

Commonwealth of Pennsylvania
Department of Public Welfare
Torrance State Hospital
July 1, 2005, to March 20, 2008
Performance Audit



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July 8, 2008

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, 2005, to March 20, 2008. 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 report notes that the hospital did not maximize its Medicare Part B revenue. Additionally, the report discloses that admissions to the Sexual Responsibility and Treatment Program were lower than originally projected, and program costs were significant. The contents of the report were discussed with the management of Torrance State Hospital, and all appropriate comments are reflected in the report.

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

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Background Information

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

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

Every person with 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.¹

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 funding streams for community programs, the Health Choices Program, behavioral health services through the Medicaid fee-for-service program, and the Commonwealth's eight mental hospitals and one restoration center.

Torrance State Hospital

Torrance State Hospital is one of eight state mental hospitals operated by the Department of Public Welfare's Office of Mental Health and Substance Abuse Services. The hospital, located in the town of Torrance, Westmoreland County, 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. Torrance provides intermediate nursing care as needed.

Torrance's chief executive officer administers the facility's day-to-day management functions. Additionally, a nine-member board of trustees provides advisory services.

Torrance participates in both the federally funded Medicare program and the Medical Assistance program. Surveyors from the Commonwealth of Pennsylvania Department of Health conduct federally regulated inspections to determine participation in these federal programs.

¹ <http://www.dpw.state.pa.us/About/OMHSAS/> View Date: February 26, 2008.

Background Information

The following schedule presents select, unaudited operating statistics for the fiscal years ended June 30, 2005, 2006, and 2007:

	2005	2006	2007
Operating expenditures (rounded in millions) ²	\$39.6	\$41.8	\$43.5
Employee complement at year end			
Filled	484	489	476
Vacant	<u>16</u>	<u>17</u>	<u>18</u>
Total	<u>500</u>	<u>506</u>	<u>494</u>
Bed capacity at year end ³	233	233	233
Available patient days of care	85,302	85,045	85,045
Actual patient days of care	82,206	80,605	84,465
Average daily patient population ⁴	225	221	231
Percent utilization (based on days of care)	96.4%	94.8%	99.3%
Average daily cost per patient ⁵	\$482	\$519	\$515
Annual average cost per patient ⁶	\$175,930	\$189,435	\$187,975

² 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.

³ Bed capacity excludes the Sexual Responsibility and Treatment Unit. The facility's bed capacity was reduced from 234 to 233 on March 15, 2005.

⁴ Average daily patient population was calculated by dividing the actual client days of care for the year by the number of calendar days in the year.

⁵ Average daily cost per patient 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.

⁶ Annual average cost per client was calculated by multiplying the average daily cost per patient by the number of calendar days in the year.

Objectives, Scope, and Methodology

The objectives for the current audit were selected from the following general areas: Patient Management, including an assessment of the effectiveness of the hospital's management of elopement incidents; Expense Management, including reviews of Torrance's maintenance and other significant expenses; and Revenue Management, including an evaluation of collection efforts for Medicare Part B transactions. The audit also included an update on the status of prior findings and recommendations regarding the Sexual Responsibility and Treatment Unit, procurement, fixed assets and computer inventory, and employee leave records. The specific audit objectives were:

- To assess the effectiveness of the hospital's management of elopement incidents, as well as compliance with Department and Torrance policies and procedures regarding unauthorized absences. (Finding 1)
- To evaluate the economy and efficiency of maintenance operations, as well as work order administration. This included an assessment of the adequacy of controls over maintenance expenditures. (Finding 2)
- To determine whether hospital expenditures were reasonable and appropriate for the facility's mission. (Finding 3)
- To determine whether Torrance maximized its Medicare Part B revenue for eligible procedures. (Finding 4)
- To determine the status of management's corrective actions for prior audit findings that addressed review of advancement account checks, segregation of duties in the procurement process, fixed asset and computer inventory controls, recording of leave usage, monitoring of contract payments, and excessive costs in the Sexual Responsibility and Treatment Program.

The scope of the audit was from July 1, 2005, to March 20, 2008, unless indicated otherwise in the individual findings.

To accomplish these objectives, auditors reviewed Torrance's policies and procedures regarding the levels of observation and care,⁷ AWOL,⁸ the search plan for missing patients,⁹

⁷Torrance State Hospital, Clinical Services Policy Number 25-8, "Policy/Procedure for Levels of Observation/ Levels of Care/ Patient Census Checks/ Sign-in/ Sign-out/ Patient ID Badges," December 7, 2005, and revised January 3, 2007.

⁸Torrance State Hospital, Clinical Services Policy Number 25-23, "Policy/Procedure for Absence Without Leave (AWOL)," March 6, 2005.

