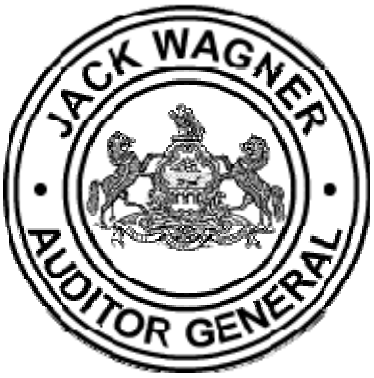
Commonwealth of Pennsylvania
Department of Public Welfare
Torrance State Hospital

July 1, 2002, to February 11, 2005
Performance Audit



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April 4, 2006

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Rendell:

This report contains the results of a performance audit of Torrance State Hospital of the Department of Public Welfare from July 1, 2002, to February 11, 2005. The audit was conducted under authority provided in Section 402 of The Fiscal Code, and in accordance with *Government Auditing Standards* as issued by the Comptroller General of the United States.

The report details our audit objectives, scope, methodology, findings, and recommendations. The contents of the report were discussed with officials of the institution, and all appropriate comments are reflected in the report.

The audit examined the procurement process, which included the use of the advancement account, VISA purchasing cards, and the Integrated Enterprise System. Control deficiencies were noted in the approval of advancement account transactions and in the proper segregation of employee duties.

The audit of fixed asset and computer inventories noted that control improvement was needed. Physical inventories and spot-checks were not completed, and surplus and excess property was not properly reported. The audit also examined the human resources component, and noted that leave was not always properly recorded.

A scope limitation prevented an audit of the contract awarding process for the Sexual Responsibility and Treatment Program. The Department of Public Welfare did not provide the requested documents to complete our analysis, but the audit still identified comparatively high program costs, as well as weaknesses in contract monitoring.

We appreciate the cooperation extended to us by the management and staff of Torrance State Hospital, and by others who provided assistance during the audit.

Sincerely,

JACK WAGNER
Auditor General

Table of Contents

Page

Background Information **1**

Department of Public Welfare – Office of Mental Health and Substance Abuse Services 1

Torrance State Hospital 1

Objectives, Scope, and Methodology **3**

Chapter I – Procurement **4**

Objectives and Methodology 4

Audit Results 5

Finding I-1 – Management did not review advancement account checks. 5

Finding I-2 – Certain integrated enterprise system roles overrode the segregation of duties. 7

Chapter II – Fixed Asset and Computer Inventory Management **10**

Objective and Methodology 10

Audit Results 11

Finding II-1 – Fixed asset and computer equipment inventory control procedures should be improved. 11

Chapter III - Human Resources **15**

Objectives and Methodology 15

Audit Results 15

Finding III-1 – Leave usage was not always recorded correctly. 16

Chapter IV – Sexual Response and Treatment Unit **18**

Objectives and Methodology 18

Audit Results 20

Finding IV-1 – The Department did not provide requested documentation. 20

Finding IV- 2 – Monitoring of monthly contract invoices did not comply with contract provisions. 20

Finding IV-3 - Negotiated program care costs were excessive 22

Audit Report Distribution List **24**

Background Information

Department of Public Welfare – Office of Mental Health and Substance Abuse Services

The Office of Mental Health and Substance Abuse Services (Office), under the Department of Public Welfare (Department), operates under the following vision statement:

> *Every person with a serious mental illness and/or addictive disease, and every child and adolescent who abuses substances and/or has a serious emotional disturbance will have the opportunity for growth, recovery, and inclusion in their community, have access to services and supports of their choice, and enjoy a quality of life that includes family and friends*.

The Office establishes and implements mental health services and programs. In addition, it is responsible for the development of standards and criteria for the provision of quality outcome-oriented behavioral health services. The Office also administers the Commonwealth of Pennsylvania (Commonwealth) funding streams for Community Grant programs, the Health Choices Program, Behavioral Health Services through the Medicaid fee-for-service program, and the Commonwealth's nine mental hospitals.

Torrance State Hospital

Torrance State Hospital (Torrance) is one of nine state mental hospitals operated by the Department of Public Welfare Office of Mental Health and Substance Abuse Services. The hospital, located in the town of Torrance, Westmoreland County, approximately 40 miles east of Pittsburgh, opened in 1919.

