



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
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August 17, 2010

Mr. Michael G. Lucas, President
ChesPenn Health Services
2600 West 9th Street, 2 North
Chester, Pennsylvania 19013

Dear Mr. Lucas:

I am enclosing the final report of the ChesPenn Health Services that was recently completed by this office. Your response has been incorporated into the final report and 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 your staff was especially helpful to Timothy N. Rausch 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 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 Alexander Matolyak, Audit Resolution Section, at (717) 783-7786.

Sincerely,

A handwritten signature in black ink that reads "Kevin M. Friel".

Kevin Friel

Enclosures

c: Mr. Michael Nardone
Mr. William Miller
Ms. Jennifer Bertrand



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KEVIN M. FRIEL
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August 17, 2010

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 ChesPenn Health Services, Inc. (ChesPenn), a Federally Qualified Health Center (FQHC) for the year ended June 30, 2008. The audit was conducted in response to a request to assess the periodic rates for encounters. As such, the audit's goal was to determine medical and dental encounter rates which include only allowable program costs.

The report is currently in final form and therefore contains the ChesPenn's views on the reported findings, conclusions or recommendations. The data used to prepare the report findings was discussed with ChesPenn's management at a closing conference held on June 9, 2010.

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

- Total related costs in the net amount of \$22,827 for the year ended June 30, 2008.

The application of these adjustments to allowable costs resulted in a medical per diem of \$142.12 and a dental per diem of \$130.26 for the fiscal year ended June 30, 2008 (Exhibit C).

ChesPenn Health Services, Inc. FQHC
Executive Summary

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 costs incurred and reported on an annual Cost Report. The Encounter Rate is computed by dividing the FQHC's total allowable cost by the number of visits by all FQHC patients. Once established, the Encounter Rate increases annually by the Medicare Economic Index applicable to primary care physician services.

ChesPenn Health Services, Inc.
FQHC Cost Report
For the Fiscal Year Ended June 30, 2008

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

FINDINGS	SUMMARY
<i>Finding No. 1 - The Medical And Dental Directors' Compensation Was Incorrectly Allocated Between Direct Costs And Overhead.</i>	<p>The responsibilities of the Medical Director's and Dental Director's include both direct care and administrative duties.</p> <p>An error in the recording of the salary and associated costs of these two positions resulted in an understatement of administrative costs and an overstatement of direct care costs of \$51,404.</p>

HIGHLIGHTS OF RECOMMENDATIONS
<p>OMAP should:</p> <ul style="list-style-type: none"> • Reduce Direct Costs, Compensation by \$32,231 and reduce Direct Dental Costs by \$19,173 and increase Overhead, Administrative Compensation by \$51,404. <p>ChesPenn should:</p> <ul style="list-style-type: none"> • Properly allocate the Medical and Dental Directors' compensation and fringe benefits to direct medical costs, direct dental costs and overhead.

FINDINGS	SUMMARY
<i>Finding No. 2 – Certain Start-Up Costs For The Coatesville Facility Were Double Counted.</i>	<p>Certain start-up costs for the Coatesville facility were double counted. The amount in question is \$11,561.</p>

HIGHLIGHTS OF RECOMMENDATIONS
<p>OMAP should:</p> <ul style="list-style-type: none"> • Decrease Amortization by \$11,561. <p>ChesPenn should:</p> <ul style="list-style-type: none"> • Adjust the balance of its intangible assets start-up costs and limit its amortization charge to recover start-up costs over five years.

FINDINGS	SUMMARY
<i>Finding No. 3 - An Adjusting Entry Was Posted Twice.</i>	<p>An adjusting entry for \$939 was posted twice. As a result Administrative Overhead was inappropriately reduced by \$939.</p>

**ChesPenn Health Services, Inc.
 FQHC Cost Report
 For the Fiscal Year Ended June 30, 2008**

HIGHLIGHTS OF RECOMMENDATIONS	
<p>OMAP should:</p> <ul style="list-style-type: none"> • Increase Administration Expense by \$939. <p>ChesPenn should:</p> <ul style="list-style-type: none"> • Not double count any of its adjusting entries. 	

