



pennsylvania

DEPARTMENT OF HUMAN SERVICES
BUREAU OF FINANCIAL OPERATIONS

July 23, 2015

Mr. Michael W. Slack
Executive Vice President
KidsPeace National Centers, Inc.
4085 Independence Drive
Schnecksville, Pennsylvania 18078

Dear Mr. Slack:

I am enclosing the final audit report of KidsPeace National Centers, Inc. 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 for all the courtesy extended to my staff during the course of fieldwork. I understand you were especially helpful to Andrea Tirpak in expediting the audit process.

The final report will be forwarded to the Office of Children Youth and Families (OCYF) to begin the Department's audit resolution process. The staff from the OCYF may be in contact with you to follow-up on the action taken to comply with the report's recommendations.

If you have questions concerning this matter, please contact David Bryan, Audit Resolution Section at [REDACTED].

Sincerely,

Tina L. Long, CPA
Director

Enclosure

c: Mr. Jay Bausch
Ms. Jacquelyn Maddon
Ms. Cathy Utz
Ms. Roseann Perry

bc: Ms. Tina L. Long
Mr. Alexander Matolyak
Mr. Brian Pusateri
Mr. David Bryan
Ms. Shelley Lawrence
N1403

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 DHS'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 (65P.S. §§ 67.101 et seq.) The DHS RTKL Office can be contacted by email at: rapwrtkl@pa.gov.



July 23, 2015

Mr. Brendan Harris, Executive Deputy Secretary
 Department of Human Services
 Health & Welfare Building, Room 334
 Harrisburg, Pennsylvania 17120

Dear Deputy Secretary Harris:

In response to a request from the Office of Children, Youth and Families (OCYF), the Bureau of Financial Operations (BFO) initiated a performance audit of KidsPeace National Centers, Inc. (KidsPeace). The audit was designed to determine if KidsPeace was in compliance with the provisions of their contracts with the county Children and Youth Programs. The audit period was July 1, 2010 through June 30, 2014.

This report is currently in final form and therefore contains KidsPeace’s views on the finding and recommendations. KidsPeace’s response to the draft audit report is included as Appendix B.

Executive Summary

FINDING	SUMMARY
<p>Issue No. 1 – KidsPeace Overbilled County Children and Youth Programs \$183,410 for Title IV-E Program Maintenance.</p>	<ul style="list-style-type: none"> • The BFO identified that KidsPeace overbilled county Children and Youth Programs for Title IV-E Program Maintenance. • The total amount of questioned costs is \$183,410.

HIGHLIGHTS OF RECOMMENDATIONS

<p>KidsPeace should:</p> <ul style="list-style-type: none"> • Only bill the county Children and Youth Programs their actual costs for Title IV-E Program Maintenance. <p>OCYF should:</p> <ul style="list-style-type: none"> • Recover \$183,410 from KidsPeace. • Ensure that the county Children and Youth Programs monitor their contracts with KidsPeace and reimburse them for only actual costs for Title IV-E Program Maintenance.
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See Appendix A for the Background, Objective, Scope and Methodology, and Conclusion on the Objective.

KidsPeace National Centers, Inc.
July 1, 2010 to June 30, 2014

Results of Fieldwork

Issue No. 1 – KidsPeace Overbilled County Children and Youth Programs \$183,410 for Title IV-E Program Maintenance.

KidsPeace has contracts with county Children and Youth Programs to provide foster care services for children who receive out-of-home placements away from their parents or guardians. Foster care services are governed by Title IV-E of the Social Security Act. Section 475(4)(A) of the Act defines the term foster care maintenance payments as “payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child’s personal incidentals, liability insurance with respect to a child, reasonable travel to the child’s home for visitation, and reasonable travel for the child to remain in the school in which the child is enrolled at the time of placement.”

Providers submit annual “budget packets” to OCYF which contain financial and demographic data supporting their proposed out-of-home placement costs. OCYF uses these packets to establish the maximum federal and state participation rates for county programs for use in contract negotiations with providers. Foster care per diem rates are specific to the level of service to be delivered (Regular, Intermediate, Intake, Specialized, Therapeutic and Mother/Baby). Each rate is comprised of three components: 1) Title IV-E Allowable Program Maintenance, 2) Title IV-E Allowable Administration, and 3) Title IV-E Unallowable Administration. The Program Maintenance component represents the direct payments to the foster families by the providers and reimbursed under Title IV-E by the county Children and Youth Programs.