Torrance provides inpatient psychiatric care to the mentally disabled. Hospital admissions are facilitated on a county level through county operated mental health and mental retardation programs. The geographical service area of Torrance consists of parts of Allegheny, Armstrong, Bedford, Blair, Butler, Cambria, Fayette, Indiana, Somerset, and Westmoreland counties. Intermediate nursing care is provided as needed.

Torrance Chief Executive Officer administers the day-to-day management functions. Additionally, a nine-member board of trustees has been established to provide advisory services.

Background Information

Torrance was certified for participation in both the federally funded Medicare Program and Medical Assistance Program. Participation in these federal programs is determined by federally regulated inspections conducted by surveyors from the Commonwealth of Pennsylvania Department of Health.

The following schedule presents selected unaudited Torrance operating statistics compiled for the fiscal years ended June 30, 2003, and 2004:

	2003	2004
Operating expenditures (rounded in millions)[1]	$37.2	$38.1
Employee complement at year-end		
Filled	511	467
Vacant	21	41
Total	532	508
Bed capacity at year-end	242	234
Available client days of care	89,362	86,156
Actual client days of care	81,255	81,192
Average daily client population[2]	223	222
Percent utilization (based on days of care)	90.9%	94.2%
Average daily cost per client[3]	$458	$469
Annual Average cost per client[4]	$167,324	$171,721

[1] Operating expenses were recorded net of fixed asset costs, an amount that would normally be charged as part of depreciation. In addition, region and department level direct and indirect charges were not allocated to the totals reported here.

[2] Average daily client population was calculated by dividing the actual client days of care for the year by the number of calendar days in the year.

[3] Average daily cost per client was calculated by dividing the total operating expenses by the actual client days of care. Note, this rate is not the same as a certified per diem rate since the total operating expenses excluded depreciation and allocated direct and indirect costs from region and department level offices.

[4] Annual average cost per client was calculated by multiplying the average daily cost per client by the number of calendar days in the year.

Objectives, Scope, and Methodology

The audit objectives are detailed in the body of this report. We selected the objectives from the following general areas: procurement, fixed asset and computer inventory management, human resources, and the Sexual Responsibility and Treatment Program. We did not conduct a follow-up of prior audit findings and recommendations because the prior audit did not have any findings.

To accomplish the objectives in these general areas, we interviewed various members of Torrance management and staff, obtained and reviewed available records, and analyzed pertinent regulations, policies, and guidelines.

The scope of the audit was from July 1, 2002, to February 11, 2005, unless indicated otherwise in the individual report chapters.

Chapter I – Procurement

Objectives and Methodology

In 2001, the Commonwealth began a comprehensive project to streamline and standardize key business processes in accounting, budgeting, payroll, human resources, and procurement. The project name is Integrated Enterprise System (IES), formerly referred to as ImaginePA. The mission of IES is stated as follows:

> *The mission of the Bureau of Integrated Enterprise System is to maintain, improve, and grow the Commonwealth of Pennsylvania's Enterprise Resource Planning (ERP) system to accommodate the administrative and operational requirements of the Commonwealth and to promote standardization of Commonwealth business processes in an effective and efficient manner.*[5]

The IES software design allows state agencies to operate more efficiently by eliminating obstacles such as excess paperwork, spending hours on the phone trying to get information from others, getting numerous approvals, and reconciling data from many sources. Torrance implemented the IES software, known as Systems Application Products (SAP), in January 2003.

Torrance purchased goods and services through the Department's centralized advancement account, VISA purchasing cards, and the SAP system. The method of payment was dependent upon the dollar value and type of purchase. The advancement account was used to expedite payments to vendors for goods and services, with a maximum disbursement of $1,500 per check**.** The goals of the VISA purchasing card program are to expedite payment to vendors, reduce the amount of paperwork and staff time, and save money. Transactions should not exceed $3,000 for a single purchase. The benefits of SAP are to speed transaction processing, provide more accurate data, and reduce or eliminate redundancy.

The objectives of this part of the audit were to determine whether Torrance had adequate internal control over the procurement function, and if purchases made were in accordance with the Department's policies and procedures. To accomplish these objectives, we performed the following procedures:

[5] http://www.ies.state.pa.us as of August 30, 2005.

- Reviewed the Commonwealth Field Procurement Handbook, the Department's Purchase Request Web Guide, and the IES Procurement Manual.[6]

- Interviewed appropriate management and staff.

