

**STATE OF WEST VIRGINIA
FOLLOW-UP SPECIAL REPORT
OF THE
FIRST CHOICE HEALTH SYSTEM, INC
PROBLEM GAMBLERS HELP NETWORK**

FOR THE PERIOD

JULY 1, 2004- JUNE 30, 2007



**OFFICE OF THE LEGISLATIVE AUDITOR
CAPITOL BUILDING
CHARLESTON, WEST VIRGINIA 25305-0610**

STATE OF WEST VIRGINIA
FOLLOW-UP SPECIAL REPORT
OF THE
PROBLEM GAMBLERS HELP NETWORK
AS OPERATED BY
FIRST CHOICE HEALTH SYSTEMS, INC.
FOR THE PERIOD
JULY 1, 2004 - JUNE 30, 2007

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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To the Joint Committee on Government and Finance:

The objectives of this follow-up special report were to obtain an understanding of the scope of services to be provided by First Choice Health Systems, Inc. to operate the Problem Gamblers Help Network under the Grant Agreements with the Department of Health and Human Resources (DHHR) and to review an additional five percent of the expense transactions for which reimbursement was received by First Choice to ensure compliance with the terms and conditions of such Grant Agreements. Our report of the Problem Gamblers Help Network as operated by First Choice Health Systems, Inc. covered the period July 1, 2004 through June 30, 2007.

To achieve the above objectives, we performed the following:

- a. Obtained an understanding of First Choice's responsibilities under the Grant Agreements in operating the Problem Gamblers Help Network;
- b. Obtained a listing of expense transactions for which First Choice received reimbursement from DHHR during the examination period; and,
- c. Reviewed an additional sample of expense transactions to determine whether each transaction was properly reimbursed in accordance with the terms and conditions of the appropriate Grant Agreement.

The results of our work are contained in the General Remarks section of this Special Report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Stacy L. Sneed".

Stacy L. Sneed, CPA, Acting Director
Legislative Post Audit Division

November 9, 2007

Auditors: Ethelbert Scott, Jr., CPA, Audit Manager
Gregory M. Rogers
Jane S. Caswell

FIRST CHOICE HEALTH SYSTEMS, INC.
PROBLEM GAMBLERS HELP NETWORK

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FIRST CHOICE HEALTH SYSTEMS, INC.
PROBLEM GAMBLERS HELP NETWORK
EXIT CONFERENCE

We held an exit conference on December 3, 2007 with the Chief Executive Officer and other representatives of First Choice Health Systems, Inc. and all findings and recommendations were reviewed and discussed. The responses of First Choice Health Systems, Inc. are included in bold and italics in the Executive Summary and after our findings in the General Remarks section of this report.

FIRST CHOICE HEALTH SYSTEMS, INC.
PROBLEM GAMBLERS HELP NETWORK

INTRODUCTION

Background

With the passage of House Bill 3029 during the 1999 Legislative Session, the Legislature created the "Compulsive Gambling Treatment Fund" to provide funds for compulsive gambling treatment programs in the State. This statute requires this fund is to be funded by transfers of lottery proceeds from the Lottery Commission's Administrative Expense Account. The total amount of these transfers are not to exceed \$1,500,000.

Effective March 1, 2000, the Lottery Commission entered into a contract through the Division of Purchasing with First Choice Health Systems, Inc. (First Choice) to operate the Problem Gamblers Help Network of West Virginia. The Lottery Commission maintained this contractual relationship with First Choice from March 1, 2000 through February 28, 2003. Once this contract expired, the Lottery Commission entered into an Interagency Agreement with the Department of Health and Human Resources (DHHR) to award the operation of the Problem Gamblers Help Network through a grant which would be administered by DHHR and funded through transfers from the Compulsive Gambling Treatment Fund. First Choice was the recipient of this grant award and, thus, continued to operate the Problem Gamblers Help Network through June 30, 2007 via a grant awarded each fiscal year.

At the end of the 2007 fiscal year, the Lottery Commission opted not to renew its Interagency Agreement with DHHR and, instead decided to place the operation of the Problem Gamblers Help Network up for competitive bid through the Division of Purchasing. Once the competitive bidding had been completed, First Choice was awarded the contract as the winning

bid. Thus, Starting July 1, 2007, First Choice entered into a contract with the Lottery Commission under which First Choice would continue to operate the Problem Gamblers Help Network.

Problem Gamblers Help Network

The Problem Gamblers Help Network of West Virginia (PGHNWV) provides general services in the area of outreach, assessment and referral, and treatment.