Objectives, Scope, and Methodology

as well as the Department's policies and procedures regarding risk management.¹⁰ Auditors also reviewed the Commonwealth's policies governing the use of maintenance work orders,¹¹ and the Commonwealth's policies for controls over expenditure transactions. They also reviewed the Medicare Part B Reference Manual¹² and the 2007 Medicare Fee Schedule.¹³ To update their understanding of the prior audit's findings, they also reviewed the Department's written response, dated June 27, 2006, replying to the Auditor General report.

Auditors interviewed appropriate management and staff including Torrance's chief performance improvement executive, chief nurse executive, facility maintenance manager, chief financial officer, accounting and purchasing personnel, the facility reimbursement officer and medical records personnel. They also interviewed Torrance personnel to obtain an updated understanding of the progress in implementing the prior audit's recommendations and other corrective action to resolve the prior findings.

To accomplish the elopement objectives and assess the effectiveness of the hospital's management of elopement incidents, as well as compliance with Department and Torrance policies and procedures regarding unauthorized absences, auditors examined monthly AWOL summary reports for Torrance from July 2006 through September 2007, and analyzed the incident reports for all 42 of Torrance's unauthorized absences from July 1, 2006, through September 30, 2007, as well as the notification reports for the seven unauthorized absences that exceeded one hour.

To accomplish the maintenance objectives to evaluate the economy and efficiency of maintenance operations, as well as work order administration, auditors examined the monthly summary reports of work orders for the fiscal years ended June 30, 2006, and 2007, and analyzed the documentation associated with 29 of 362 requested work orders completed during October 2007. They also examined the documentation associated with 29 of 292 requested work orders open on October 31, 2007, and reviewed the supporting documentation for 29 of 295 maintenance credit card purchases between July 1, 2006, and June 30, 2007.

To accomplish the hospital expenditure objective to determine whether hospital expenditures were reasonable and appropriate for the facility's mission, auditors examined the supporting documentation for 52 non-payroll transactions from 30 different vendors during the fiscal year ended June 30, 2007.

⁹Torrance State Hospital, Policy Number 115-62, "Policy/Procedure on Patient Searches," July 1, 2004, and revised January 10, 2007.

¹⁰Commonwealth of Pennsylvania Department of Public Welfare, Mental Health and Substance Abuse Bulletin Number SMH-03-03, "Management of Incidents: SI-815 Incident Reporting and Risk Management Policy and Procedural Changes," June 1, 2003.

¹¹ Department of Public Welfare, Policy Number 7087, "Maintenance Standards," Reissued June 22, 1998.

¹² <http://www.cms.hhs.gov/Manuals> View Date: February 11, 2008.

¹³ <http://www.highmarkmedicareservices.com/partb/reimbursement/calc-2007a.html> View Date: January 19, 2008.

Objectives, Scope, and Methodology

To accomplish the Medicare Part B objective to determine whether Torrance maximized its Medicare Part B revenue for eligible procedures, auditors examined the hospital's list of all patients at November 30, 2007, and analyzed the July and August 2007 medical files, encounter forms and revenue transaction histories for 25 of the hospital's 108 Medicare Part B eligible patients.

Auditors also performed tests, as necessary, in prior audit areas to substantiate their understanding of Torrance management's progress in resolving the prior audit findings.

Audit Results

Eloperments

Department policy requires state mental hospitals to develop comprehensive risk management programs.¹⁴ Each risk management program must establish a system for the prevention, investigation, analysis, and monitoring of incidents of suspected abuse, elopements, deaths, and other events that jeopardize the health, safety or rights of patients. The nine Commonwealth hospitals report all such incidents to the Department. The Department, in turn, compiles the related data and then prepares and distributes monthly summary reports to the nine state hospitals.

Torrance utilizes a system involving levels of observation, care, and privilege status to ensure the safety of all patients and staff while maintaining treatment effects. Torrance policy requires the treatment team to complete an initial risk profile assessment and develop a comprehensive treatment plan prior to granting unsupervised off unit privileges. The treatment team must review the current risk profile to ensure that risk factors for absence without leave (AWOL), criminal history, current drug or alcohol abuse, past AWOL behavior, and current situational stress have been assessed each time that building privileges, limited ground privileges, or full ground privileges are granted.¹⁵

Torrance policy considers a patient to be AWOL whenever one of the following occurs:

- Any patient who is determined to be off hospital grounds or to have been off grounds without authorization.
- Any patient who does not return to his/her living unit from grounds privileges within 30 minutes of the time specified, or fails to report for a scheduled on or off grounds activity within 30 minutes of the time specified.
- Any patient who fails to return from an authorized leave of absence on the stated date and time (within 30 minutes), and the hospital is unable to establish the rationale for failure to return.

¹⁴Commonwealth of Pennsylvania Department of Public Welfare, Mental Health and Substance Abuse Bulletin Number SMH-03-03, "Management of Incidents: SI-815 Incident Reporting and Risk Management Policy and Procedural Changes," June 1, 2003.