- Evaluated the roles assigned to 11 Torrance personnel in the SAP purchasing module to determine adequate segregation of duties.

- Randomly selected and tested 30 of 395 advancement account purchases from January 1, 2003, to July 30, 2004.

- Randomly selected and tested 20 VISA purchasing card transactions from January 1, 2003, to July 30, 2004.

- Randomly selected and tested 29 of 642 SAP transactions from January 1, 2003, to July 30, 2004.

Audit Results

All of the 79 tested transactions from the advancement account, purchasing cards, and SAP system complied with the Commonwealth Field Procurement Handbook. Required approvals, purchasing and receiving documents, and invoices supported the disbursements. However, we identified control weaknesses in the advancement account and SAP role assignments.

Finding I-1 – Management did not review advancement account checks.

Torrance used the advancement account to pay for purchases of less than $1,500, not made through state contract, or not requisitioned from the Department of General Services warehouse. The advancement account was also used for vendors who did not accept the VISA purchasing card.

Testing of the 30 advancement account transactions disclosed that Torrance management did not review or approve the advancement account checks prior to mailing. When an invoice was received for a purchase, an accounting office employee entered the information into the SAP system in order to record the payment. The SAP system generated an electronically signed check and the check was printed on a special printer and

[6] Governor's Office Manual, M215.3, Amended, "Field Procurement Handbook," April 17, 2003.

paper at Torrance. The check was then mailed to the vendor without additional review by Torrance management.

As an added control over the propriety of the advancement account checks, the Department's central office comptroller has the authority to review the support for any advancement account check prepared at Torrance. The audit team was informed that the comptroller's office rarely, if ever, requested copies of invoices or other support for the advancement account transactions.

Since Torrance management did not conduct any review or approval of the payment process, and since the comptroller's office also did not review this process, it was possible for an accounting office employee, responsible for processing the advancement account checks, to pay unauthorized transactions, such as personal bills without detection.

Recommendation:

Torrance management should review and approve all advancement account checks and supporting documentation prior to releasing the checks for payment.

Management Comments:

The Hospital uses the Advancement Account to pay for purchases less than $100, approved items by the PHHS Comptroller up to $1,500 and special circumstances where the Comptroller pre-approves or provides a waiver required for items or services up to $1,500. The number of Advancement Account checks written under SAP is significantly less than when ICS was used and the amounts are generally under $100.

The conversion and the learning process from ICS (Integrated Computerized System) to SAP (Systems Applications Products) has been challenging at times. Deficiencies unknown to us exist in the use of SAP that had not existed under ICS. Combining the implementation of SAP with an 83% personnel turnover in the Accounting and Business Office created an inability to allocate time for a thorough review of all areas, in which weaknesses may exist, and still maintain daily operations. Any deficiencies such as this audit finding are unintentional. We appreciate the advice and helpfulness of the Audit Team in bringing this weakness to our attention.
Under ICS, all Advancement Account checks needed signatures from two of four designated Hospital management personnel. With SAP, no signature is required of any hospital management personnel on a check because the program requires a special printer (limited to Advancement Account check writing) with an automatic signature-franking device [sic]. At no time during training was there any discussion regarding additional actions required by management and thus this deficient process was not noted.

PHHS Comptroller's Office has started requesting copies of our Advancement Account payments, and is reviewing them on a regular basis. The Comptroller's Office is responsible for approving each individual check.

We agree with this finding as a weakness and have taken steps to strengthen it. The Facility Financial Manager reviews, approves, and initials all copies of checks prior to allowing the check to be issued. This improved process was implemented immediately after it was brought to our attention during the closing days of the audit.

Finding I-2 – Certain integrated enterprise system roles overrode the segregation of duties.

A segregation of duties between the ordering and receiving of goods and services is necessary to provide reasonable assurance that those items are properly safeguarded. In addition, there should be sufficient management oversight over the procurement process, to assure that only legitimate goods and services are purchased. One of the strengths of the IES system is the use of electronic signatures for identification of the user. Only users role-mapped (electronically authorized for access) to procurement tasks can access the SAP to perform those tasks. Torrance management assigned employees to various roles in the IES System when the system first became operational.

