



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

KEVIN M. FRIEL  
DIRECTOR

JUL 24 2008

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

Ms. Phyllis Cater  
Executive Director  
Spectrum Health Services, Inc.  
5619-25 Vine Street  
Philadelphia, Pennsylvania 19139

Dear Ms. Cater:

I am enclosing the final report of Spectrum Health Services, Inc. recently completed by the Division of Audit and Review. Your response has been incorporated into the final report and labeled as Appendix.

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

The final report will be forwarded to the Department's Office of Medical Assistance Programs (OMAP) to begin the Department's resolution process concerning the report contents. The staff from the OMAP may be in contact with you to follow-up on the action taken to comply with the report's recommendations.

If you have any questions concerning this matter, please contact Tina Long, Audit Resolution Section, at (717) 705-2288.

Sincerely,

A handwritten signature in cursive script that reads "Kevin M. Friel".

Kevin M. Friel

cc: Mr. William Miller  
Ms. Brenda Tewell



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

KEVIN M. FRIEL  
DIRECTOR

JUL 24 2008

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(717) 772-2231  
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Mr. Michael Nardone  
Deputy Secretary for Medical Assistance Programs  
Health and Welfare Building, Room 515  
Harrisburg, Pennsylvania 17120

Dear Mr. Nardone:

In response to a request from the Office of Medical Assistance Programs (OMAP), the Bureau of Financial Operations (BFO) has completed an audit of the Independent Auditing Firm's application of Agreed Upon Procedures (AUP) to Spectrum Health Centers, Inc. (Spectrum), a Federally Qualified Health Center (FQHC) for the fiscal years ended June 30, 1999 and 2000. The audit was conducted in response to a request that we assess the periodic rate for encounters that was developed using the results of the AUP. As such, the audit's goal was to determine an encounter rate which includes only allowable program costs.

The report is currently in draft form and therefore does not contain Spectrum's views on the reported findings, conclusions or recommendations. The data used to prepare the report findings was discussed with Spectrum's management at a closing conference held on April 24, 2008.

The audit questions the eligibility of costs as stated on Exhibits A and B:

- Direct and Overhead Costs in the amount of \$6,272 and \$7,290 for the fiscal years ended June 30, 1999 and 2000, respectively.

The application of these adjustments to allowable costs resulted in a medical per diem of \$128.29 for the fiscal year ended June 30, 1999 (Exhibits C and D) and a medical per diem of \$141.34 for the fiscal year ended June 30, 2000 (Exhibits E and F).

**Delaware Valley Community Health, Inc.**  
**FQHC Cost Reports**  
**June 1, 1998 through May 31, 2000**

**Executive Summary**

Spectrum is a not for profit corporation with business offices and a Health Center at 5619-25 Vine Street, Philadelphia, PA 19139. It also has another Health Center at 1415 North Broad Street, Philadelphia, PA 19122.

Spectrum operates as a FQHC. FQHCs are “safety net” providers whose main purpose is to enhance primary care services in underserved urban and rural communities. FQHCs are considered suppliers of Medicare services and are paid an all-inclusive per visit rate (Encounter Rate) based on reasonable cost incurred and reported on an annual Cost Report. The Encounter Rate is computed by dividing the FQHCs total allowable cost by the number of visits for all FQHC patients. Once established, the Encounter Rate increases by the Medicare Economic Index applicable to primary care physician services.

The report findings and recommendations for corrective action are summarized below:

FINDINGS	SUMMARY
<p><b><i>Finding No. 1 - Direct Costs For The Imputed Value Of The Services Donated By Physicians Should Be Disallowed</i></b></p>	<p>Lines 1 of the Cost Reports entitled “Physicians” were overstated because the imputed value of two Physicians’ donated services is not reimbursable unless the physicians normally work more then 20 hours a week. Since the Physicians in question work much less than the 20 hour weekly minimum, a total of \$3,122 and \$5,130 was disallowed for the fiscal years ended June 30, 1999 and 2000, respectively.</p>

HIGHLIGHTS OF RECOMMENDATIONS
<p>OMAP should:</p> <ul style="list-style-type: none"> <li>• Disallow a total of \$3,122 and \$5,130 of line 1, Physicians for the fiscal years ended June 30, 1999 and 2000.</li> </ul> <p>Spectrum should:</p> <ul style="list-style-type: none"> <li>• Not claim any amounts attributable to the imputed value of physicians’ services, when the physician does not work the minimum time required by regulation, as a reimbursable cost.</li> </ul>