¹⁵Torrance State Hospital, Clinical Services Policy Number 25-8, "Policy/Procedure for Levels of Observation/ Levels of Care/ Patient Census Checks/ Sign-in/ Sign-out/ Patient ID Badges," December 7, 2005, and revised January 3, 2007.

- Any patient who is missing from a locked living unit or an escorted on or off grounds activity; and the patient has not been located after a reasonable search (30 minutes) of the ward, grounds and perimeter.¹⁶

Torrance has established procedures for the search for missing patients. These procedures detail the requirements for an initial search in a ward/building, the notification of security staff, a full-scale search, the command post, and the notification of local and state police. The search plan requires the Greizman Nursing Office to serve as the command post in a full-scale search.¹⁷ If Torrance does not locate the person who is absent without leave within one hour, Torrance will notify the local police, state police, and family as designated by a physician.¹⁸

The hospital's risk management summary reports identified 42 absences without leave for Torrance patients from July 1, 2006, through September 30, 2007. Eleven of the 42 incidents involved patient elopements off hospital grounds, while seven of these 42 incidents involved patients missing for more than one hour.

Finding 1 – Torrance managed unauthorized absences effectively and complied with the relevant policies.

Torrance effectively managed the 42 unauthorized patient absences documented between July 1, 2006, and September 30, 2007. Torrance timely and thoroughly reported each incident to the Department according to both Department and Torrance policies. The treatment team director, nursing director, performance improvement director, and chief executive officer reviewed and signed all 42 incident reports. Torrance personnel also followed established procedures for risk assessment, patient searches, and incident notification. The treatment team reviewed each incident and developed action plans to prevent reoccurrence. For example, the treatment team reduced grounds privileges for the patients involved in eight of the eleven off-campus incidents and in six of the seven incidents in which the patients were AWOL for greater than one hour. Additionally, Torrance personnel timely notified the family, physician, local police, state police, railroad police, and county mental health administrator in each of the seven incidents where the unauthorized absence exceeded one hour. Finally, all patients were returned to Torrance within 24 hours and at an average time span of 1 hour and 46 minutes. The length of the unauthorized absences ranged from less than one minute to 23 hours and 20 minutes.

¹⁶Torrance State Hospital, Clinical Services Policy Number 25-23, "Policy/Procedure for Absence Without Leave (AWOL)," March 6, 2005.

¹⁷Torrance State Hospital, Policy Number 115-62, "Policy/Procedure on Patient Searches," July 1, 2004, and revised January 10, 2007.

¹⁸Torrance State Hospital, Clinical Services Policy Number 25-23, "Policy/Procedure for Absence Without Leave (AWOL)," March 6, 2005.

Audit Results

Maintenance

Torrance accepted its first patients in 1919, and its first permanent structure was built in 1921. Encompassing 380 acres, the facility now includes 26 buildings, including its newest building (Greizman), which was first occupied in 1979.

During the fiscal year ended June 30, 2007, Torrance spent approximately \$293,000 for maintenance materials and supplies, including about \$87,000 from its purchasing cards. During the fiscal year ended June 30, 2006, Torrance spent approximately \$305,000 for maintenance materials and supplies, including about \$77,000 from its purchasing cards.

The facility's maintenance department consists of 15 specialty trade shops, including the automotive, carpentry, electric, and plumbing shops. The department processes both preventive and requested maintenance work orders. Torrance management defines preventive maintenance as a planned, scheduled, systematically performed and controlled program of inspection, adjustment, minor repair, and lubrication jobs that individually take less than 15 minutes to complete. Between July 1, 2005, and June 30, 2007, Torrance's maintenance department processed approximately 15,600 preventive maintenance work orders and about 9,600 requests for maintenance work.

Finding 2 – Torrance effectively controlled its maintenance expenditures and work order system.

Torrance adequately controlled its maintenance expenditures and effectively administered its work order system. The review of disbursements did not disclose any unnecessary or exorbitant maintenance expenditures. Additionally, the appropriate approvals, purchasing and receiving documents, invoices, and justifications accompanied the 29 sampled purchasing card disbursements. Furthermore, Torrance personnel stored the facility's four maintenance purchasing cards in a secure location and routinely reconciled the card statements to supporting documentation.

The examination of the sample of 29 work orders processed during October 2007 disclosed that the maintenance department timely completed the maintenance work for 27 orders within one day of request. Torrance completed the two remaining work orders within 12 and 15 days, because the jobs required the purchase of parts. The maintenance department also documented the labor hours for the sampled work orders. Lastly, none of the 29 sampled open work orders involved emergency safety or security issues.