IES role-mapping guidelines state:

> *Positions that receive the Purchaser* (responsible for procuring materials and services) *role cannot receive any of the following roles:*
>
> - *EBPro Requisitioner* [responsible for creating and editing purchase requisitions]
> - *EBPro Receiver* [responsible for entering material and service receipts]
> - *R/3 Receiver* [responsible for entering material receipts for inventory and non-inventory items]
> - *Invoice Entry Processor* [responsible for creating and blocking invoices within R/3 and validating vendor-entered invoices][7]

Auditors observed during the testing of the procurement function that a purchase order less than $3,000 required no additional management approval. Apparently, the individual

[7] http://www.ies.state.pa.us as of August 30, 2005.

electronically mapped with the responsibility to create a purchase order could also automatically approve purchases less than $3,000.

Testing of Torrance's role assignments for its acting purchasing agent and clerk typist II in purchasing revealed that they were both assigned the duties of purchaser as well as EBPro Requisitioner and EBPro Receiver. Therefore, they could create a purchase requisition, complete the purchase order, and also receive and post the order. Furthermore, the audit disclosed that the Chief Financial Officer was assigned the duties, which allowed him to approve purchase requisitions and create a purchase order. Assigning these duties to one employee overrode the segregation of duty control and gave that employee the ability to request, order, and receive any order valued up to $3,000.

As a result of these improper role assignments, coupled with the ability to place orders valued below $3,000 without additional management oversight, the audit team concluded that the internal controls in the procurement function were compromised, which increased the potential for errors or fraud to occur without detection.

Recommendation:

Torrance business office should review each purchase to ensure propriety. In addition, regardless of the location of the individual, compensating controls should be implemented to prevent any one individual from creating a purchase requisition, preparing a purchase order, and receiving the items ordered.

Management Comments

On November 3, 2004, the Facility Financial Manager requested the role of purchaser be removed from the role mapping assignments for all three employees with the three roles noted above.

The requests to change the role mapping assignments were implemented for our Purchasing Agent 1, Clerk Typist 2, and Facility Financial Manager. As of this date, the Purchasing Agent 1 and Clerk Typist 2 do not have any EBPro access.

However, our Facility Financial Manager's role mapping was reinstated because of the need to approve EBPro purchasing requests. It was discovered when the role mapping of the Facility Financial Manager was changed to eliminate the ability to access EBPro Requisitioner the ability to be an EBPro Requisition Approver was eliminated as well. Thus, the Facility Financial Manager was unable to fulfill duties and responsibilities as the approver of purchasing requests.

The DPW Office of Administration, Bureau of Human Resources, Division of Position Management, Classification & Pay (Human Resources), was contacted

with questions as to why EBPro Requisitioner Approver had been taken away from the Facility Financial Manager.

(Human Resources) explained IES (ImaginePA) had set up EBPro in such a way that the roles of EBPro Requisitioner and EBPro Requisition Approver are intertwined. Removal of one of the roles eliminates the other role. Basically, an individual either has all the roles or has none of the roles.

Upon the request, (Human Resources) reinstated the previous role mapping for the Facility Financial Manager, so that purchase requests approvals could be made.

We realize a conflict exists in the proper segregation of employee duties for the Facility Financial Manager. However, we are unable to make any changes to correct the role mapping until IES changes the EBPro setup matrix and eliminates the intertwining of functions.

The Facility Financial Manager fully understands the need for the proper segregation of duties. No EBPro purchasing request has been initiated by him. He has confined his EBPro activities to only EBPro Requisition Approver.

Chapter II – Fixed Asset and Computer Inventory Management

Objective and Methodology

The Department defines fixed assets as items that are tangible in nature with a value of more than $5,000 and an estimated useful life extending beyond one year. In addition, items with a listed value of less than $5,000 are maintained as an equipment listing. Computer-related items are also maintained on a separate listing. Significant value fixed assets includes all land regardless of cost, machinery and equipment with a value of more than $15,000, buildings and improvements with a value in excess of $25,000. The Hospital management is responsible for the physical control, utilization, and serviceability of fixed assets and equipment. The Department has established certain policies and procedures to assist institutional management in meeting these responsibilities.

The objective of this part of our audit was to determine the adequacy of Torrance's internal controls over its fixed assets and computer equipment.

To accomplish this objective, we performed the following procedures:

- Reviewed applicable Department and Torrance policies and procedures.
- Interviewed appropriate management and staff.
- Randomly selected and tested 46 of 316 fixed asset items from the August 2004 inventory report.
- Reviewed multiple listings totaling 197 surplus and excess property items from October 2002 to October 2004.
- Randomly selected and tested 42 of 165 computer inventory items from the May 2004 inventory report.

