



November 25, 2013

Mr. William E. Miller  
President/Chief Executive Officer  
Martha Lloyd Community Residential Facility, Inc.  
66 Lloyd Lane  
Troy, Pennsylvania 16947

Dear Mr. Miller:

I am enclosing the final audit report of Martha Lloyd Community Residential Facility, Inc., (ML) that was recently completed by this office

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 Developmental Programs (ODP) to begin the Department's audit resolution process. The staff from the ODP 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 (717) 783-7127.

Sincerely,

A handwritten signature in black ink that reads "Tina L Long". The signature is written in a cursive, flowing style.

Tina L. Long, CPA  
Director

Enclosure

c: Ms. Karen Deklinski  
Mr. Fred Lokuta  
Mr. Robert Conklin  
Ms. Deborah Donahue  
Ms. Patricia McCool

bc: Mr. Alexander Matolyak  
Mr. Brian Pusateri  
Mr. David Bryan  
Mr. Michael A. Sprow  
Ms. Shelley Lawrence  
NEFO Audit File (N1203)

November 25, 2013

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

Dear Deputy Secretary Harris:

In response to a request from the Office of Developmental Programs (ODP), the Bureau of Financial Operations (BFO) initiated a performance audit of Martha Lloyd Community Residential Facility, Inc. (ML). The audit was designed to determine the accuracy and compliance of the provider's cost reports with the cost reporting instructions for the 2009-10, 2010-11 and 2011-12 fiscal years.

This report is in final form. The data used to prepare this report was discussed with ML's management on September 18, 2013. ML informed the BFO that no response to the draft report was needed. As such, no changes were made to the draft report.

### Executive Summary

FINDING	SUMMARY
<p><b>Issue No. 1 – ML Erroneously Included \$80,743 of Administrative Management Fees as Fee Schedule Costs.</b></p>	<ul style="list-style-type: none"> <li>For fiscal year 2011-12, ML reported \$80,743 of administrative management expenses within the ineligible cost schedule on its cost report.</li> </ul>
HIGHLIGHTS OF RECOMMENDATIONS	
<p>ML should:</p> <ul style="list-style-type: none"> <li>Report administrative costs for all of their residential sites on Schedule F of the cost report.</li> </ul> <p>ODP should:</p> <ul style="list-style-type: none"> <li>Increase ML's FY 2011-12 cost-based waiver eligible costs by \$80,743.</li> <li>Ensure ML reports administrative costs for all of their residential sites on Schedule F of the cost report.</li> </ul>	

Martha Lloyd Community Residential Facility, Inc.  
July 1, 2009 to June 30, 2012

FINDING	SUMMARY
<p><b>Issue No. 2 – Unallowable Costs Were Reported as Waiver Eligible Expenses.</b></p>	<ul style="list-style-type: none"> <li>• Thirteen (5%) of the purchases tested totaling \$548 were unallowable per the ODP Cost Report Instructions and OMB Circular A-122. Costs charged directly to the ODP Waiver accounts totaled \$307.</li> <li>• Unallowable general ledger accounts titled bad debt expense and client outings totaling \$3,289 were included on the cost report as allowable expenses.</li> </ul>
HIGHLIGHTS OF RECOMMENDATIONS	
<p>ML should:</p> <ul style="list-style-type: none"> <li>• Gain a better understanding of ODP's Cost Report Instructions and the cost principles contained in OMB Circular A-122.</li> </ul> <p>ODP should:</p> <ul style="list-style-type: none"> <li>• Adjust the service rates for FY 2009-10 and FY 2010-11 to reflect the \$3,011 and \$585, respectively, of unallowable amounts charged to ODP.</li> <li>• Ensure that ML gains a better understanding of ODP's Cost Report Instructions and the cost principles contained in OMB Circular A-122.</li> </ul>	

**See Appendix A for the Background, Objective, Scope and Methodology, and Conclusion on the Objective.**

**Results of Fieldwork**

**Issue No. 1 – ML Erroneously Included \$80,743 of Administrative Management Fees as Fee Schedule Costs.**

Starting July 1, 2009, payment rates for services delivered to individuals enrolled in the Consolidated and P/FDS Waiver programs were established using the Prospective Payment System (PPS). The PPS employs two methods for establishing rates for payments. The first method relies on a provider cost report, which details the costs for certain waiver eligible services. This cost report is then used by ODP to develop provider-specific, cost-based waiver eligible rates for the prospective period. The second method relies on a fee schedule, where services are reimbursed based on state-set rates.

