result of reallocating square footage by cost center, occupancy costs allocated to the RTF program increased by $230,985.

Administration Allocation – Increase $74,804

CHOR included $13,709 of moving costs related to the CEO within the general and administrative cost center. Per Chapter 21, Section 2102.3 of the HIM-15, these costs are considered unallowable as they do not relate to patient care. Therefore, the BFO reallocated these expenses from the general and administrative costs to unallowable costs.

As a result of all reclassifications and allocations determined by the BFO, the administrative cost allocation to the RTF program increased $74,804.

Subsequent Audit Issue – Vacation Cost Increase $23,041

Subsequent to the completion of fieldwork, CHOR requested consideration to allow a portion of a $45,660 vacation expense accrual which CHOR had charged as an unallowable cost on column 10 of the cost report. CHOR identified the cost applicable to the RTF programs as $10,524. Per HIM 15 Section 2146, vacation cost is allowable but payroll taxes applicable to vacation such as F.I.C.A. must not be accrued until the period the vacation costs are paid. The BFO analysis of vacation documents determined allowable vacation costs of $23,041. As a result, vacation costs of $23,041 were allocated to the RTF program.

Observation – CHOR Needs To Continue To Aggressively Monitor and Address Low Occupancy Rates

At the time of May 2009 fieldwork, the census of the 48 RTF/SRTF beds included in the scope of the BFO audit was 31 clients or 65% occupancy. This was a significant drop from the 92% occupancy achieved during the 2007-08 audit period. The census of the remaining ATC 24 beds converted to RTF on November 17, 2008 was 17 clients or 67%. In total, the census of 48 residents resulted in a 67% occupancy rate for the 72 bed facility. In the short term, CHOR needs to aggressively monitor and implement cost reductions in order to remain a viable provider of RTF/SRTF services. At the close of fieldwork, CHOR was implementing the necessary steps to reduce costs including reductions in staffing and benefits and explore options to increase occupancy. OMHSAS needs to monitor the occupancy rates at CHOR and other RTF providers who are experiencing low occupancy rates to maintain current data on occupancy, capacity and appropriate number of beds needed to provide statewide RTF services.

CHOR is receiving the same MA per diem rate for the 24 recently converted beds as the 48 beds included in the 2007-08 audit. Long term, OMHSAS needs to consider establishing an actual per diem for the entire 72 bed facility. This can only be done after the completion of a full year of operation. The cost report instructions require the establishment of a per diem rate be based on a minimum 85% occupancy which is 61 residents. Based on the May census of 48 residents, CHOR would be 13 residents short of a break even point.

Conclusion

In conclusion, the results of our audit recommended adjustments that decreased reportable costs by $207,294. The application of these adjustments to reported costs results in a recommended per diem of $301.85.

An audit exit conference was held on September 28, 2009 with the President/CEO, Fiscal Director, and representatives of CHOR's consulting firm. At the conference, the findings and recommendations in the draft report and CHOR's written response dated September 23, 2009 were discussed. Minor changes were made to the draft report as a result of the meeting. CHOR's written response has been incorporated into the report and is labeled Appendix A. As a result of the discussions at the exit conference, CHOR provided additional comments in a second response labeled Appendix B.
The responses provided by CHOR details a number of questions. It is BFO's position that these questions have been answered, explained and addressed numerous times either in the report or through the verbal discussions that occurred during the extended time between the May 6, 2009 closing conference and the September 28, 2009 exit conference.

CHOR requested and was granted additional time to compile data and provide support for their position. Upon receipt the BFO accepted the information provided on accrued vacation time and even corrected an error in CHOR's computation thus increasing allowable costs by $12,517. BFO also has accepted the explanation on the legal costs and have added them back to allowable costs. Very little additional data or explanations were provided for the remaining adjustments and what was submitted was not sufficient to allow BFO to make changes to the report. BFO has never agreed with CHOR's space allocation methodology as alleged in the response. At the May closing conference CHOR requested time to provide an alternative methodology for space allocation. After repeated attempts the BFO was provided with a document that was identical to the allocation used for the preparation of the 2007-08 cost report.