KidsPeace’s foster care program uses a form called a “paysheet” that acts as a remittance advice, and documents the payments made to the foster families. The main function of the paysheet is to identify the rate paid for each foster child as well as the number of days of service that were provided. Paysheets also identify any additional payments that are needed for clothing, mileage, telephone, etc.

The BFO analyzed paysheets, invoices, general ledger reports, county contracts, county reimbursement reports and other supporting documentation for Title IV-E billings for the audit period. The BFO noted that KidsPeace overbilled county Children and Youth Programs between \$1.00 and \$4.00 per unit in excess of the actual per diem cost paid to the foster families. The total questioned costs during the audit period are \$183,410.

The chart below illustrates the questioned costs for each fiscal year that we analyzed:

<u>Fiscal Year</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>Total</u>
Questioned Costs:	\$34,856	\$2,398	\$75,784	\$70,372	\$183,410

KidsPeace National Centers, Inc.
July 1, 2010 to June 30, 2014

Recommendations

The BFO recommends that KidsPeace:

- Only bill county Children and Youth Programs their actual costs for Title IV-E Program Maintenance.

The BFO recommends that OCYF:

- Recover \$183,410 from KidsPeace.
- Ensure that county Children and Youth Programs monitor their contracts with KidsPeace and reimburse them for only actual costs for Title IV- E Program Maintenance.

Auditor's Commentary/Exit Conference

The BFO evaluated the assertions made in KidsPeace's response to the draft audit report and determined that no changes to the draft report were warranted. KidsPeace decided to not have an exit conference.

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



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

Sincerely,

A handwritten signature in black ink that reads "Tina L Long".

Tina L. Long, CPA
Director

KIDSPACE NATIONAL CENTERS, INC.

APPENDIX A

Appendix A

Background

KidsPeace National Centers, Inc.(KidsPeace) is a non-profit corporation licensed by the Pennsylvania Department of Human Services to provide foster care services under Title IV-E of the Social Security Act for children that are receiving twenty-four (24) hour substitute care in a placement away from their parents or guardians and for whom the county has placement and care responsibility.

KidsPeace's headquarters are located in Schnecksville, PA. They offer a variety of foster care and community-based treatment programs in ten states and the District of Columbia. During the audit period, the provider contracted with thirty-eight Pennsylvania counties, primarily in the Central and Northeast regions.

Non-residential foster care payments to KidsPeace as reported by county Children and Youth Programs totaled \$11,774,953 for the period July 1, 2010 through June 30, 2014.

Objective, Scope and Methodology

Our audit objective was:

- To determine if Title IV-E Program Maintenance payments paid by KidsPeace were in accordance with the contractual provisions with County Children and Youth Programs.

We conducted this performance audit in accordance with generally accepted government 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.

Government auditing standards require that we 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 their effectiveness.

Based on our understanding of the controls, certain material deficiencies came to our attention. Areas where we noted material deficiencies or an opportunity for improvement in management controls are addressed in the findings of this report.

Our fieldwork was performed intermittently between October 24, 2014 and February 19, 2015. A closing conference was held with KidsPeace management on March 9, 2015 to discuss the results of the audit. This report is available for public inspection.

Conclusion on the Objective

In conclusion, KidsPeace did not comply with the contractual provisions for reimbursement for Title IV-E Program Maintenance billings for services delivered from July 1, 2010 through June 30, 2014. The total questioned costs are \$183,410.

**KIDSPACE NATIONAL CENTERS, INC.
RESPONSE TO THE DRAFT REPORT**

APPENDIX B



July 8, 2015

Brian Pusateri, CPA, CFE
Audit Manager
Bureau of Financial Operations
Department of Human Services

RE: **NONCONCURRENCE WITH FINDINGS OF PERFORMANCE AUDIT REPORT OF
KIDSPACE NATIONAL CENTERS, INC. FOR THE PERIOD JULY 1, 2010
THROUGH JUNE 30, 2014**

Dear Mr. Pusateri:

On April 13, 2015, KidsPeace National Centers, Inc. ("KidsPeace") received a "draft" performance audit report that contained the Division of Audit and Review's findings and recommendation (the "Report"). KidsPeace does not concur with the presented findings and recommendations.