**Delaware Valley Community Health, Inc.**  
**FQHC Cost Reports**  
**June 1, 1998 through May 31, 2000**

FINDINGS	SUMMARY
<p><b><i>Finding No. 2 Day Care Services Should Be Disallowed And Reclassified As Non FQHC Costs.</i></b></p>	<p>A Day Care Service was operated during July, 1998. The service facilitated care of children while the parent received treatment at the FQHC. Since the Day Care Service is not a FQHC activity, direct costs of \$1,162 were reclassified to the non FQHC cost category. The service was discontinued after July 1998.</p>

HIGHLIGHTS OF RECOMMENDATIONS
<p>OMAP should</p> <ul style="list-style-type: none"> <li>• Make the necessary adjustments to decrease line 8 by \$1,162 and to increase line 41 for the same amount for the year ended June 30, 1999.</li> </ul>

FINDINGS	SUMMARY
<p><b><i>Finding No. 3 Accounting Expenses Are Overstated</i></b></p>	<p>Lines 51 of the Cost Reports entitled "Financial" were overstated because the accruals for accounting fees were in excess of the amounts actually invoiced. A total of \$3,150 and \$2,160 was disallowed for the fiscal years ended June 30, 1999 and 2000, respectively.</p>

HIGHLIGHTS OF RECOMMENDATIONS
<p>OMAP should:</p> <ul style="list-style-type: none"> <li>• Disallow a total of \$3,150 and \$2,160 of line 51, "Financial" for the fiscal years ended June 30, 1999 and 2000, respectively.</li> </ul>

**Background**

Spectrum operates Health Care Centers located in the City of Philadelphia that provide a broad range of health services to a largely medically underserved population.

As addressed in the instructions for preparation of the FQHA Cost Report, in the absence of specific regulations, allowable costs are determined based on the Medicare

**Delaware Valley Community Health, Inc.**  
**FQHC Cost Reports**  
**June 1, 1998 through May 31, 2000**

Provider Reimbursements Manual (HIM-15). In addition, FQHA Cost Report reporting instructions and OMAP policy derived from MA Bulletins may be used to determine allocable costs and procedures.

Spectrum submitted Cost Reports for the fiscal years ended June 30, 1999 and 2000 that were subject to audit by an Independent Certified Public Accounting Firm (IAF). The IAF based its review on the Providers adjusted general ledger and made entries to reclassify and adjust the amounts to conform to its understanding of allowable and reimbursable expenditures.

The BFO met with the IAF, discussed the nature and scope of its work and reviewed its work papers. Based on the recommendations of the OMAP, the BFO concentrated its review on several areas of concern but reviewed all amounts for reasonability of amount and necessity. The BFO accepted the adjustments of the IAF except as otherwise noted.

**Objective, Scope and Methodology**

The audit objective, developed in concurrence with OMAP was:

- To determine the actual allowable cost of services to FQHC customers and to determine that the underlying expenditures are reasonable consistent with Medical Assistance cost principals and attributable to Spectrum.

In pursuing this objective, the BFO interviewed staff members from Spectrum. We also reviewed accounting records, financial records, timesheets, records of encounters and other pertinent data necessary to complete our objective.

Government auditing standards require that we obtain an understanding of management controls that are relevant to the audit objective described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of the effectiveness of these controls. Based on our understanding of the controls no material deficiencies came to our attention. Areas where we noted an opportunity for improvement on management controls are addressed in the findings of this report.

Fieldwork for this audit took place intermittently between October 18, 2007 and April 7, 2008 based on available records and was performed in accordance with General Instructions for Completion of the Medical Assistance Cost Report. The Report, when presented in its final form, is available for public inspection.

**Delaware Valley Community Health, Inc.**  
**FQHC Cost Reports**  
**June 1, 1998 through May 31, 2000**

**Results of Fieldwork**

**Finding No. 1 – Direct Costs For The Imputed Value Of Physicians' Services Should Be Disallowed.**

The Cost Reports include on Line 1 claims for the imputed value of physicians who donate their services. In each year a physician donated his or her time as an AIDS specialist to treat patients. The physicians were not paid by Spectrum. On average, the physicians worked 1 or 2 hours a week.

