

S8001-1151



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

KEVIN M. FRIEL  
DIRECTOR

DEC 17 2008

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

Mr. James Gannone  
Chief Financial Officer  
Covenant House, Inc.  
251 East Brighthurst Street  
Philadelphia, Pennsylvania 19144

Dear Mr. Gannone:

I am enclosing the final report of the Covenant House, Inc. audit that was recently completed by this office. Your response has been incorporated into the final report and is labeled as an Appendix.

I would like to extend my appreciation to all the courtesy extended to my staff during the course of fieldwork. I understand that you were especially helpful in expediting the audit process.

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 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 Alexander Matolyak, Audit Resolution Section, at (717) 783-7786.

Sincerely,

Kevin Friel

Enclosures

c: Mr. William Miller, Director, Division of Rate Setting  
Ms. Brenda Tewell, Audit Coordinator



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF PUBLIC WELFARE  
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HARRISBURG, PA 17105-2675

KEVIN M. FRIEL  
DIRECTOR

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(717) 772-2231  
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(717) 705-9094

DEC 17 2008

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 Covenant House, Inc. (CH), a Federally Qualified Health Center (FQHC) who filed a Cost Report for the fiscal year ended June 30, 2007. The audit was made in response to a request to assess the periodic rate for encounters. As such, the audit's goal was to determine an encounter rate which includes only allowable program costs.

The report is currently in final form and contains the CH's views on the reported findings, conclusions or recommendations (Appendix). The data used to prepare the report findings was discussed with the CH's management at a closing conference held on October 29, 2008.

The audit questions the eligibility of costs as stated in Exhibit A:

- Total Reported Costs in the amount of \$3,647 for the fiscal year ended June 30, 2007.

The application of these adjustments to allowable costs resulted in a medical encounter rate of \$147.13 for the fiscal year ended June 30, 2007 (Exhibit C).

### **Executive Summary**

CH is a not for profit corporation with business offices and a Health Center at 251 East Brighthurst Street, Philadelphia, PA 19144.

One of CH's operating units is 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

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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:

FINDING	SUMMARY
<p><b><i>Finding No. 1 - Accrued FICA Taxes On Vacation Pay Should Be Disallowed.</i></b></p>	<ul style="list-style-type: none"> <li>• Payroll tax expense was increased for the employer's portion of the FICA contribution due on accrued vacation time earned by the employees, but not yet used.</li> <li>• The Medicare Provider Reimbursement Manual – Part 1, Publication 15 – 1 Section 2146 (C) states that FICA expenses must be treated as a cost in the period when the vacation costs are paid.</li> <li>• The adjustment was allocated between direct compensation and overhead.</li> </ul>

HIGHLIGHTS OF RECOMMENDATIONS
<p>OMAP should:</p> <ul style="list-style-type: none"> <li>• Disallow fringe benefits related to direct compensation costs in the amount of \$1,850 and disallow fringe benefits related to overhead compensation costs in the amount of \$1,797. Because the employer's portion of the FICA contribution on accrued vacation time is not reimbursable, the total reduction in allowable costs is \$3,647.</li> </ul> <p>CH should:</p> <ul style="list-style-type: none"> <li>• Not make year end accruals for the employer's portion of the FICA contribution that would be due when accrued vacation time is paid or used.</li> </ul>

FINDINGS	SUMMARY
<p><b><i>Finding No. 2 – CH Was Unable To Locate A Significant Number Of Encounter Records For The Month Of July 2006.</i></b></p>	<ul style="list-style-type: none"> <li>• In order to test CH's internal controls as related to patient encounters, a sample of 291 encounters were selected for examination.</li> <li>• All but 29 or 10% of the encounters were properly documented and were in agreement with the data used to complete the cost report.</li> <li>• Since the number of encounters for the purposes of computing the encounter rate was determined by using the minimum productivity standard based on Full Time Equivalent (FTE), the fact that 10% of the selected encounters were undocumented at the time of the audit had no effect on the encounter rate.</li> </ul>

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**FQHC Cost Reports**  
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**HIGHLIGHTS OF RECOMMENDATIONS**

CH should:

- Implement a better system to track and store its patient encounter records.

