

November 5, 2024

Pennsylvania Association of County Drug
and Alcohol Administrators (PACDAA)
2789 Old Post Road
Harrisburg, PA 17110

Dear PACDAA Admin Committee,

We are pleased to submit the enclosed consulting report regarding the fiscal review of the *SCA – Provider XYZ Package*. This report outlines our findings, analyses, and recommendations aimed at supporting your goals. We sincerely appreciate the opportunity to partner with you on this project and are grateful for your team's cooperation throughout the process.

The report provides a detailed overview of our assessment, as well as recommendations for implementing effective solutions. Accompanying this report are the following documents:

- *XYZ Package Forms (Revised)*
- *XYZ Package – Fiscal Review Checklist*
- *Exhibit I – Supplemental Schedule of Revenues and Expenses*
- *Exhibit II – Analysis of Expenses and Rate*

As a next step, we understand that your team will be presenting the recommendations to the Pennsylvania Department of Drug and Alcohol Programs (DDAP). We remain available to assist in any way necessary to facilitate the successful application of these recommendations.

Please do not hesitate to reach out if you need further assistance or have additional questions.

Sincerely,

The Binkley Kanavy Group, LLC

Certified Public Accountants
Pittsburgh, Pennsylvania

Fiscal Review of the SCA – Provider XYZ Package

Project Overview and Objectives

The Pennsylvania Association of County Drug and Alcohol Administrators (PACDAA) engaged The Binkley Kanavy Group (BKG) to review the current processes used by each PACDAA region in their annual fiscal review of provider XYZ rate packages. This report focuses exclusively on the fiscal forms of the XYZ rate package, not the programmatic aspects. BKG met with representatives from each of the six PACDAA regions to discuss their respective policies, procedures, and processes, providing valuable insights into the regional approaches for reviewing these packages. In addition to these discussions, BKG reviewed several sample provider XYZ rate packages and provider audits to better understand how these reviews are conducted.

The objectives of this report are the following:

- 1) Highlight the strengths of the XYZ rate package
- 2) Identify challenges within the XYZ rate package
- 3) Summarize the current fiscal review process of the regions
- 4) Propose recommended changes to improve the fiscal review process

Strengths of the XYZ Rate Package

The XYZ rate package demonstrates several strengths in its structure and purpose, including:

- 1) Consistent method of calculating rates
- 2) Uses standardized forms
- 3) Obtains significant financial information

Consistent Method of Calculating Rates

The XYZ package attempts to systematically and uniformly calculate requested rates based on a provider's budgeted costs, which helps ensure consistency.

Uses Standardized Forms

The package promotes uniformity and standardization by requiring the use of standardized forms across all providers and regions.

Obtains Significant Financial Information

Providers must submit extensive financial information, including actual prior year data, current year projected financials, next year's budget, a roster of personnel, and an audit report. This data provides the regions with information to make decisions.

Despite these strengths, their effectiveness is often limited by the challenges the regions encounter in utilizing the package.

Challenges within the XYZ Rate Package

The regions face several challenges during the fiscal review process of the XYZ rate package, including:

- 1) A large volume of packages to review
- 2) A short time frame for conducting reviews
- 3) Difficulty reconciling the XYZ package with the audited financial statements

- 4) The submission of incomplete or inaccurate packages
- 5) Limited fiscal staff and fiscal expertise
- 6) Inconsistent approaches to reviewing the packages, both within and between regions
- 7) Variability in the rate determination process

Large Volume of Packages to Review

Some regions report having over 30 packages to review, which poses a significant challenge. The high volume of packages makes it difficult to complete the reviews thoroughly, especially since staff must balance these reviews with their regular daily tasks and responsibilities.

Short Time Frame for Conducting Reviews

The regions face a tight deadline for reviewing provider packages. Providers are required to submit the completed XYZ package by March 1st, and the regions must respond with finalized rates by April 15th. This short time frame can limit the thoroughness of the review process, particularly in regions with a large number of packages to evaluate, making it even more challenging to conduct a detailed review.

Difficulty Reconciling the XYZ Package with the Audited Financial Statements

In many cases, the information in the XYZ package cannot be directly linked to the audited financial statements or schedules in the audit. When a provider's audit includes multiple consolidated sites or facilities, it becomes challenging to reconcile the data with the details in the XYZ package. Additionally, the audit typically presents revenues and expenses in a format that differs from the XYZ package. While some regions require supplemental schedules in the audit package by facility and level of care, most do not. The absence of this information raises concerns about the accuracy and reliability of the financial data submitted by providers.

Submission of Incomplete or Inaccurate Packages

A significant challenge is the receipt of incomplete or inaccurate provider packages, which frequently contain errors that require extensive back-and-forth communication to obtain missing information or clarify details. This process is time-consuming and resource-intensive, leading to inefficiencies and frustration for the regions.