Chapter II – Fixed Asset and Computer Inventory Management

Audit Results

Finding II-1 – Fixed asset and computer equipment inventory control procedures should be improved.

Our audit of fixed assets disclosed the following weaknesses:

> Torrance did not conduct an annual physical inventory of fixed assets and computer equipment. The accounting office did not conduct semiannual spot-checks of fixed assets.

Torrance policy states that:

> *It is the responsibility of the using area staff to manage and account for all assets received or otherwise assigned to their area. Using area managers will be responsible to assign using area staff to conduct annual verification of asset location.*[8] *On a semi-annual basis, at least one using area of the facility shall have a spot check of its assets conducted by the Accounting Office or its designee.*[9] *For assets transferred to Storage or Surplus area, a Furniture/Equipment Transfer Form must be completed.*[10]

In addition, Department policy states that:

> *All furniture, equipment, and other property not required for current staff or operation must be reported as follows . . . hospitals/centers to the Division of Procurement, Department Surplus Property Officer.*[11]

Auditors performed a random spot-check of 46 fixed assets and found that 28 assets either could not be located at their assigned area or could not be found on the inventory listing. In addition, auditors analyzed the report containing 197 surplus and/or excess fixed asset items and found that 123 items had not been reported to the Department's Division of Procurement as required.

The review of 42 computer equipment inventory items revealed that two of the items could not be located and one item had been transferred to surplus property storage. In addition, a review of surplus computer equipment disclosed that the detailed listing was not accurate.

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[8] Torrance State Hospital, Facility Fixed/Capital Asset Management Policy Number 5, Section 7; subsection C. Conducting Annual Inventory.

[9] Torrance State Hospital, Facility Fixed Capital Asset Management Policy Number 5, Section 7; subsection F. Asset Inventory Spot-checks Including Assets Reported as Missing, Stolen, or Broken; and Assets Transferred to Storage/Surplus Holding Areas.

[10] Torrance State Hospital, Facility Fixed Capital Asset Management Policy Number 5, Section 7; subsection D. Asset Transfers

[11] The Department of Public Welfare Administrative Manual; 7036 Surplus and Excess Property, Section B. General Policy.

Chapter II – Fixed Asset and Computer Inventory Management

Only two of six selected items were found on the surplus computer equipment listing. Our discussion with information technology staff found that the items in surplus storage had not been reported to the Department's Division of Procurement surplus property officer.

Discussions with Torrance management revealed that fixed assets and moveable equipment controls have been a low priority for several years because of the hospital's implementation of IES software for its business and accounting operations. In addition, Torrance management informed us that several key employees in the purchasing, accounting, and business manager offices retired. One person from the information technology staff retired and one transferred to another state agency, during the same time-period. The transition of staff in these areas, coupled with the IES implementation, had been detrimental to maintaining routine business functions.

Management controls are necessary to ensure resources are adequately safeguarded, accounted for, and efficiently used. Not complying with established controls increases the potential that errors or fraud may occur and go undetected. In addition, highly marketable inventory items are susceptible to pilferage or abuse without proper controls.

Recommendation:

Torrance management should review and implement fixed asset inventory control procedures to comply with Department and hospital policies and safeguard fixed assets.

Management Comments:

We agree with the audit findings. However, at the time, we found ourselves with many priorities including SAP implementation and a high turnover (83%) of experienced personnel in the Accounting and Business Departments and a 100% turnover in the Information Technology Department. With newly hired personnel, the need to maintain daily operations has been a higher priority than the physical inventory of fixed assets, property control items, and information technology equipment and the declaration of surplus and excess property.

Since the close of the audit, we have:

Achieved full compliment [sic] of personnel in the Accounting Department.

Achieved full compliment [sic] and expanded the Information Technology Department to three individuals.

Performed a complete physical inventory of all fixed assets.

Performed a complete physical inventory for property control items.

Performed a complete physical inventory of all computer and telecommunication equipment. The results were that we found no equipment missing, but some items were in different work locations than previously identified.

Created new databases for fixed assets and property control items.

Purchased HelpStar (an asset management software program) for use in tracking our information technology equipment.

Started a random quarterly spot-check for computer and telecommunication equipment.

Rescheduled a public Surplus and Excess Property Auction for June 6, 2006, which had been previously scheduled but postponed due to the potential use for Hurricane Katrina and Rita relief.