**Background**

CH 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 FQHC Cost Report, in the absence of specific regulations, allowable costs are determined based on the Medicare Provider Reimbursements Manual (HIM-15). In addition, FQHC Cost Report reporting instructions and OMAP policy derived from MA Bulletins may be used to determine allowable costs and procedures. CH submitted a Cost Report for the fiscal year ended June 30, 2007.

**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 CH.

In pursuing this objective, the BFO interviewed management and staff members from CH. 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 in management controls are addressed in the findings of this report.

Fieldwork for this audit took place between September 17, 2008 and October 9, 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.

**Covenant House, Inc.**  
**FQHC Cost Reports**  
**July 1, 2006 through June 30, 2007**

**Results of Fieldwork**

**Finding No. 1 – Accrued FICA Taxes On Vacation Pay Should Be Disallowed**

As part of its fiscal year end accruals on June 30, 2007, CH computed its liability for vacation pay earned but not yet paid for each of its employees. This amount was booked and is properly reimbursable under the Medicare Provider reimbursement Manual (HIM-15), Section 2146 (C). However, this subsection also provides that, "Employer payroll taxes applicable to vacation, such as FICA must be accrued in the period when the vacation costs are accrued, but treated as a cost in the period when the vacation costs are paid."

During the fiscal year ending June 30, 2007, the accrued vacation liability increased and, as a result, a net expense was booked for CH's share of the FICA contribution that will be due once the vacation time is used by the employees. This amount was included in the Cost Report. Therefore, under a plain reading of the applicable regulation, the increase in the payroll tax expense attributable to the FICA contribution was disallowed.

The disallowed amount was then allocated between direct and overhead salaries in proportion to the relative amount of salaries reported in these two categories. The amounts disallowed were \$1,850 and \$1,797 for the direct fringe benefit cost and the overhead fringe benefit cost, respectively.

**Recommendations**

The BFO recommends the OMAP disallow \$1,850 from direct costs and \$1,797 from overhead costs for fiscal year ending June 30, 2007.

The BFO also recommends the CH not include on Cost Reports the employer's contribution for FICA attributable to accrued vacation pay in the future.

**Finding No. 2 – CH Was Unable To Locate A Significant Number Of Encounter Records For The Month Of July 2006.**

During the month of July 2006, CH performed 1,311 encounters. A test sample consisting of 291 encounters was chosen for verification. From this test sample, CH could not locate 29 encounter records. For the purpose of computing the encounter rate, the provider is required to use the actual encounter number or a minimum standard number based on FTEs whichever is larger. For the period under review the minimum standard number was larger and was appropriately used. Therefore, the actual encounters were not taken into account in computing the encounter rate. Still this does not change CH's responsibility to maintain a better tracking system of its encounter records. CH should make every possible effort to put in place a better system to store and track its encounter records.

Covenant House, Inc.  
FQHC Cost Reports  
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**Recommendation**

The BFO recommends the CH implement a better system to maintain and store its patient encounter records.

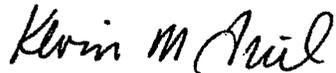
**Exit Conference**

The CH management did not request an exit conference. The CH management's written response is included and is attached to this report 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 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

Attachments

c: Mr. James Gannone  
Mr. William Miller  
Ms. Brenda Tewell

**Covenant House  
Response to the Draft Report**

COVENANT HOUSE INC.