Outreach. In order to implement a statewide public education and outreach effort in which problem gamblers and/or their family members can self-identify and access services, the PGHNWV conducts a variety of education, outreach and advertising strategies that include paid television, radio and newspaper ads, as well as outdoor ads on panels and billboards. The PGHNWV also strives to maintain an ad in every “Yellow Page” section of state telephone directories and to provide brochures to each of the four state racetrack/gaming centers. The help network’s literature, posters and materials are made available at dozens of health fairs, conference exhibits and workshops each year. On a regular basis, the help network offers workshops on problem gambling to professional groups, public audiences, civic clubs and more. The PGHNWV also tries to secure free publicity and have earned hundreds of radio, television, and newspaper interviews. The help network also maintains a website (www.1800gambler.net) which problem gamblers and/or their family members can access to obtain additional information about the PGHNWV.

Assessment and Referral. The PGHNWV provides a 24 hour, seven days a week, toll free number (1-800-GAMBLER) staffed by trained, credentialed clinical professionals. When a caller accesses the help-line, he or she is asked to complete a preliminary clinical assessment and offered initial therapeutic treatment intervention by telephone. The professional help-line clinicians also complete intakes from calls dialed from a (304) area code to the National

Council on Problem Gambling whose help-line telephone number is 1-800-522-4700. The help-line's clinical staff provides all callers with crisis intervention, education, support, referrals to community services, and referral to a specially trained gambling addiction counselor in their community for a free two-hour face-to-face consultation.

Treatment. The PGHNWV currently has more than 80 clinicians statewide who are trained to help problem gamblers and their family members. This network of clinicians includes counselors, social workers, and psychologists. All are required to complete a minimum of 35 hours of gambling specific training. Training sessions are typically conducted at least once a year, and the program focuses on recruiting clinicians from areas where there is a need for more counseling services. The training is free to clinicians and continuing education units are provided.

Once a clinician becomes part of the program's network, the education process continues by providing on-going clinical supervision and advanced training sessions. The goal is to make sure that clinicians have the very latest knowledge and techniques to help problem gamblers and their families. Many of the clinicians who have entered this highly specialized field have garnered enough experience to pursue the status of Nationally Certified Gambling Counselor.

These counselors are trained in specific intervention techniques to produce positive outcomes for problem gamblers and their families. The PGHNWV will pay for up to 20 outpatient counseling sessions (10 for family members) for those who do not have insurance. The help network remains involved in the treatment process even after the initial referral by providing clinical consultation and feedback for clinicians and by providing follow-up services and support for gamblers and their family members who call the help line.

FIRST CHOICE HEALTH SYSTEMS, INC.
PROBLEM GAMBLERS HELP NETWORK
ADMINISTRATIVE OFFICERS AND STAFF

AS OF JUNE 30, 2007

Scott Boileau Chief Executive Officer
Mia Moran-Cooper Program Director/Co-Director
Sheila Moran Co-Director
Steve Burton Help-Line Coordinator
Cynthia Black Clinical Coordinator
Kathleen O'Neil Clinical Coordinator
Danielle Green Clinical Coordinator
Gloria Kirk Administrative Assistant

FIRST CHOICE HEALTH SYSTEMS, INC.

PROBLEM GAMBLERS HELP NETWORK

EXECUTIVE SUMMARY

Submission of Monthly Billing Detail Reports for Reimbursement

1. During the period July 1, 2004 through June 30, 2007, we noted First Choice over billed DHHR by a net amount of \$17,029.19 as the result of eight voided check transactions not being properly adjusted on the Monthly Billing Detail Report subsequently submitted to DHHR.

Auditor's Recommendation

We recommend First Choice comply with the provisions of Exhibit D of the Grant Agreement with DHHR. We further recommend First Choice comply with the provisions of Sections 6.01 and 8.02 of the Grant Agreement and reimburse the Grant \$17,029.19 for the total amount over reimbursed. Additionally, we recommend First Choice institute a procedure to verify voided checks are properly adjusted from the Monthly Billing Detail Reports before submission for reimbursement.

First Choice's Response

First Choice Health Systems acknowledges the over billing of the Department of Health and Human Resources in the amount of \$17,029.19. First Choice agrees to the recommendation set forth in the report and will reimburse the funding source for the over billing. (See pages 11-14)

Business & Occupation Tax

2. During the period of January 1, 2007 to March 31, 2007 First Choice paid a total of \$2,064.71 in B&O Taxes. We noted \$1,064.71 plus \$106.47 (10% administrative fee) was charged to the Monthly Billing Detail Report for reimbursement to DHHR.