Of the 42 items of computer equipment reviewed, it should be noted that they did include a combination of fax machines, printers, monitors, and computer equipment. The 2 items not found were fax machines that were later found in a different work area than they had been originally placed in service. The purchase and implementation of HelpStar is facilitating better record keeping in the placement and movement of IT equipment. Since the audit, we have performed a complete inventory and random quarterly spot checks of IT equipment. We have not found any missing equipment but continue to find items in different work locations and educate staff regarding the need to complete documentation of the transfer.

We are unsure of the information the audit team reviewed. The audit finding states 123 of 197 fixed asset items were not reported to the Department of Public Welfare's Division of Procurement. We do not believe those items reviewed were fixed assets, but property control items (furniture, equipment, and such). There may have been a misunderstanding as to whether the property control items should not have been described as being surplus and excess property but rather recognized as items in storage. Nothing is considered surplus and excess property until we make a declaration as being such. Then, nothing is reported until declared surplus and excess property. Once declared, we do make reports to the Department of Public Welfare's Division of Procurement, Surplus Property Officer. Until declared surplus and excess property, the items can be stored and used to make broken items usable again thereby reducing the need to discard and purchase anew.

In the summer of 2005, arrangements were made with the Department of Public Welfare, Division of Procurement, Surplus Property Officer for a public surplus and excess property auction. It was to be held on September 22, 2005. But, due to

Hurricanes Katrina and Rita, it was postponed so that the items could be available and used for relief purposes if needed. The new date of the auction is June 6, 2006.

Chapter III - Human Resources

Objectives and Methodology

The objectives of this part of the audit were to determine if Torrance had adequate management controls over the human resources function, including role mapping for adequate segregation of duties. Torrance implemented the IES Human Resources and Payroll System in January 2004. To accomplish these objectives, we performed the following procedures:

- Reviewed employee benefit factors and personnel costs.
- Randomly selected and tested 29 employee records from the last payroll generated under ICS, and compared their gross salaries to those generated under the IES system for the pay period ending January 16, 2004.
- Reviewed the 29 selected employee records for the months of January, February, and March 2004 to determine that leave usage was properly recorded.
- Interviewed appropriate management and staff.
- Evaluated the IES system roles assigned to human resources personnel to determine adequate segregation of duties.

Audit Results

The test work performed for the 29 employee records revealed that Torrance documented and correctly calculated hours worked and benefits earned. In addition, auditors analyzed IES roles assigned to human resources personnel. Our review revealed that no conflicting roles were assigned. However, we identified a problem with the recording of leave in the IES system.

Chapter III – Human Resources

Finding III-1 – Leave usage was not always recorded correctly.

Our audit of leave usage for 29 employees during the first three months of the IES software implementation disclosed the following:

- Ten instances where Torrance had not recorded leave into the IES system and consequently not deducted from the employee's available leave balance.

- Three instances where leave that had not been used was recorded in the IES system.

- Two instances where the wrong type of leave was recorded in the IES system.

Discussions with management determined that the errors occurred in timekeeping. Inaccurate leave records may allow for deficit leave balances to go undetected, cause an employee with a positive leave balance to be denied time off, or result in an incorrect leave payout for an employee leaving hospital service.

Recommendation:

Torrance management should implement a review process to minimize timekeeping errors and ensure accurate leave records.

Management Comments

We concur with the audit finding.

Beginning in the months of January, February, and March 2004, the Human Resources Department (comprised of Human Resources and Timekeeping) converted to the IES System. This conversion required the learning of new procedures to input leave, including employees entering their own leave requests.

New Hospital policies and procedures had to be implemented to adapt to IES including in-depth training for Timekeepers as well as employees and supervisors.

The majority of the audit findings are errors specifically due to the performance issues of a single employee. Since the audit, the employee has retired from Commonwealth service. Additionally, during the audit, the Clerical Supervisor took immediate corrective action.

To address the deficiencies, corrective action was initiated in April 2004, with monitoring of leave request submissions. Timekeeping is doing this by matching the sign in sheets and/or STD 330's with SAP entries.