A review of the CHOR response leads BFO to the following conclusions:

- The position description provided continues to support the conclusion that the staff functions in the admission department are to be considered administrative.
- CHOR has not provided any documentation to support the position taken on the child care workers in the classroom. BFO continues to maintain the position that is supported in the report.
- The argument presented on depreciation inappropriately combines the issues of depreciation and occupancy, argues items that were not disputed by BFO and results in an inaccurate conclusion that shows a lack of understanding of the completion of the Schedule B of the Cost Report.

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

Sincerely,

Kevin M Friel

Kevin M. Friel

Attachments

c: Mr. Vincent LaSorsa
Mr. Philip E. Mader
Mr. Brenda Tewel
Mr. Michael Orr
Mr. Ed Coleman

Children's Home of Reading
September 23, 2009 Response to the Draft Report
Appendix A

Dear Mr. Hoover,

I am writing in response to your request for any comments and concerns that The Children's Home of Reading ("CHOR") may have to the audit re-classifications and audit adjustments contained in the "Draft" Audit Report prepared by the Bureau of Financial Operations (BFO), Department of Public Welfare dated August 1, 2009. The draft report covers the CHOR fiscal year ended June 30, 2008. Our comments and concerns to the BFO's proposed re-classifications and adjustments for fiscal year 2008 are as follows:

1. Admission Department salaries, p.4: We do not understand the basis for this adjustment. What provisions of the "cost reporting instructions" do you rely on for the adjustment? The admission of a child requires clinical review and evaluation.
2. Youth Care Worker (YCW) Adjustment, pp.4-5: The draft does not explain the rationale or legal justification in support of the assumption on which the adjustments were made. Consequently, we are unable to address this adjustment pending receipt of further information and explanation from the BFO. The per diem paid by the Reading School District is ONLY for the certified special education school teacher. The YCWs are essential to providing behavior management services within the classroom and are part of clinical services. The children in the classrooms can exhibit behavior that requires, for example, application of a restraint that a teacher may not be able to intervene because of providing instruction to the other children in the classroom.
3. Medical Costs Adjustment, p.5: The adjustment does not explain how the BFO calculated this adjustment. Did the BFO verify that the individual provider(s) otherwise were paid by OMAP?
4. Adjustment to Legal Costs, p.6: The audit, at p.6, disallows $300 in legal costs but provides no basis for the conclusion that the costs were the responsibility of county government. What is the legal justification for this adjustment? CHOR incurred a reasonable cost and is entitled to cost reimbursement.
5. Depreciation Expense Adjustment, p.6: We do not understand either the legal basis for this adjustment or how this adjustment is consistent with our prior agreement and understanding regarding how to mutually resolve the allocation of square footage. (We, of course, understand the reference to the ICF/MR regulations; however, OMHSAS has never adopted any regulations regarding payment for RTF services and cannot unilaterally impose policies on CHOR that have not been adopted as formal rule making applicable to RTFs). The BFO is now proposing to recommend a most drastic and dramatic adjustment to CHOR's depreciation that unquestionably will cause significant financial harm to CHOR. We have demonstrated our good faith efforts at explaining the basis for the allocation of square footage and in cooperating with the BFO. Consequently, given that the depreciation method is otherwise allowable and was obviously known to OMHSAS and to the BFO during the course of the prior audit, why is the BFO proposing and adjustment to CHOR that serves no programmatic purpose and that will adversely impact CHOR's continuing viability as it seeks to weather the instability and uncertainties caused by the lingering recession while meeting consumer and regulatory expectations?