The services ML provides requires a cost report to be submitted to ODP. For fiscal year 2011-12, ML erroneously reported a portion of its administrative management expense for residential sites on the fee schedule section of the cost report as ineligible costs. The fees should have been included on the Other Program Expenses Schedule F, which includes waiver eligible program expenses and are used in the development of the cost based rates. This error resulted in an \$80,743 understatement of the provider's waiver eligible costs, which led to a decrease in their waiver eligible service rate, and will require a reclassification through a restated Cost Report.

Martha Lloyd Community Residential Facility, Inc.  
July 1, 2009 to June 30, 2012

This error did occur in previous cost reporting periods. However reclassifications are not needed for fiscal years 2009-10 and 2010-11. During those years, providers were reimbursed their actual costs for expenses that are Waiver "ineligible". Those costs, however, were reimbursed based on a fee schedule starting in FY 2011-12.

**Recommendations**

The BFO recommends that ML:

- Report administrative fees for all of their residential sites on Schedule F of the cost report.

The BFO recommends that ODP:

- Increase FY 2011-12 cost-based waiver eligible costs by \$80,743.
- Ensure that ML reports administrative costs for all of their residential sites on Schedule F of the cost report.

**Issue No. 2 – Unallowable Costs Were Reported as Waiver Eligible Expenses**

The Cost Report Instructions for FY 2009-10, 2010-11, and 2011-12, pages 43, 44 & 45, respectively, include the following as examples of non-allowable expenses: bad debt; entertainment/recreation expenses for participants and provider staff (e.g., cost of admission to sporting events, movie tickets, etc.); advertising, marketing and public relations expenses; and litigation expenses incurred against ODP or any other Commonwealth agency. Additionally, OMB Circular A-122 Revised May 10, 2004, page 29 states, "Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable."

Thirteen (5%) of the samples tested totaling \$548 were comprised of costs deemed unallowable by the ODP Cost Report Instructions and OMB Circular A-122. The portion charged directly to waiver accounts was \$307. The additional \$241 of unallowable costs was allocated to non-waiver accounts. The unallowable purchases discovered through the audit testing include: outings with consumers, unallowable marketing costs, team appreciation costs, and unsupported purchases.

Additionally, the BFO identified four expense accounts comprised of unallowable bad debt and client outings costs charged to ODP. The BFO confirmed with representatives from ML that the composition of the costs contained in these accounts were in agreement with the account titles, and that these types of costs would be deemed unallowable. The total unallowable costs in these accounts amounted to \$3,289.

**Recommendations**

The BFO recommends that ML:

- Gain a better understanding of ODP's Cost Report Instructions and the cost principles contained in OMB Circular A-122.

**Recommendations - Continued**

The BFO recommends that ODP:

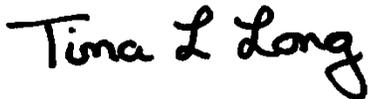
- Adjust the service rates for FY 2009-10 and FY 2010-11 to reflect the \$3,011 and \$585, respectively, of unallowable amounts charged to ODP. Ensure that ML gains a better understanding of ODP's Cost Report Instructions and the cost principles contained in OMB Circular A-122.

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

[RA-pwauditresolution@pa.gov](mailto:RA-pwauditresolution@pa.gov)

The response to each recommendation should indicate ODP'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,



Tina L. Long, CPA  
Director

**MARTHA LLOYD COMMUNITY RESIDENTIAL FACILITY, INC.**

**APPENDIX A**

## **Appendix A**

### **Background**

Martha Lloyd Community Residential Facility, Inc. (ML) is a not-for-profit organization, which provides care, education, and training to individuals with intellectual and developmental disabilities. It is a member of an affiliated group of corporations controlled by Martha Lloyd School, Inc. ML's primary services are residential, adult day training, and prevocational programs.

Payments to Martha Lloyd through the Provider Reimbursement and Operations Management Information System (PROMISe) system for waiver-based services rendered through their residential, adult training, and prevocational programs totaled \$7,431,185 for the period July 1, 2009 through June 30, 2012.

### **Objective, Scope and Methodology**

Our audit objective was:

- To determine the accuracy and the compliance with cost reporting instructions for fiscal years 2009-10, 2010-11 and 2011-12.

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.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our fieldwork was performed intermittently between June 5, 2013 and July 25, 2013. A closing conference was held with Martha Lloyd management on September 18, 2013 to discuss the results of the audit. This report is available for public inspection.

### **Conclusion on the Objective**

In conclusion, Martha Lloyd understated portions of their administrative costs on cost reports for the three fiscal years audited by the BFO. The provider also reported costs deemed unallowable according to ODP's Cost Report Instructions.