Chapter IV – Sexual Response and Treatment Unit

Objectives and Methodology

Act 21 of 2003 was established for adjudicated youth, who have aged out of the juvenile justice system with a "mental abnormality" that renders them unable to control their violent sexual impulses.[12] The Act mandated that the Department of Public Welfare (Department) provide mental health and sex-offense specific treatment to an identified population that had been adjudicated of certain sex crimes, received treatment in juvenile programs, yet remain a significant risk to sexually re-offend after reaching the age of 21, an age when oversight by the juvenile justice system ends. The Act requires referral of such individuals who have committed these specific crimes to the Pennsylvania Sexual Offenders Assessment Board (Board) ninety days prior to their twentieth birthday for purposes of determining if the individual has "serious difficulty controlling sexually violent behavior." If so determined, a petition for a mental health hearing would be made for purposes of civil commitment to the Sexual Responsibility and Treatment Program (Program), which is operated by the Department of Public Welfare.

The Program is intended to provide a secure and safe residential treatment environment. It would employ cognitive-behavioral, sex-offense specific, therapeutic interventions, in conjunction with other concurrent mental health treatment, to assist each client in developing the necessary skills and coping strategies needed to manage and control deviant thinking and behavior while minimizing their risk of sexually re-offending.

The Department decided to operate the Program on the grounds of Torrance State Hospital. This decision was based on a number of factors, including:

- The availability of a building that had been recently renovated and prepared for use as a forensic facility. Although there were additional renovations needed for occupancy by the Program, the design and structure of the physical plant was conducive to the needs of a secure treatment program.

- The building was owned by the Commonwealth, as mandated by the Act.

[12] In August of 2003, the Pennsylvania Legislature enacted Act 21; 42 Pa. C.S. §6401 et seq.

- Previous renovation on the building would permit final renovation and occupancy by the spring of 2004, as required by the Act.

- The lack of other programs on the grounds providing services to children that could be perceived as potential victims of the planned clientele of the Act 21 Program.

The Office solicited vendors through a request for proposal process. The contract was awarded to Liberty Behavioral Health Corporation. The Commonwealth approved a service purchase contract, which was not to exceed $9,917,768 for the two-year period from July 1, 2004, to June 30, 2006. The Act required services to begin by February 10, 2004. Therefore, an emergency service purchase order was completed to pay the costs of the program through June 30, 2004. The costs of the Program for that period totaled $781,890.

To project the population of patients to be served in the Program, the Department's Office of Children, Youth, and Families, in conjunction with the Juvenile Court Judges Council surveyed all of the programs under their jurisdiction using the crimes detailed in Act 21 to determine how many individuals were currently in placement that met the criteria established by the Act. Based on information provided by the Board, the Department estimated that about fifty percent of the population meeting the Program criteria would be served. At the time of fieldwork, the Department projected that 14 patients would be in treatment. However, only two individuals were actually in treatment at that time.

The objective of our audit was to determine if the contract payments to Liberty Behavioral Health Corporation were in accordance with the contract language and if the payments were reduced to reflect the actual patient census.

To accomplish these objectives we performed the following procedures:

- Contacted Department of Public Welfare and requested information on the legislation, site selection, the request for proposal process, and the contract for services.

- Obtained and reviewed the legislative intent and purpose of the Program.

- Reviewed the request for proposal and final contract documents.

- Analyzed the summary of monthly invoices and the supporting expenditure documentation.

Chapter IV – Sexual Response and Treatment Unit

Audit Results

Finding IV-1 – The Department did not provide requested documentation.

The auditors requested documentation to support the Department decision to contract with Liberty Behavioral Health Corporation. The documentation provided included the bid results and tabulation documents. The Department did not provide the following requested information:

- The sealed proposals submitted by any of the four vendors that responded to the Request for Proposal.
- Evaluation checklists used by the evaluation committee to rate the proposals based on a predetermined points system.
- The Socially/Economically Restricted Business rating that is compiled by the Bureau of Contract Administration and Business Development.

The auditors were unable to complete an evaluation of the awarding of the contract. A review of the bid documentation would have provided valuable information on the eventual contract pricing.

Management comments:

The Office of the Budget, Bureau of Audits has confirmed that the Department of Public Welfare was correct in providing the RFP (Request For Proposal) and final contract.

Finding IV- 2 – Monitoring of monthly contract invoices did not comply with contract provisions.