Auditor's Recommendation

We recommend First Choice reimburse the Grant Agreement the overpayment of B&O taxes.

First Choice's Response

First Choice Health Systems is currently having this matter researched by its legal counsel. If this issues is resolved in a manner in which there has been an overpayment, we will request a refund from the City of Charleston. (See pages 14-17)

Mis-classification of Program Expenses

3. During our review of grant reimbursements, we noted program expenses totaling \$9,821.64 which were submitted for reimbursement to DHHR by First Choice had been mis-classified under the wrong budgeted line item on the Monthly Billing Detail Report.

Auditor's Recommendation

We recommend First Choice comply with the provisions of Section 6.01 of the Grant Agreement with DHHR.

First Choice's Response

As was stated in the previous audit, First Choice Health Systems acknowledges the mis-classifications of program expenses. First Choice Health Systems agrees to reclassify these expenses in the appropriate line item. (See pages 17-20)

Undocumented Program Expenses

4. During our review of program expenses for which First Choice received reimbursement from DHHR, we noted \$732.53 of program expenses which were not properly documented.

Auditor's Recommendation

We recommend First Choice comply with the provisions of Sections 6.01 and 8.02 of the Grant Agreement with DHHR, and maintain proper documentation for all expenditures.

First Choice's Response

As with the previous audit, First Choice apologizes for any failure on its part to document correctly expenses incurred. First Choice agrees to the recommendation set forth in the report. (See pages 20-22)

Outstanding Checks

5. During our review of missing checks that were unaccounted for on the bank statements, we noted ten checks totaling \$2,748.40 that were listed as outstanding checks in First Choice's monthly reconciliation detail report.

Auditor's Recommendation

We recommend that First Choice determine the status of the outstanding checks and the related accounts payable and adopt a policy for disposition of uncleared transactions. We

further recommend First Choice reimburse the Grant Agreement for the amount of the outstanding checks plus ten percent First Choice received for indirect costs.

First Choice's Response

First Choice Health Systems acknowledges the ten checks mentioned totaling \$2,748.40 which have not cleared the bank. A number of these checks are less than 12 months old. First Choice management has asked legal counsel to research West Virginia State Code regarding the proper methodology as it relates to unclaimed property. After receiving opinion from legal counsel, First choice will then take corrective action on this matter. (See pages 22-25)

Disallowed Costs

6. During the period July 1, 2004 through June 30, 2007, we noted First Choice was reimbursed \$500.00 by DHHR for various program expenses which should have been disallowed for reimbursement based on the terms and conditions of the Grant Agreement between First Choice and DHHR.

Auditor's Recommendation

We recommend First Choice comply with the provisions of Exhibit A of the Grant Agreement with DHHR. We further recommend First Choice reimburse the Grant the disallowed costs and comply with the provisions of Sections 5.04 and 6.01 of the Grant Agreement.

First Choice's Response

First Choice acknowledges the \$500.00 discovered as disallowed costs and agrees to the recommendation set forth in the report. (See pages 25-27)

Salaries & Benefits

7. During our review of time cards and pay records for employees of First Choice Health Systems, Inc., we noted that hours were calculated incorrectly for three of the hourly employees.

Auditor's Recommendation

We recommend that First Choice Health Systems, Inc. comply with Chapter 21, Article 5, Section 3 of the West Virginia Code and Section XII, 12.01(d) of the grant agreement between the DHHR and First Choice Health Systems, Inc. We also recommend First Choice review all hourly employees payroll calculations for accuracy.

First Choice's Response

First Choice Health Systems acknowledges the underpayment of \$53.44 to its employees. First Choice has taken proactive measures to ensure this issue no longer persists. (See pages 27-30)

FIRST CHOICE HEALTH SYSTEMS, INC.

PROBLEM GAMBLERS HELP NETWORK

GENERAL REMARKS

INTRODUCTION

We have completed the additional review as requested by the Post Audits Subcommittee of the Joint Committee on Government and Finance of the Problem Gamblers Help Network of West Virginia (PGHNWV) as operated by First Choice Health Systems, Inc.(FCHS). The review covered an additional five percent of transactions covered by the period July 1, 2004 through June 30, 2007.

COMPLIANCE MATTERS

We performed a follow up review of the Grant Agreements in effect between the Department of Health and Human Resources (DHHR) and First Choice Health Systems, Inc. during the period July 1, 2004 through June 30, 2007 as they pertain to the operation of the Problem Gamblers Help Network of West Virginia. Our findings are discussed below.