The Provider's handbook, Section 704.1 requires that, in order for the value of the services of unpaid services to be reimbursable, they must perform their duties in positions customarily held by full time employees on a regular, scheduled basis. The regulation goes on to clarify that this means that the nonpaid worker must work more than 20 hours per week. Spectrum has stated that the physicians worked 57 hours and 86 hours for the years ended June 30, 1999 and 2000, respectively.

As such, \$3,122 and \$5,130, in direct costs reported, for the fiscal years ended June 30, 1999 and 2000, respectively, were removed from consideration in the rate computation.

**Recommendations**

The BFO recommends that the expenditures associated with non FQHC activities be disallowed in the amounts of \$3,122 and \$5,130 for the fiscal years ended June 30, 1999 and 2000, respectively.

**Finding No. 2 – Day Care Services Should Be Disallowed And Reclassified As Non FQHC Costs.**

Line 8 includes costs for the provision of Day Care services for the children of parents who are being treated at the Health Center. Since Day Care services is not an essential FQHC activity, the associated costs should be reclassified to Line 41, Education/Outreach, a non FQHC cost category.

A reclassification of the applicable costs is appropriate because it was determined that this was a Non FQHC activity. Costs of \$1,162 should be reclassified from line 8 to Line 41 for the fiscal year ended June 30, 1999.

**Recommendation**

The BFO recommends \$1,162 be reclassified from direct costs to non FQHC costs for the fiscal year ended June 30, 1999.

**Delaware Valley Community Health, Inc.**  
**FQHC Cost Reports**  
**June 1, 1998 through May 31, 2000**

**Finding No. 3 – Accounting Expenses Are Overstated .**

In its Cost Reports for fiscal years ended June 30, 1999 and 2000, Spectrum accrued \$7,500 in fees due to its consultant for the preparation of the Cost Reports and related supporting documentation. Actual billings totaled \$4,350 and \$5,340 for the fiscal years ended June 30, 1999 and 2000, respectively. Adjustments were made to reduce the Line 51 financial expenses accordingly.

**Recommendation**

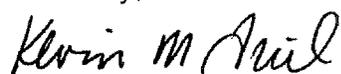
The BFO recommends that \$3,150 and \$2,160 be disallowed from Line 51 for the years ended June 30, 1999 and 2000, respectively.

Spectrum Health Services did not request an exit conference. Spectrum did submit a response, and this response has been included in this report, and labeled as an Appendix.

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

cc: Mr. William Miller  
Ms. Brenda Tewell

## EXHIBITS

**SPECTRUM HEALTH SERVICES, INC.**  
**BFO ADJUSTMENTS**  
**FOR THE YEAR FISCAL ENDED JUNE 30, 1999**

	<b>Per Cost Report</b>	<b>BFO Adjustments</b>	<b>Final Allowable</b>
FQHC Direct Costs	\$ 1,212,022	\$ (4,284)	\$ 1,207,738
Non FQHC Direct Costs	<u>541,843</u>	<u>1,162</u>	<u>543,005</u>
Total Direct Costs	\$ 1,753,865	\$ (3,122)	\$ 1,750,743
Overhead Costs	<u>1,714,323</u>	<u>(3,150)</u>	<u>1,711,173</u>
Total Costs	<u>\$ 3,468,188</u>	<u>\$ (6,272)</u>	<u>\$ 3,461,916</u>

**BFO Adjustments**

**Direct Costs**

Line 1 - Physicians	\$ (3,122)
Line 8 - Patient Health Education	<u>(1,162)</u>
Decrease in Direct Costs	<u>\$ (4,284)</u>

**Indirect Costs**

Line 8 - Patient Health Education	\$ <u>1,162</u>
Increase in Indirect Costs	<u>\$ 1,162</u>

**Overhead Costs**

Line 51 - Financial Expense	\$ <u>(3,150)</u>
Decrease in Overhead Costs	<u>\$ (3,150)</u>
NET DECREASE IN COSTS	<u>\$ (6,272)</u>

**EXHIBIT A**

**SPECTRUM HEALTH SERVICES, INC.  
BFO ADJUSTMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	Per Cost Report	BFO Adjustments	Final Allowable
FQHC Direct Costs	\$ 1,255,410	\$ (5,130)	\$ 1,250,280
Non FQHC Direct Costs	<u>512,645</u>	<u>-</u>	<u>512,645</u>
Total Direct Costs	\$ 1,768,055	\$ (5,130)	\$ 1,762,925
Overhead Costs	<u>1,957,026</u>	<u>(2,160)</u>	<u>1,954,866</u>
Total Costs	<u>\$ 3,725,081</u>	<u>\$ (7,290)</u>	<u>\$ 3,717,791</u>