Limited Fiscal Staff and Fiscal Expertise

The XYZ packages contain extensive fiscal information that requires careful review, creating a significant administrative burden, especially for regions with limited staff resources. Frequent staff turnover adds to this challenge. Additionally, some regions report difficulty in reviewing the financial schedules due to limited fiscal expertise as new staff members often lack the necessary training to effectively review the fiscal forms and provider audits. These factors contribute to delays and inconsistencies in the review process, further complicating the challenges faced by the regions.

Inconsistent Approaches to Reviewing the Packages

Regions differ significantly in the thoroughness of their reviews of the XYZ rate packages. None of the regional representatives interviewed during this process reported having formal written policies or procedures to guide their reviews. While some regions maintain detailed documentation through emails and notes, others have less comprehensive documentation practices.

Additionally, while a few counties require providers to include supplemental schedules in their audits that detail expenses by facility and level of care, most do not. Even among counties that require these schedules, the formats vary, further complicating efforts to establish a uniform review process.

Variability in the Rate Determination Process

Despite the extensive time and effort required to review the packages, regions frequently disregard the provider's requested rate and offer a different rate, which is sometimes perceived as arbitrary, undermining the purpose of the review. Some regions have simply applied flat inflationary increases or rejected the requested rate and provided an alternative that seems arbitrary, often without clear documentation or rationale.

Current Fiscal Review Process of the XYZ Package

Although most of the representatives interviewed do not have formal policies or procedures for reviewing the fiscal forms in the XYZ package, many regional representatives seem to be performing the following procedures. These procedures appear to be appropriate, and later in this report, it will be recommended that they be formalized into a standardized checklist for consistency.

- Review revenue by source to identify non-SCA revenue streams
- Conduct a retrospective review of expenses by comparing current year projected column to the prior year's XYZ package's budgeted column
- Verify that specific line items are categorized correctly as either administrative or client-oriented, based on the nature of the expense (e.g., administrative salaries and benefits should be in the admin column)
- Ensure explanations are provided for budget variances of 10% or more
- Assess the reasonableness of the provided budget variance explanations
- Review utilization rates to determine if the program is sustainable
- Verify the number of bed days with the facility licenses submitted
- Manually recalculate the computations on the form to ensure accuracy
- Cross-check Total Client-Oriented Costs per Activity with the expense amounts on the budget
- Compare current year vacancies to the prior year to see if positions remain unfilled
- Compare salaries in the current year packet to the prior year packet, noting any discrepancies, such as a prior year salary being higher than the current year
- Check if raises were given from the prior year, especially if the provider had projected a salary increase
- Review admin versus client position titles each year to ensure consistency
- Examine the admin versus client designations for reasonableness and inquire about anomalies, such as when a president is listed as clinical

Recommended Changes to the Current Fiscal Review Process

Based on discussions with the regional representatives, the following recommendations are proposed to improve the current fiscal review process:

- 1) Require providers to include supplemental schedules as part of their audit package
- 2) Update the XYZ package forms to reflect suggested changes
- 3) Require the submission of the XYZ fiscal forms in Excel format
- 4) Implement standardized checklists for the fiscal review of the XYZ packages
- 5) Provide additional training for fiscal staff on how to review provider audit packages
- 6) Explore alternative rate determination methods to the current mandatory XYZ package process

Recommended Change #1: Require Supplemental Schedules in the Provider’s Audit Package

Providers should be required to include supplemental schedules in their audit reports in the same format as the XYZ package. The schedules should also include the actual units of service for each facility, allowing for the recalculation of a rate per unit. This will allow the schedules to directly tie into the XYZ package, facilitating easier review. Additionally, the schedules will provide a historical summary of each facility’s financials, which will be valuable for future reference and analysis.

Requiring these supplemental schedules provides additional assurance, as an independent auditor would apply audit procedures to them, thereby increasing confidence in the data reported to PACDAA regions.

An effective way to ensure compliance is to incorporate the requirement into the provider contract, as some counties already do. Each county should consult with their solicitor to determine how best to incorporate this in their own contracts.

The format of the schedule should be provided to providers. For a suggested format, see *Exhibit I – Supplemental Schedule of Revenues and Expenses*.

Recommended Change #2: Update the XYZ Package Forms

The Excel file accompanying this report, *XYZ Package Forms (Revised)* includes recommended adjustments to the current XYZ forms. Input fields for the provider are highlighted in blue. To prevent providers from altering certain cells, fields with formulas or links are locked. The specific changes made to the forms are detailed below:

- 1) Overall Form Changes
 - a) Each provider’s facility will submit one Excel file that has information in it for all potential levels of care at that facility. Each facility will no longer have to submit fiscal forms for each level of care.