FINDINGS	SUMMARY
<p><i>Finding No. 4 – The Amount Paid To A Subcontractor For Grant Writing Services Was Disallowed.</i></p>	<p>ChesPenn’s cost report included amounts paid to a subcontractor for services rendered to prepare and submit proposals for grant funding. Since any grant funds received were not offset against FQHC program costs, the costs of grant writing are not allowed as FQHC expenses.</p>

HIGHLIGHTS OF RECOMMENDATIONS	
<p>OMAP should:</p> <ul style="list-style-type: none"> • Reduce administrative overhead by \$12,205. <p>ChesPenn should:</p> <ul style="list-style-type: none"> • Not include grant writing costs as FQHC expenses. 	

FINDINGS	SUMMARY
<p><i>Finding No. 5. The Number Of Encounters Substantiated Was Greater Than The Number Stated On The Cost Report.</i></p>	<p>The BFO examined Medical and Dental Encounters by selecting a sample from the whole list of encounters provided by ChesPenn. Substantially all of the selected encounters were substantiated; however, the whole list of encounters exceeded by 80 the number of Medical encounters reported on the Cost Report.</p>

HIGHLIGHTS OF RECOMMENDATIONS	
<p>OMAP should:</p> <ul style="list-style-type: none"> • Increase the number of medical encounters by 80. <p>ChesPenn should:</p> <ul style="list-style-type: none"> • Be able to identify and to substantiate all encounters and include all such encounters in its Cost Report. 	

Background

ChesPenn Health Services, Inc. is a regional human service not for profit corporation. ChesPenn operates three Federally Qualified Health Care Centers with two located in Chester and the other in Coatesville. The Coatesville FQHC moved its location during

ChesPenn Health Services, Inc.
FQHC Cost Report
For the Fiscal Year Ended June 30, 2008

the audit period. The FQHCs 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.

ChesPenn submitted Cost Reports for the year ended June 30, 2008 that included its relocated facility in Coatesville. As such, OMAP requested that the existing rates for medical and dental encounters be revised.

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 ChesPenn.

In pursuing this objective, the BFO interviewed management and staff members from ChesPenn. 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.

We conducted this performance audit in accordance with generally accepted governmental auditing 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Fieldwork for this audit took place intermittently between March 29, 2010 and May 1, 2010 based on available records. The audit was performed in accordance with General Instructions for Completion of the Medical Assistance Cost Report. This Report, when presented in its final form, will be available for public inspection.

ChesPenn Health Services, Inc.
FQHC Cost Report
For the Fiscal Year Ended June 30, 2008

Results of Fieldwork

Finding No. 1 – The Medical And Dental Directors’ Compensation Was Incorrectly Allocated Between Direct Costs And Overhead

The medical and dental directors’ duties include administrative oversight. As such, a portion of their compensation and related fringe benefits must be allocated to administrative overhead. BFO did not change the stated allocable percentages of 35% and 28% administrative time for the medical director and dental director, respectively.

However, the details of the supporting computations were not correctly carried forward to the Cost Report. The errors appeared to be inadvertent and random. In order to correct the original allocation, an additional \$32,231 was reclassified from direct medical compensation and \$19,173 was reclassified from direct dental compensation. Administrative overhead was increased for the total of \$51,404.

Recommendations

The BFO recommends that the direct medical compensation be decreased by \$32,231; that the direct dental costs are decreased by \$19,173; and, that administrative overhead be increased by \$51,404 for the fiscal year ended June 30, 2008.

Finding No. 2 – Certain Start-Up Costs For The Coatesville Facility Were Double Counted

BFO reviewed the start-up costs for the Coatesville facility. An analysis of amortization of start-up costs for the relocated Coatesville facility determined that certain start-up costs totaling \$42,063 were double counted. In addition, leasehold rents were included in start-up costs. The errors appear to be inadvertent.

The rents were removed from start-up costs and the arithmetic error was corrected. Amortization reported on the cost report was then recomputed and was reduced by \$11,561.

Recommendations

BFO recommends that amortization expense, categorized as administrative overhead, should be reduced by \$11,561.

BFO also recommends that ChesPenn restate its intangible assets and the future amortization expense should be based on a revised asset balance of \$62,033 amortized over five (5) years.

Finding No. 3 – An Adjusting Entry Was Posted Twice

The supporting work paper for the cost report lists an adjustment to increase Pharmacy. This adjustment was posted to the cost report as expected. The supporting work

ChesPenn Health Services, Inc.
FQHC Cost Report
For the Fiscal Year Ended June 30, 2008

papers also indicate several adjustments to administrative expense, line 50. However, the total posted exceeds the sum of the indicated postings to line 50 by \$939. The \$939 was inadvertently posted twice. Both adjustments reduced administrative expenses. As a result, administrative expense, line 50, is understated by \$939.