Hospital Expenditures

The mission of Torrance is to provide comprehensive in-patient mental health and substance abuse services that assist consumers in developing the skills, resources, and supports necessary for community integration. Torrance is a Medicare and Medicaid facility, offering treatment to involuntarily committed individuals with severe and persistent mental illness.¹⁹ To accomplish its mission, Torrance provides various medical services, food, and clothing for its patients. In addition, the hospital provides support services, such as maintenance, housekeeping, and administration. During the fiscal year ended June 30, 2007, Torrance expended approximately \$43.5 million for its operations, including about \$34.0 million in payroll expenses.

Finding 3 – Torrance expenditures appeared to be reasonable and appropriate for the facility’s mission.

The review of the supporting documentation for 52 transactions from 30 different vendors did not disclose any excessive expenditures. The sampled expenditures, which totaled approximately \$4.6 million, appeared to be reasonable and necessary for operations. The 52 transactions involved patient direct care expenditures, including contracted psychiatric services, laboratory fees, prosthetic appliances, drugs, medical supplies, outpatient hospital care, and x-rays. The sampled expenditures also included indirect costs, such as management training, maintenance, and office and housekeeping supplies.

Medicare Part B

Hospital patients who receive Social Security, Railroad Retirement, or similar retirement or disability payments may be eligible to participate in the Medicare Part B insurance program. For each eligible resident, Torrance can seek reimbursement for certain medical/psychiatric procedures performed by its professional medical staff. After delivering services to an eligible patient, medical personnel document each procedure in the patient’s medical chart. The medical records department transfers the procedural data documented in the medical charts to an encounter form and then forwards the encounter forms to the Facility Reimbursement Officer who then bills the insurance carrier.

Finding 4 – Torrance did not maximize its Medicare Part B revenue.

The review of medical and billing records for the sample of 25 Medicare Part B eligible patients identified 150 Medicare Part B eligible procedures. The examination of these 150

¹⁹<http://www.dpw.state.pa.us/PartnersProviders/MentalHealthSubstanceAbuse/StateHospitals/003670160.htm>
View Date: January 28, 2008.

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procedures revealed that the hospital did not bill the insurance carrier for 33 procedures conducted for three patients during July and August 2007. As a result, the hospital did not receive approximately \$1,000 in revenue. After the audit team notified Torrance of the 33 unbilled procedures, hospital staff billed the insurance carrier for the 27 procedures associated with two of the three patients.

The examination of 25 Medicare Part B eligible patients also identified that Torrance personnel recorded invalid diagnosis codes for six procedures conducted for two other patients. The associated reimbursement claims totaled \$190. After the audit team notified Torrance of the six immediately preceding errors, hospital staff corrected and resubmitted these claims.

To maximize Medicare Part B revenue, Torrance must submit all eligible procedures to Medicare for reimbursement. Moreover, Torrance must correct any erroneous entries and resubmit the associated claims for reimbursement.

Torrance did not establish sufficient controls to ensure that Medicare Part B revenue was maximized. Although the medical records department prepared a monthly log of encounter forms for each patient, Torrance did not reconcile the monthly logs to the transaction histories of Medicare Part B reimbursement claims, receipts, or rejections.

Recommendations:

Torrance should establish sufficient controls to ensure that Medicare Part B revenue is maximized. For example, Torrance should routinely reconcile the monthly logs of encounter forms to the Medicare Part B transaction histories.

Management Comments:

With respect to the 33 unbilled Medicare Part B procedures conducted for three patients during July and August 2007, Torrance management provided the following response.

Basic Medicare Part B procedures are billed and paid electronically. Medicare HMOs are a new entity that [are] constantly changing and expanding. Each Medicare HMO must be contacted with the goal that [the] HMO pay[s] for services rendered. Medicare HMOs when contacted have their own guidelines for approving services to be paid. Medicare HMOs want the provider to be in their network. To become a network provider, a contract must be signed by the Medicare HMO and the provider. Currently the Commonwealth of Pennsylvania has not signed any contracts. A small number of Medicare HMOs have signed temporary agreements for payments for Medicare Part A coverage and even fewer have agreed to pay for Medicare Part B services such as physician's encounters. The Facility Reimbursement Office at Torrance along with clinical staff [have] been successful in convincing various Medicare HMOs to pay for Part A services. With that success, billing for Part B services was initiated. These services are billed manually. To do

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this manual billing, each Medicare HMO is contacted in order to learn their billing guidelines such as needed fields completed to go through their specific edits and where to send bills. Submission of these claims does not guarantee payment [if the] Commonwealth of Pennsylvania is not in [the] Medicare HMOs network.