- 2) HDA 311RS (Page 1): Cumulative Revenue and Income
 - a) Update column titles to improve clarification
 - b) Remove identification of Unrestricted and Restricted Assets or Cash. If a large provider operates multiple facilities, it may not be feasible to identify cash by each facility. In many reviewed packages, these lines are left blank. Additionally, the cash details should be already in the provider’s audited financial statements. The fiscal staff may need training on locating and interpreting these items.
 - c) Combine the revenue section of each level of care with the expense section of each level of care on the same tab

- 3) HDA 311RS (Page 2): Admin, Client Oriented, and Total Expense – Actual, Projected, Budgeted
 - a) Update column titles to improve clarification
 - b) Blank columns inserted between sections to improve presentation
 - c) Add a row for the Actual FY 2022-2023 units of service and a row for the actual FY2022-2023 rate per unit to be recalculated.
 - d) Adjusted the formulas in the “Proposed increase (decrease) Column L compared to Column H” to account for zeros as part of the equation

- e) Added column “Proposed increase (decrease) Column H compared to Column D” so that an analysis may be performed on the prior year audited expenses to the current year projected expenses
 - f) Linked the Administrative Salaries and Client-Oriented Salaries in the Next Year Budgeted column to the totals on the Roster of Personnel
 - g) Grayed out the Administrative Salaries and Benefits in the Client Oriented columns
 - h) Grayed out the Client Oriented Salaries and Benefits in the Admin columns
- 4) HDA 311RS: Roster of Personnel
- a) Moved column totals and total project salaries to the top of the form, enabling the total formulas to extend to the bottom of the Excel page, accommodating additional rows for personnel as needed
 - b) Include all potential levels of care for each facility on one tab
 - c) Adjust the hours calculation of salary allocation to percentages. Providers will input the percentage split between admin and client for each level of care.
 - d) Add columns for non-allocated salary. All salaries not specifically allocated to a facility’s level of care will be populated in these columns.
 - e) Add columns to total each individual’s total admin and client salary allocation
- 5) Rate Request Form
- a) Transition the Rate Request Form from a Word document to an Excel form, integrating it with the other forms. Certain numbers are linked to other forms to ensure accuracy.
 - b) Include all potential levels of care for each facility on one tab
 - c) The Certification Statement can remain in the Word document

Recommended Change #3: Require Submission of XYZ Fiscal Forms in Excel format

Providers should be required to submit the XYZ package forms in Excel format. The benefits for the regions include easier analysis, improved ability to check mathematical accuracy, and the ability to use the exhibits referenced in the standardized review checklists for more effective analysis.

Recommended Change #4: Implement Standardized Checklists for the Fiscal Review of the XYZ Package

This report includes four standardized review checklists for PACDAA regions to use when reviewing XYZ rate packages submitted by providers. Each checklist corresponds to a specific section of the XYZ rate package and references accompanying Excel exhibits. These exhibits provide tools and templates designed to support an effective review process.

As noted earlier, for these checklists to be used most effectively, it is crucial that (1) providers include supplemental schedules in their audits and (2) the XYZ rate packages are submitted in Excel format.

Recommended Change #5: Training for Fiscal Staff

Several individuals from the PACDAA regions expressed uncertainty when reviewing certain fiscal areas. Training should be provided for both current and new fiscal staff in key areas, including the review of the XYZ package fiscal forms, the use of recommended checklists, the application of recommended tools and templates, and the review of provider audits.

If providers include the supplemental schedules in their audit packages, as referenced earlier, the review of these audits will become more straightforward and easier to manage.

Recommended Change #6: Explore Alternative Rate Determination Methods

Two key challenges identified are the large volume of packages received and the short time frame for reviewing them. To address these issues, alternative rate determination methods to the current mandatory XYZ package process should be explored.

There are several ways to reduce the number of packages received. One potential approach is to implement a triennial review system, where providers are placed on a three-year staggered cycle, with one-third of the providers submitting XYZ packages each year. This method could reduce the number of XYZ packages submitted to the regions by 67% annually. The schedule should be coordinated across regions if a provider operates in multiple counties or regions.

In the years where a provider does not submit an XYZ package, an annual default rate adjustment could be given to providers. Each region would set this default adjustment annually, based on a specific metric documented by the region. Examples of such metrics could include the US Consumer Price Index (CPI), US Health Care Inflation Rate (USHCI), or another metric determined by the region.

All providers, whether they submit an XYZ package or not, would still be required to provide supplemental schedules with their audits. Additionally, the roster of personnel provides regions with valuable information, and these could also be submitted annually. If regions are presented with XYZ packages for review, the standardized review checklists previously discussed could be utilized.