December 5, 2008

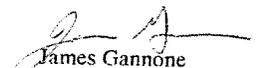
Mr. Daniel Higgins, Audit Manager  
Division of Audit and Review  
Bureau of Financial Operations  
Department of Public Welfare  
502 Philadelphia State Office Building  
1400 Spring Garden Street  
Philadelphia, PA 19130

RE: Draft Audit Report Response

Dear Mr. Higgins,

Covenant House Incorporated reviewed the Department of Public Welfare's draft audit report submitted on November 12, 2008 reflecting the encounter rate for fiscal year ending June 30, 2007 and is in agreement with both the audit findings and the report recommendations. Covenant House Incorporated has already begun implementing corrective measures reflecting the recommendations that were discussed in the October 29, 2008 closing conference. The corrective measures will ensure these findings are not repeated in future DPW audits and/or reviews of Covenant House Incorporated. Therefore Covenant House Incorporated would like to forgo the audit exit conference since there is no need to discuss this matter further. Please contact me at (215) 844-1020 extension 213 if you require additional information.

Thank you,

  
James Gannone  
Chief Financial Officer

Cc: Rosetta Smith, CEO  
Diane Williams, Comptroller  
File Copy

Administration Office  
207 East Brighthelm Street  
Philadelphia, PA 19144  
Main: (215) 844-1020  
Fax: (215) 844-8147

Covenant House Health Services  
248 East Brighthelm Street  
Philadelphia, PA 19144  
Appts: (215) 844-0157  
Fax: (215) 844-0127

Kelly Kids Corner for Primary Health Care  
John B. Kelly Elementary School  
Hansberry Street & Pulaski Avenue  
Philadelphia, PA 19144  
(215) 843-4626

Covenant House Health Services  
Health Resource Center  
Martin Luther King High School  
Stanton Avenue & Haines St  
Philadelphia, PA 19138  
(215) 276-5253 Ext: 3001

**EXHIBIT**

**COVENANT HOUSE  
BFO ADJUSTMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Description</u>	<u>Per Cost Report</u>	<u>BFO Adjustments</u>	<u>Final Allowable</u>
Total Direct FQHC Costs	\$ 1,090,167	(1,850)	\$ 1,088,317
Non FQHC Costs	1,210	-	1,210
Total Direct Costs	\$ 1,091,377	\$ (1,850)	\$ 1,089,527
Overhead Costs	1,470,091	(1,797)	1,468,294
Total Costs	<u>\$ 2,561,468</u>	<u>\$ (3,647)</u>	<u>\$ 2,557,821</u>
 <u>BFO Adjustments</u>			
<b>Direct Costs</b>			
Accrued FICA Expenses on Vacation pay		<u>\$ (1,850)</u>	
Decrease in Direct Costs		<u>\$ (1,850)</u>	
<b>Overhead Costs</b>			
Accrued FICA Expenses on Vacation pay		<u>\$ (1,797)</u>	
Decrease in Overhead Costs		<u>\$ (1,797)</u>	
<b>Net Decrease in Costs</b>		<u><u>\$ (3,647)</u></u>	

EXIHIBIT A

**COVENANT HOUSE**  
**DETERMINATION OF OVERHEAD APPLICABLE TO FQHC SERVICES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

1 Total Direct FQHC Health Care Costs	\$ 1,088,317
2 Total Direct Costs	1,089,527
3 Percentage of Direct Cost Applicable to FQHC Health Services (Line 1 Divided by Line 2)	99.8889%
4 Total Overhead Costs	1,468,294
5 Overhead Costs Applicable to FQHC Health Services Line 4 Multiplied by Line 3	\$ 1,466,663

**EXIHIBIT B**

**COVENANT HOUSE  
SCHEDULE OF REIMBURSABLE RATES  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u><b>MEDICAL</b></u>
1 Total Direct FQHC Health Care Costs	\$1,088,317
2 Overhead Costs Applicable To FQHC Services	1,466,663
3 Total Costs Applicable To FQHC Services (Line 1 + Line 2)	\$2,554,980
4 Total Provider Encounter	17,365
5 Reimbursable Rates (Line 3/Line 4)	\$147.13

**EXIHIBIT C**