[The] Facility Reimbursement [Office] bills for Torrance State Hospital and Ebensburg Center, and also previously billed for Altoona Center. Due to the closure of Altoona Center and shortage of staff at Ebensburg for coding purposes, Ebensburg physician encounters were backlogged. During the third and fourth quarters of 2007, successful concentrated effort was applied to bring these encounters current. Prioritizing the submission of Ebensburg encounters optimized the Commonwealth's Medicare Part B revenues as the timely filing parameters were met. During the auditor's stay at Torrance, the routine work and standard operating procedures of the manual, hardcopy claims for Torrance Medicare HMOs were in the process of being completed. These claims for July and August 2007 have until December 2008 to be processed timely. Medicare HMO hardcopy billing does not have the quick turnaround time of computer based electronic billing. However, the Medicare HMOs are billed within established Medicare guidelines.

With no signed contracts between the Medicare HMOs and the Commonwealth, the weight of optimizing Medicare Part B money lies with negotiating contracts/agreements with these insurance companies. This would enable the billing process to continue unhindered. To date the state hospitals have nothing other than temporary agreements, which may or may not be acknowledged by the Medicare HMO insurance companies and the goodwill of these same companies to provide services to their clients to an out-of-network provider.

With respect to the identification of six invalid codes for a potential associated loss in reimbursement of \$190, Torrance management provided the following response.

Upon notification by Facility Reimbursement Office of a coding rejection, the medical record department staff member evaluates if the code can be changed. If due to a medical record department error, the revised code is forwarded to fiscal. If the coding is a correct code for the provided diagnosis, the medical record department staff member cannot change the code. Current trending of medical record department coding errors is less than .5 percent.

In response to the audit report's recommendation to establish sufficient controls to ensure that Medicare Part B revenue is maximized, Torrance management provided the following response.

Facility Reimbursement bills what procedures are on the encounters via the MCE electronic billing program. The submitted claims produce a MCE Claim Detail Report, which lists every procedure, doctor, service date, diagnosis code and charge for each client. This Claim Detail Report is printed and reviewed for accuracy and completion in conjunction with what is written on the encounters. Any discrepancy

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is corrected prior to transmission of claims. After submission, a Transmission Acknowledgement is immediately received electronically. Next, the claims are downloaded in the MediB Log. A Claims Summary is printed. The MediB Claims Summary total is reconciled to the MCE Claim Summary Report. If the totals do not reconcile, an Exception Report is produced from the MediB Log. Any exceptions are reviewed and appropriate action taken in order for the reports to reconcile. An electronic Remittance Advice is normally received within 14 days of claim submission. The Remittance Advice is imported into the Medicare Remit Easy Print program. From [the] Medicare Remit Easy Print program, a Provider Payment Summary Report, Medicare Remittance Notice, and a Glossary of descriptive Medicare codes (corresponding to the Remittance Advice) are printed. The Remittance Advice is then downloaded into the MediB PC print program. Two reports are printed – the detailed payment report and Medicare Payment Summary. These reports are reconciled separately and with the Medicare Remit Easy Print reports. The encounters, grouped by transaction date, are pulled and individually compared against the Medicare Remittance Advice. Any encounter that has any unpaid/denied procedures is pulled for follow-up. An email to Medical Records is sent with detailed explanation of the unpaid procedure. Medical Records then reviews and advises whether or not procedure can be re-invoiced. Procedures that can be re-invoiced are done timely and follow the above procedure for claim submission. The MediB Log has a No Bill report that is routinely printed. Facility Reimbursement reviews this list and notes which clients are Medicare HMOs and forwards it to Medical Records for follow-through. This insures that any client with Medicare Part B coverage has an encounter for specific timeframes if the medical chart indicates billable procedures.

Reconciliation is already standard operating procedure, which is completed with each transmission and corresponding payments to encounters. All reconciled Remittance Advice, reports, encounters and No Pay bill reports are on file for verification. These were not requested by the audit team for review.

Status of Prior Audit Findings and Recommendations

Objectives and Methodology

The following is a summary of the findings and recommendations presented in our audit report for July 1, 2002, to February 11, 2005, along with a description of the disposition of each recommendation by Torrance State Hospital.

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

The prior audit reported that Torrance management did not review or approve advancement account checks prior to mailing. An accounting office employee entered purchase invoice information into the SAP system, and the SAP system generated an electronically signed check, which was then mailed to the vendor without additional review by Torrance management. Additionally, although the Department's central office comptroller had the authority to review the support for any advancement account check, the office rarely, if ever, requested supporting documentation for advancement account transactions.

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

Status:

In order to follow up on the deficiencies noted in the prior report, the auditors interviewed accounting personnel from the Commonwealth's Public Health and Human Services Comptroller Office, as well as accounting and financial personnel from Torrance, including the Chief Financial Officer and Chief Operating Officer. The auditors also reviewed written narratives of hospital operating procedures for the advancement account. Finally, the auditors examined the supporting documentation for 29 of 667 advancement account checks issued by Torrance between July 1, 2005, and September 30, 2007.