Recommendations

The BFO recommends OMAP increase administrative expenses, by \$939.

The BFO also recommends that ChesPenn implement controls directed to detect or eliminate the possibility of entries being recorded twice.

Finding No. 4 - The Amount Paid To A Subcontractor For Grant Writing Services Was Disallowed

In examining payments to subcontractors, BFO determined that fees were paid to a grant writer. The grant writer prepares proposals to be submitted to charitable benefactors who may have funds available for organizations like ChesPenn who provide certain medical or social programs. Since the proceeds of the grants are not required to be offset against FQHC expenses, so too are the costs not to be allowed as FQHC expenses. As a result, Line 50, administrative overhead should be reduced by \$12,205.

Recommendations

The BFO recommends that OMAP reduce administrative expenses by \$12,205.

The BFO also recommends that ChesPenn not include any grant writing costs as FQHC expenses.

Finding No. 5 – The Number Of Encounters Substantiated Was Greater Than The Number Stated On The Cost Report

The BFO requested a detailed listing of all encounters for the period and ChesPenn provided an electronic listing to BFO. The electronic record of encounters contained 80 more medical encounters and 50 more dental encounters that were reported on the cost report. The variance seems inadvertent. Full time equivalents and minimum productivity standards were also taken into account. Since the application of the minimum productivity standard determined the number of dental encounters, only an adjustment to medical encounters was necessary.

Samples were selected and examined for both medical and dental encounters with the result that the accuracy of the sample was verified. By starting with the electronic listing of encounters and making the necessary adjustments, the BFO concluded that the medical encounters on the Cost Report were understated by 80.

ChesPenn Health Services, Inc.
FQHC Cost Report
For the Fiscal Year Ended June 30, 2008

Recommendation

The BFO recommends that OMAP increase the number of Medical encounters by 80.

The BFO also recommends ChesPenn be able to identify and to substantiate all encounters and include all such encounters in its Cost Report.

Summary

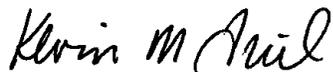
In response to our draft report, ChesPenn's President provided a written response dated August 10, 2010 which stated that the draft report has been reviewed and that ChesPenn is in agreement with the findings and recommendations and therefore does not wish to have an exit conference. ChesPenn's respond is attached as an appendix.

In accordance with our established procedures, an audit response matrix will be provided to your office. Once received, please complete the matrix within 60 days and email the Excel file to the DPW Audit Resolution Section at:

RA-pwauditresolution@state.pa.us

The response to each recommendation should indicate your office's concurrence or non-concurrence, the corrective action to be taken, the staff from your office responsible for the corrective action, the expected date that the corrective action will be completed, and any related comments.

Sincerely,



Kevin M. Friel

Attachments

c: Mr. Michael Lucas
Mr. William Miller
Ms. Jennifer Bertrand

**CHESPENN HEALTH SERVICES
RESPONSE TO THE DRAFT REPORT**

APPENDIX



ChesPenn
HEALTH SERVICES

Administrative Office

2600 W. 9th Street
2 North
Chester, PA 19013
P: 610-485-3800
F: 610-485-4221

August 10, 2010

Mr. Daniel Higgins, Audit Manager
Division of Audit and Review
Bureau of Financial Operations
5th Floor, Suite 5040
801 Market Street
Philadelphia, PA 19107

Dear Mr. Higgins:

We have reviewed the "draft" performance audit report prepared by the Division of Audit Review in your letter dated July 7, 2010. We agree with the findings and recommendations that were noted in the report and therefore do not wish to have an exit conference.

If you have any questions, please do not hesitate to call me at 610-485-3800.

Thank you for your cooperation.

Sincerely,

Michael G. Lucas
President & CEO

cc: William Tierney, CPA

Chester

**Center for Family Health
& Dental Center**

2600 W. 9th Street
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Medical: 610-859-2059
Dental: 610-497-2900
Fax: 610-859-8217

**Eastside Health &
Dental Center**

125 E. 9th Street
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Dental: 610-874-6231
Fax: 610-872-5128

Coatesville

Center for Family Health

744 E. Lincoln Highway
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Coatesville, PA 19320
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Upper Darby

Center for Family Health

5 South State Road
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