Children's Home of Reading
October 7, 2009 Response to the Draft Report
Appendix B

October 7, 2009

Dear Mr. Hoover,

Based on our discussions at the exit conference held on Monday, September 28, 2009 to review with you the "Draft" Audit Report prepared by the Bureau of Financial Operations (BFO) and The Children's Home of Reading ("CHOR") response to that draft report, we are submitting some additional comments to BFO's preliminary findings and recommendations. The "Draft" audit report was dated August 1, 2009 and covers the fiscal year ended June 30, 2008. Our additional comments and concerns are as follows:

1. Admission Department salaries: (p.4). CHOR utilized initially a Director of Admission and presently employs an Admissions Supervisor solely for the Residential Program. This person's principal role is to receive and review required information from the referral source, review the clinical information to determine that it meets our admission criteria and, if the information is complete, forward it to our Director of Clinical Services. If the child is to be admitted, this person ensures that all of the required information is complete, coordinates a visit with the client and family prior to admission, and collaborates with multiple outside agencies to ensure the admission occurs smoothly. There is continued involvement with the client and family upon admission. Our Admissions Supervisor will meet with clients one-on-one as needed, will review and revise handbooks for Parents and Clients of only the residential program. (Job duties are attached for your review.) This position is essential to and an integral part of our residential services program and works only in that program. This person has frequent and continuous contact with families and CHOR staff. Consequently, given that the specific duties and responsibilities of this position relate exclusively to our residential services, the wages associated with this position are allowable.

2. Youth Care Worker (YCW) Adjustment: (pp.4-5). CHOR Youth Care Workers in the classrooms are present to support our clients behaviorally and in times of crisis. Their presence in the classroom is in accordance with DPW mandates and they must be readily available for clients who are struggling and in crisis. Youth Care Workers offer support to clients through one-on-one counseling and a variety of de-escalation techniques. They are not reimbursed by the school district. Per our contract with the school district, the reimbursement of our educational component covers only the cost of the required Department of Education special education teacher. Youth Care Workers are essential to providing behavior management services within the classroom and are part of clinical services and the clinical team. The children in the classrooms frequently exhibit behavior that requires, for example, application of a restraint that a teacher cannot or is uncertain about how to apply. The mandate relating to the presence of the YCW is from OMHSAS, not the School District. Accordingly, given that mandate, and the absence of any payment by the School District for the position, the cost ($58,000.) is plainly allowable. We also are constrained to note that when the audit was conducted, we were told that there may be a change in policy in the future regarding this position but were also assured that no new policy had been adopted. In fact, OMHSAS has not adopted any change in policy regarding

coverage of the YCW position. How then can BFO reasonably and credibly believe that it may disallow this cost on the basis of speculation about some future policy change? How is this proposed adjustment remotely fair?

3. Medical Costs Adjustment: (p.6), Based on our meeting on 9/28 CHOR now agrees with this adjustment.

4. Adjustment to Legal Costs: (p.6). CHOR does not agree with this adjustment. As we discussed at our meeting, we were advised by OMHSAS that the Department of Public Welfare would allow this cost if the appeal was successful. We explained to you that we incurred the legal costs in the defense of two CHOR employees who were accused of child abuse (indicated report) after performing a very difficult restraint of a child. The case was appealed to BHA and the finding was overturned. The defense obviously was not the responsibility of the county as BFO asserts and we are entitled to payment of those necessary costs. We remain unaware of any justification for this adjustment.

5. Depreciation Expense Adjustment: (p.6). The Depreciation Expense ($292,116) allocated directly to the program is clearly justified. There no longer is any dispute about the allocation methodology that we have jointly and reasonably agreed to. So what is the impetus for BFO, having known about the change in depreciation for the past three years, to now seek to essentially penalize CHOR? BFO has thoroughly reviewed our methodology as it relates to depreciation through the numerous meetings held with CHOR and its auditors and counsel. At no time did BFO suggest or intimate any concern with our depreciation schedule other than the precise allocation of square feet which we fairly and reasonably addressed with you. There is no claim that the depreciation schedule that we have been utilizing is flawed or improper in any way. As is the case with the adjustment to the YCW salary, why is BFO proposing to recommend such a financially harmful action to CHOR when there is no programmatic basis to do so and when BFO and OMHSAS have been aware of and had NO concern with the depreciation schedule we have used ? Further, the schedule is entirely consistent with GAAP! There is no reasonable or legitimate policy or legal basis for BFO to disallow the depreciation claimed by CHOR under the facts here. We have at all times acted in good faith in addressing concerns about the depreciation expense raised by BFO in the prior audit and to essentially ambush us on this issue, after having resolved the depreciation schedule as it relates to the allocation of space, would constitute utterly arbitrary and capricious action.