The current audit disclosed that Torrance implemented the recommendations of the prior report. According to Torrance management personnel, the Chief Financial Officer reviewed and approved all advancement account checks prior to mailing. In fact, the Chief Financial Officer reviewed, approved, and initialed 26 of the 29 advancement account checks in our random audit sample. Additionally, the Department's comptroller's office indicated that its personnel audited the advancement account checks generated by all state hospitals at a rate of 100 per every 1,500. Finally, the comptroller's office indicated that its personnel reviewed and approved advancement account checks greater than \$100 prior to issuance. The only exceptions to this practice included payments for food, medication, monthly

Status of Prior Audit Findings and Recommendations

utilities, conference registrations, and patient personal items that were greater than \$100 but less than \$1,500.

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

The prior audit reported that improper role assignments in the integrated enterprise system (IES) compromised internal controls in Torrance's procurement function. Torrance's acting purchasing agent and purchasing clerk typist were both assigned the duties of purchaser, as well as EBPro Requisitioner and EBPro Receiver. Therefore, these two employees could individually create a purchase requisition, complete the purchase order, and then receive and post the order for goods valued up to \$3,000. Furthermore, the Chief Financial Officer was assigned roles that enabled him to approve purchase requisitions, create purchase orders, and receive goods valued up to \$3,000.

We recommended that the Torrance business office review each purchase to ensure propriety. We also recommended that the facility implement compensating internal controls to prevent any one individual from creating a purchase requisition, preparing a purchase order, and then receiving the items ordered.

Status:

In order to follow up on the internal control deficiencies noted in the prior report, the auditors interviewed personnel from the Department's Human Resources Office, as well as the Chief Financial Officer for Torrance. The auditors also reviewed Commonwealth directives regarding procurement role assignments, security, and internal control maintenance.²⁰ Finally, the auditors examined summaries of the procurement roles assigned to the hospital's Chief Financial Officer, purchasing agent, and purchasing clerk typist.

In February 2005, the Department granted Torrance waivers for the IES role conflicts associated with the hospital's chief financial officer, purchasing agent, and purchasing clerk positions, because the Department deemed the role assignments to be necessary for training or operations. In accordance with Commonwealth policy, Torrance established safeguards and manager accountability to prevent errors or inappropriate transactions.²¹ Torrance procurement procedures required the approval of all purchases prior to processing. More specifically, Torrance required the approvals of the financial manager and chief operating officer for purchases less than \$20,000 and the approvals of the purchasing agent and chief operating officer for purchases greater than \$20,000. Finally, in January 2008, the Department removed the requisition and receiving roles from the chief financial officer at Torrance's request, because the roles were no longer necessary for training. Based on the compensating internal controls established by Torrance and the waivers and/or role removals

²⁰ Commonwealth of Pennsylvania Governor's Office, Management Directive Number 205.37, "Role Assignment, Security, and Internal Control Maintenance," June 13, 2005.

²¹ Ibid.

Status of Prior Audit Findings and Recommendations

granted by the Department, we concluded that Torrance complied with the recommendations of the prior report.

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

The prior audit reported that Torrance did not comply with Department and hospital policies regarding fixed assets. Torrance did not conduct semiannual spot checks of fixed assets or an annual physical inventory of fixed assets and computer equipment. Auditors performed a random spot check of 46 fixed assets and could not locate 28 of these assets either at their assigned area or on the inventory listing. Additionally, Torrance did not report 123 of 197 surplus and/or excess fixed assets to the Department's Division of Procurement. Finally, auditors could not locate two of 42 sampled computer equipment items, and the facility's detailed listing of surplus computer equipment was inaccurate.

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

Status:

In order to follow up on the deficiencies noted in the prior report, the auditors interviewed appropriate Torrance personnel, including the Chief Financial Officer, the Fiscal Assistant, the Information Technology Generalist, and the Facility Maintenance Manager. The auditors also reviewed Department policy and procedures regarding surplus and excess property,²² as well as Torrance policies and procedures regarding fixed asset management,²³ furniture and equipment movement,²⁴ storeroom responsibilities,²⁵ and the disposition of unserviceable surplus property.²⁶ The auditors examined the facility's comprehensive database listing of fixed assets, moveable property items, and computer and telecommunications equipment, as well as its related documentation of annual physical inventories, monthly spot checks, asset transfers, and surplus property. Finally, the auditors physically examined and reconciled 29 of 215 fixed assets, 30 of 11,085 moveable property items, and 28 of 791 computer inventory items.

The current audit disclosed that Torrance implemented fixed asset inventory control procedures as recommended in the prior report. Torrance conducted annual physical inventories of its fixed assets in May 2006 and June 2007, as well as monthly spot checks of

²² Department of Public Welfare, Administrative Policy Number 7036, "Surplus and Excess Property," April 15, 1991.

²³ Torrance State Hospital, Policy Number 5-7, "Facility Fixed/Capital Asset Management," November 4, 1998.