Response to Results of Fieldwork:

KidsPeace Invoices in Compliance with CC&YP contracts

The Report indicates that KidsPeace overbilled county Children and Youth Programs ("CC&YP") \$183,410 for Title IV-E Program Maintenance. This is not correct. KidsPeace negotiates rates with each CC&YP and these rates are established within our contracts with each CC&YP. All CC&YP contracts that KidsPeace holds are written on a fee per service basis **and not** based on any actual cost reimbursement. It is undisputed that KidsPeace correctly invoiced each CC&YP in accordance with the applicable contract.

Submissions to OCYF are Proposed and not Contracted Rates

As indicated in the audit findings, KidsPeace submits annual budget packets to OCYF which contain **proposed** out-of-home placement costs. OCYF then uses these packets to establish maximum federal and state participation rates for the CC&YP to use in their negotiations with providers. These maximum rates are set based on actual financial results from the previous fiscal year along with projected costs for the next year. KidsPeace has never certified, represented, or guaranteed that these proposed out-of-

home placement cost will result in actual future expenditures. To further support our point that these proposed out of home placement costs having no bearing on contracted rates, KidsPeace receives a letter annually from the Department of Human Services notifying us that the maximum allowable rates are **NOT** county contract rates and that we are to negotiate those rates directly with the county.

KidsPeace Bankruptcy Considerations

On May 21, 2013, KidsPeace and its affiliated entities filed voluntary petitions under the Chapter 11 of the Bankruptcy Code. All of the CC&YP as well as the Commonwealth received various notifications and communications in this regard including the notice of the Claims Bar Date (August 30, 2013). No proof of claim was submitted by any CC&YP related to the amounts described in the Report. Our understanding is that any claims a CC&YP may have against KidsPeace relating to pre-petition amounts has been discharged.

Audit Approach is Flawed and Misleading

Per the Report, “the audit was designed to determine if KidsPeace was in compliance with the provisions of their contracts with the county Children and Youth Programs.” This is not the approach that was taken to arrive at the alleged \$183,410 overbilling amount. As we understand the approach, you compared the “proposed amounts and not contracted rates” submitted to OCYF to actual payments made to KidsPeace foster care families. This approach has an obvious flaw in that it ignores the stated terms and conditions of the contracts between KidsPeace and each CC&YP. It is clear from a review of the contracts involved and invoices sent to each CC&YP that KidsPeace is in 100% compliance with its contracts and no overbilling has occurred.

Report Recommendations:

BFO Report Recommendations

1. KidsPeace only bill CC&YP their actual costs for Title IV-E Program Maintenance
2. OCYF recover \$183,410 from KidsPeace
3. Ensure that CC&YP monitor their contracts with KidsPeace and reimburse them for only actual costs for Title IV-E Program Maintenance

KidsPeace Response

1. **KidsPeace does not concur** because if KidsPeace complied with the BFO Recommendation KidsPeace would breach its contractual obligations with each CC&YP contract by not billing in accordance with negotiated rates. KidsPeace is supportive of updating its contractual terms with each CC&YP in any manner deemed appropriate by each CC&YP.
2. **KidsPeace does not concur** because 1) KidsPeace invoices in compliance with CC&YP contracts; 2) Submission to OCYF are proposed and not contract rates according to the Department of Human Services; 3) KidsPeace’s bankruptcy filing precludes recovery of any prepetition amounts; and 4) the audit approach is flawed and misleading. No error occurred on the part of KidsPeace. Recovery of any amount from KidsPeace is inappropriate.
3. **KidsPeace does not concur.** KidsPeace believes the contracts with each CC&YP should be updated to require KidsPeace to disclose actual Title IV-E

Program Maintenance costs. KidsPeace is supportive of any monitoring program of the actual terms and conditions of the contract with each CC&YP.

If any details of our response are unclear, please feel free to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael W. Slack". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael W. Slack
KidsPeace National Centers, Inc.
Executive Vice President