I trust that you appreciate that the proposed adjustments about which we complain would, if ultimately adopted, have most severe financial consequences on CHOR . The cumulative net effect of the salary and depreciation adjustments amounts to a reduction in our per diem of $16.00 which is devastating to our program. We strive to adhere to applicable program and fiscal policies developed by OMHSAS. For the reasons stated previously, we find the adjustments you are contemplating to be inconsistent with OMHSAS policies and our prior discussions. Accordingly, we ask that you reconsider your proposed adjustments.

Dr. Vincent J. LaSorsa
President/CEO

ADMISSIONS SUPERVISOR JOB DUTIES:

- Read new referrals and determine if appropriate for CHOR
- Schedule and attend pre-placement interviews of potential admissions (including clients, client families, etc.)
- Distribute appropriate referrals to program specific treatment supervisor and ensure timely response to referral sources
- Notify referral source of acceptance/rejection
- Schedule and conduct the admission to CHOR
    - Gather information from parent/guardian, referral source, prior placements, schools, etc. for admission
    - Contact parents/guardians/referral sources re: insurance issues, PCP's, etc.
    - Make contact with individual county welfare offices as needed
    - Verify funding prior to admission, file exceptions when denied funding
    - Solve insurance problems from Nursing and case managers
    - Develop and maintain Parent/Guardian packet to be used prior to/at admission
- Track behavioral health checklists for new admissions; send reminders or place calls to families/guardians as needed
- Conduct random weekly file reviews of all client files
- Assist on the floor when staffing is low
- Meet 1:1 with clients as needed
- Review and revise program handbooks for Parents/Guardians
- Review and revise program handbooks for Residents
- Create and distribute to CCBH the weekly Admission/Discharge reports and Capacity Reports

EXHIBITS
A, B, & C

Children's Home of Reading
Schedule of Audit Adjustments
Fiscal Year 2007-2008

<u>Audit Reclassifications</u>	
Salary & Benefits	$ (193,560)
<u>Audit Adjustments</u>	
Additional Revenue	(42,020)
Utilization Review	(4,771)
Vacation Accrual	23,041
Medical	(3,657)
Depreciation	(292,116)
Occupancy Allocation Adjustment	230,985
Administration Allocation	74,804
Total Decrease in Allowable Cost	$ (207,294)

EXHIBIT A

Children's Home of Reading
Summary of Audit Adjustments to the Joint Financial Statements
Fiscal Year 2007-2008

	Room and Board	Residential Mental Health	Total
Total Cost Reported	$ 781,077	$ 4,491,747	$ 5,272,824
Reclassifications			
Admissions Allocation		(99,181)	(99,181)
Education Allocation		(58,500)	(58,500)
Fringe Benefits		(35,879)	(35,879)
Audit Adjustments			
Additional Revenue		(42,020)	(42,020)
Utilization Review		(4,771)	(4,771)
Vacation Accrual		23,041	23,041
Medical		(3,657)	(3,657)
Depreciation		(292,116)	(292,116)
Occupancy Allocation	121,040	109,945	230,985
Administration Allocation	40,302	34,502	74,804
Total Allowable Costs	$ 942,419	$ 4,123,111	$ 5,065,530
Total Decrease in Allowable Costs			$ (207,294)

EXHIBIT B

Children's Home of Reading
Schedule of Allowable RTF Costs
Fiscal Year 2007-2008

	Room and Board	Residential Mental Health	Total
Total Operating Costs Before G & Allocation	800,629	3,502,496	4,303,125
G & A Costs	141,790	620,615	762,405
Total Program Costs	942,419	4,123,111	5,065,530
Administrative Cost Limitation	(37,708)	(165,330)	(203,038)
Total Allowable Costs	904,711	3,957,781	4,862,492
Patient Days	16,109	16,109	16,109
Per Diem	56.16	245.69	301.85

EXHIBIT C