²⁴ Torrance State Hospital, Policy Number 5-1, "Furniture and Equipment Movement," July 1, 1999.

²⁵ Torrance State Hospital, Policy Number 130-3, "Storeroom Responsibilities – Fixed Assets," July 30, 1990.

²⁶ Torrance State Hospital, Policy Number 110-5, "Disposition of Unserviceable Surplus Property," April 24, 1989.

Status of Prior Audit Findings and Recommendations

fixed assets, moveable property items, and computer and telecommunications equipment. Torrance also developed and updated a new database to track the movement of property at the facility. In June 2006, the Department of General Services and Torrance conducted a surplus property auction in order to remove surplus items from the facility. Finally, our spot check of 87 randomly sampled assets disclosed that only five items could not be located based on the database listing.

As a result of the above actions, we concluded that Torrance complied with the recommendation noted in the prior report.

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

The prior audit reported that Torrance incorrectly recorded employee leave in the IES system during the first three months of the IES software implementation. The audit of leave usage for 29 employees disclosed ten instances where Torrance had not recorded leave into the IES system, three instances where unused leave was recorded into the system, and two instances where the wrong type of leave was recorded.

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

Status:

In order to follow up on the deficiencies noted in the prior report, the auditors interviewed Torrance timekeeping personnel and reviewed written narratives of facility procedures for leave records. The auditors also examined the July 1, 2007, through September 30, 2007, sign-in sheets, records of absence, and IES leave entries for 25 randomly sampled employees, two Timekeepers, and two Time Advisors.

The current audit disclosed that Torrance implemented procedures for supervisors to review employee attendance sign-in sheets and approve employee leave. Our audit of the supporting documentation for IES leave entries for 29 employees from July 1, 2007, through September 30, 2007, disclosed that Torrance reported leave accurately for 28 of the 29 sampled employees. The audit disclosed one exception where the facility did not record an instance of employee leave in the IES system. Torrance corrected this error after the audit team notified the hospital of the discrepancy. Based on the leave review procedures implemented by Torrance, the low incidence of errors in our audit sample, and the hospital's correction of the noted discrepancy, we concluded that Torrance complied with the recommendation of the prior report.

Status of Prior Audit Findings and Recommendations

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

The prior audit reported that the Department only provided the final results of the bid determination documentation that supported the selection of the contractor providing services for the Sexual Responsibility and Treatment Program. The auditors had originally planned to conduct more extensive review of the contractor selection process.

Status:

Torrance provided all requested information for the analysis of contractor performance for the Sexual Responsibility and Treatment Program during the current audit. In addition, the analysis of detailed bid information, as envisioned for the first audit of this program, was no longer required for the current audit. As a result, the prior finding has been resolved.

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

In August 2003, the Commonwealth enacted Act 21,²⁷ which mandates that the Department provide mental health and sex-offense specific treatment to an identified population of youth who had been adjudicated of certain sex crimes, received treatment in juvenile programs, yet remain a significant risk to sexually re-offend after the age of 21. The Act requires the referral of such individuals who have committed these specific crimes to the Pennsylvania Sexual Offenders Assessment Board 90 days prior to their twentieth birthdays to determine whether the individuals have “serious difficulty in controlling sexually violent behavior.” If so determined, the county solicitor will petition the court for civil commitment to the Sexual Responsibility and Treatment Program (Program) on the grounds of Torrance.²⁸

On July 1, 2004, the Commonwealth approved a 24-month, \$9.9 million contract with Liberty Behavioral Health Corporation to implement and operate the Program at Torrance. The contract covered a two-year period from July 1, 2004 to June 30, 2006.

The prior audit reported that Liberty Behavioral Health Corporation did not comply with the contract provision to reduce costs in conjunction with the reduction in the projected patient census. The Department budgeted Program costs to equal \$318,007 per month for the fiscal year ended June 30, 2005. At the end of December 2004, the Program operated with a census of just two patients, or only 14 percent of its projected population of 14 patients. Contracted costs, however, were not reduced proportionately. In fact, the Department paid the contractor \$207,877 per month from July through September 2004 and \$211,342 per month from October through December 2004. These six actual monthly payments were greater than 65 percent of the monthly budgeted Program costs.

²⁷ 42 Pa. Code S. §6401 *et seq.*

²⁸ <http://www.dpw.state.pa.us/PartnersProviders/MentalHealthSubstanceAbuse/003670199.htm> View Date: February 18, 2008.

Status of Prior Audit Findings and Recommendations

We recommended that the Department and Comptroller implement and enforce procedures detailing the methods used to determine the projected Program census and the corresponding adjustment to monthly contract payments in order to comply with the contract.

Status:

In order to follow up on the status of the prior report's recommendation, the auditors interviewed the Chief Executive Officer of Torrance and the Program's Executive Director. The auditors also reviewed Act 21,²⁹ the contract and associated renewals between Liberty Behavioral Health Corporation and the Department, and the minutes of the meetings of Torrance's Board of Trustees from July 1, 2005, to January 25, 2008.