**BFO Adjustments**

**Direct Costs**

Line 1 - Physicians	\$ <u>(5,130)</u>
Decrease in Direct Costs	\$ <u>(5,130)</u>

**Overhead Costs**

Line 51 - Financial Expense	\$ <u>(2,160)</u>
Decrease in Overhead Costs	\$ <u>(2,160)</u>
NET DECREASE IN COSTS	<u>\$ (7,290)</u>

**SPECTRUM HEALTH SERVICES, INC.**  
**DETERMINATION OF OVERHEAD APPLICABLE TO FQHC SERVICES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

1	Total Direct FQHC Health Care Costs (Page 2, Column 11, Line 39)	\$ 1,207,738
2	Total Direct Costs (Page 2, Column 11, Line 49)	1,750,743
3	Percentage of Direct Cost Applicable to FQHC Health Services (Line 1 Divided by Line 2)	68.98%
4	Total Overhead Costs (Page 3, Column 11, Line 79)	\$ 1,711,173
5	Overhead Costs Applicable to FQHC Health Services (Line 4 Multiplied by Line 3)	\$ 1,180,367

**EXHIBIT C**

**SPECTRUM HEALTH SERVICES, INC.  
SCHEDULE OF FQHC REIMBURSABLE RATES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

1	Total Direct FQHC Health Care Costs	\$1,207,738
2	Percent of Distribution	100%
3	Overhead Costs Applicable To FQHC Services	\$1,180,367
4	Total Costs Applicable To FQHC Services (Line 1 + Line 3)	\$2,388,105
5	Total Provider Encounter	18,615
6	Reimburseable Rates ( Line 4/ Line 5)	\$128.29

**EXHIBIT D**

**SPECTRUM HEALTH SERVICES, INC.**  
**DETERMINATION OF OVERHEAD APPLICABLE TO FQHC SERVICES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

1	Total Direct FQHC Health Care Costs (Page 2, Column 11, Line 39)	\$ 1,250,280
2	Total Direct Costs (Page 2, Column 11, Line 49)	1,762,924
3	Percentage of Direct Cost Applicable to FQHC Health Services (Line 1 Divided by Line 2)	70.92%
4	Total Overhead Costs (Page 3, Column 11, Line 79)	1,954,867
5	Overhead Costs Applicable to FQHC Health Services (Line 4 Multiplied by Line 3)	\$ 1,386,392

**EXHIBIT E**

**SPECTRUM HEALTH SERVICES, INC.  
SCHEDULE OF FQHC REIMBURSABLE RATES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

1	Total Direct FQHC Health Care Costs	\$1,250,280
2	Percent of Distribution	100%
3	Overhead Costs Applicable To FQHC Services	\$1,386,392
4	Total Costs Applicable To FQHC Services ( Line 1 + Line 3)	\$2,636,672
5	Total Provider Encounter	18,655
6	Reimbursable Rates ( Line 4 / Line 5)	\$141.34

**EXHIBIT F**

## APPENDIX



**Spectrum Health Services, Inc.**  
Progress Haddington Plaza  
5619-25 Vine Street  
Philadelphia, Pennsylvania 19139  
215-471-2750 • 215-471-1079 Fax • [www.Spechealth.org](http://www.Spechealth.org)

July 8, 2008

Mr. Daniel Higgins, Audit Manager  
Division of Audit and Review  
Bureau of Financial Operations  
Department of Public Welfare  
502 Philadelphia State Office Building  
1400 Spring Garden Street  
Philadelphia, Pennsylvania 19103

Dear Mr. Higgins:

This letter comes in response to the "draft" performance audit report received by Spectrum Health Services, Inc. (*dated May 12, 2008*) as prepared by the Division of Audit and Review (DAR), covering the period from July 1, 1998 to June 30, 2000.

After reviewing the recommendations and issues documented in the report, we agree with the findings, and have concluded that an exit conference will not be required.

If additional information is needed please do not hesitate to contact me directly @ 215.471.2750.

Sincerely,

Phyllis B. Cater  
Chief Executive Officer

cc: Gail Scotton, Chief Financial Officer  
File

Appendix