Our audit of the monthly contract invoices found that the contractor did not comply with the contract provision to reduce costs in conjunction with the reduction in the projected patient census. The Program operated with a census of two patients rather than the projected population of 14 patients. The auditors requested an analysis detailing the approved cost of the Program from the Department and the Comptroller. However, the Department did not provide this information. In response to our inquiry for documentation on the billing rate adjustments, we were provided the following comments from the Programs' liaison:

> *"We do not have any specific documents recording these conversations. We sat together after advisory committee meetings and informally discussed these issues and budget figures were adjusted as a result of these discussions. I have included documents that show "revised" monthly billings that are the outcome of these discussions."*

The contract requires that:

> *Prior to each quarter, the Department and Contractor will meet to determine the anticipated Program census for the quarter. If the Department determines that the Program census is likely to increase or decrease during the quarter, the Department and the Comptroller will approve an adjusted monthly payment amount, which incorporates the change in anticipated costs associated with the increased or decreased census. This adjusted monthly amount will become part of the Contract and will be used to determine the monthly payments described in section d.1.).*[13]

Based on information provided by the Department, the Program was fully staffed by May 10, 2004. The first admission was on October 20, 2004 and the second admission was on December 20, 2004. Meanwhile, the Department had projected a census of 14 patients by December 2004. Accordingly, the Program was operating at only 14 percent of the projected population with only 2 clients at the end of December 2004.

The budgeted Program costs were $3,816,084, or $318,007 per month for the fiscal year ending June 30, 2005. The payment schedule provided by the Department disclosed that the contractor was paid $207,877 per month for July through September 2004. From October to December 2004, the contractor was paid $211,342 per month, or about 66 percent of budgeted monthly cost. However, as noted above, the contractor was only providing services to two patients.

From July 2004 through December 2004, the Program had provided 85 days of secure, inpatient treatment. Contract payments were $1,257,657 during that period. Accordingly, the cost per patient day of care was $14,796. Despite the extraordinary costs, the Department and the Comptroller did not conduct a formal analysis of the contract and invoicing in an effort to reduce the costs of this Program.

Recommendation:

The Department and the Comptroller should implement and enforce procedures detailing the methods used to determine the projected Program census and the corresponding adjustment to monthly contract payments to comply with the

[13] Contract number 4000006405, between Department of Public Welfare and Liberty Behavioral Health Corporation, Appendix B Payment Provisions; Section 2. Payment of Services; d. 3.); page 3.

contract. The amendments should be documented and included with the original contract.

Management Comments:

Act 21 mandated the SRTP program and within the Act are various points of assessment and court procedures that are beyond the control of the Department. The previously projected commitment rate to the program was based upon Sexual Offenders Assessment Board and other expert opinions; however, other occurrences such as litigation and individual county interpretations impacted the final number of persons committed to the SRTP. It is also noted that some SRTP staff provided other services to the Department including: training at all the state hospitals, assessments of state hospital patients, and treatment collaboration regarding persons with treatment needs related to sexual issues. Some of the staff positions are not directly related to the actual census and will remain the same even when the program expands beyond one unit. Furthermore, as noted in the audit findings, adjustments were made to monthly billings.

Finding IV-3 - Negotiated program care costs were excessive.

The following chart details the projected contracted cost per day for the fiscal years ending June 30, 2005 and 2006:

	Total Costs	Projected days of care	Projected cost per day
2005	$3,816,000	5,105	$747.50
2006	$6,102,000	10,783	$565.90

To provide a basis for comparison of per diem costs, we obtained information for the fiscal year ended June 30, 2003, for the Cresson Secure Treatment Unit. The Commonwealth contracts with a private firm to operate this juvenile facility. The cost per day is $271 at this facility.

While we recognize the cost of operating the Program may be higher due to the intensive treatment provided, the Department has the responsibility to ensure that costs are within reasonable limits.

The contract was awarded based on competitive sealed proposals through the Request for Proposal (RFP) process. Inherent in this process is the responsibility of the evaluation committee to negotiate final terms of the contract, including price. The committee noted in its letter of recommendation for Liberty Healthcare, that there were only 14.5 points difference between the ratings for the first and second place proposal. However, the letter also indicated that the second ranked proposal's cost was $4.8 million dollars less than

Liberty Healthcare. Given the disparity between the cost proposals of the first and second rated vendors, it appeared that the negotiation process was not adequate.

Recommendation:

The Department and Comptroller management should review the Program contract awarding and take appropriate corrective action to reduce the costs to reasonable limits.

Management Comments:

The Commonwealth will be assuming responsibility for the SRTP Unit effective July 1, 2006 except for a limited number of specialized clinicians.

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