During the fiscal year ended June 30, 2006, the Department paid Liberty Behavioral Health Corporation approximately \$2,127,000 for the management and operation of the Program. The Department exercised two one-year limited renewals of the contract with Liberty Behavioral Health Corporation at the budgetary amount of \$653,962 for each of the two fiscal years ended June 30, 2007, and 2008. As of July 1, 2006, the Department assumed responsibility for the management of the Program, including the provision of all therapeutic treatment staff and supervisors, nursing, social service supervision, and training coordination, as well as the security, housekeeping, clerical support, and maintenance duties required by the Program. This measure significantly reduced the contractor's responsibilities, as well as its costs. The renewals limited the contractor's scope of responsibility to the core clinical services of five professional employees. During the fiscal year ended June 30, 2007, the Department paid the contractor about \$528,000 for the services of the five professionals.

Because the Department limited the scope of the contract renewals, contractor costs were not as sensitive to changes in the Program census (with the exception of Program elimination). Accordingly, the prior report's recommendation regarding the reduction in contract services was implemented.

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

The prior audit reported that the Sexual Responsibility and Treatment Program's (Program) projected contracted costs per day appeared to be excessive. The Department projected the daily costs of the Program to be about \$747.50 and \$565.90 for the fiscal years ended June 30, 2005, and 2006, respectively. For comparison purposes, the actual per diem costs of the Cresson Secure Treatment Unit, another Department facility housing and treating adjudicated youth, were \$271 during the fiscal year ended June 30, 2003.

²⁹ 42 Pa. Code S. §6401 *et seq.*

Status of Prior Audit Findings and Recommendations

We recommended that Department and Comptroller management review the Program contract awarding and take appropriate corrective action to reduce the costs to reasonable limits.

Status:

In order to follow up on the excessive Program costs noted in the prior report, the auditors interviewed the Chief Executive Officer of Torrance, as well as the Program's Executive Director. The auditors also reviewed Act 21,³⁰ the contract and associated renewals between Liberty Behavioral Health Corporation and the Department, and the minutes of the meetings of Torrance's Board of Trustees from July 1, 2005, to January 25, 2008. Additionally, the auditors analyzed the Program's expenditure ledger, monthly census/admissions reports, and census and cost projections for the fiscal years ended June 30, 2005, 2006, and 2007. Finally, the auditors examined the Program's budget for the fiscal year ended June 30, 2008.

The current audit disclosed that the management of Program operating costs improved. Although total program costs have increased since the inception of the Program, costs per patient day have declined from \$3,116 for the fiscal year ended June 30, 2005, to \$794 for the fiscal year ended June 30, 2007. Moreover, the actual cost per patient day was less than the corresponding budgeted figure for the fiscal year ended June 30, 2007, as illustrated in the chart below:

Fiscal Year Ended June 30	Total Program Costs	Number of Patient Days	Actual Cost per Patient Day	Projected Cost per Patient Day ³¹
2005	\$2,121,889	681	\$3,116	\$747
2006	\$2,536,142	2,384	\$1,064	\$566
2007	\$2,959,025	3,725	\$794	\$861

The Department took steps to control Program costs. The Department assumed responsibility for the management and operation of the Program in July 2006 and retained staff at the levels planned for its actual patient census at that time. It hired 35 new employees, including 10 former staff members of the Liberty Behavioral Health Corporation and 15 former employees of the Department's Southwest Secure Treatment Unit.

Although actual Program admissions were far less than originally projected for the first two years of operations, the latest year's projected census was more closely aligned with actual program experience, as illustrated in the following chart:

³⁰ 42 Pa. Code S. §6401 *et seq.*

³¹ The 2004-05 and 2005-06 cost projections did not include the anticipated costs of water, electricity, heat, patient meals, trash removal, and grounds maintenance at Torrance. However, the 2006-07 budget incorporated these costs.

Status of Prior Audit Findings and Recommendations

Month	Projected Census	Actual Census	Difference
June 2005	18	5	(13)
June 2006	42	8	(34)
June 2007	13	12	(1)

Act 21 requires counties to refer individuals to the courts for civil commitment to the Program.³² According to Torrance and Program management personnel, “the counties have been slow in referring patients.” Although the Department cannot control the patient census, the Department must continue to evaluate the necessity of staffing levels and supports and the associated costs to manage the Program efficiently and effectively.

Based on the Program’s reduced costs per patient day and its staff levels commensurate with staffing plans, we concluded that the Department complied with the recommendations of the prior report. However, because the actual patient census was far less than originally projected and costs per patient day were still significant, we will continue to monitor the Program in future audits.

³² 42 Pa. Code S. §6401 *et seq.*

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