First Choice's General Statement

Over the previous four months First Choice Health Systems has undergone two separate audits conducted by the Legislative Post Audit Division. As with the previous audit, First Choice Health Systems acknowledges mistakes being made and has taken steps to correct these matters. However, while corrective actions have taken place, First Choice is a fiscally responsible corporation. We agree that financial procedures should be subject to an ongoing improvement plan, this is the case with any organization.

Submission of Monthly Billing Detail Reports for Reimbursement

During the period July 1, 2004 through June 30, 2007, we noted First Choice over billed DHHR by a net amount of \$15,481.08 as the result of eight voided check transactions not being properly adjusted on the Monthly Billing Detail Report subsequently submitted to DHHR, plus ten percent for \$1,548.11 in administrative fees, for a total of \$17,029.19. We noted a transaction posted by First Choice on July 1, 2005 to the Lamar Companies was billed for reimbursement on the July Monthly Billing Detail Report. First Choice could not find a cancelled check for \$7,500.00 corresponding to the July 1, 2005 issue date. Additionally, we noted seven other voided checks resulted in DHHR over reimbursing First Choice a total of \$7,981.08. The over charges to DHHR are detailed in the following schedule.

<u>Transaction Date</u>	<u>Vendor</u>	<u>Amount Over Billed/(Under Billed)</u>	<u>Explanation of Over Billing</u>
07/01/2005	Lamar Companies	\$ 7,500.00	Transaction was billed on a previous reimbursed billing
3/31/05	WV Media	6,050.00	This check transaction was neither reissued nor was it deducted from a subsequent Monthly Billing Detail Report to reflect that the check had been voided.
6/21/05	Employee	112.00	This check transaction was neither reissued nor was it deducted from a subsequent Monthly Billing Detail Report to reflect that the check had been voided.
11/28/04	Ogden Directories	207.00	Note 1
9/14/05	Toastmasters	64.00	Note 2
1/31/05	Charleston Area alliance	40.00	Note 3
3/21/05	Vendor (I.T. consultant)	508.08	Note 4
10/14/05	Clinician	<u>1,000.00</u>	Note 5
	TOTAL	<u>\$15,481.08</u>	

Note 1 - Original check (#5761) was for various invoices totaling \$553.00. This transaction was later replaced by three other checks totaling \$346.00 which were not submitted to DHHR for reimbursement. However, a balance remaining of \$207.00 from the original voided check was neither reissued nor deducted from a subsequent Monthly Billing Detail Report.

Note 2 - Original check (#6573) was issued to pay for three employees membership dues. This transaction was later replaced by another check for one employee and was not submitted to DHHR for reimbursement. However, a balance remaining of \$64.00 from the original voided check was neither reissued nor deducted from a subsequent Monthly Billing Detail Report.

Note 3 - Original check (#5944) was issued for membership dues. This transaction was replaced by another check totaling \$255.00 which was submitted to and reimbursed by DHHR. However, the original amount on the voided check was not deducted from a subsequent Monthly Billing Detail Report.

Note 4 - Original check (#5938) was for I.T. services. This transaction was replaced by another check totaling \$750.00 which was submitted to and reimbursed by DHHR. However, the original amount on the voided check was not deducted from a subsequent Monthly Billing Detail Report.

Note 5 - Original check (#6851) was for various invoiced professional services. This transaction was replaced by two other checks totaling \$875.00 leaving an unaccounted balance of \$125.00. However, the transactions totaling \$875.00 were also submitted to and reimbursed by DHHR. The original amount on the voided check was not deducted from a subsequent Monthly Billing Detail Report.

Exhibit D (Payment Methodology - Reimbursement of Costs) of the Grant Agreement between DHHR and First Choice Health Systems, Inc. states in part:

“After receipt of the fully executed Grant Agreement, the Grantee will submit invoices for reimbursement of actual costs incurred during the previous month. Each invoice must bear the original signature of the Grantee’s agency head or person designated as responsible for the invoicing. Such invoices must be submitted as an original with one (1) copies and must conform to the Department’s invoicing instructions....”

Also, Section 6.01 of the Grant Agreement between DHHR and First Choice Health Systems, Inc. states:

“6.01 Financial Management System:

6.01(a) The Grantee will maintain an accounting system and a set of accounting records that, at a minimum, allows for the identification of the source of revenue and expenditures related to this Grant Agreement.

6.01(b) All records will be supported by source documentation.

6.01© The Grantee’s accounting records must be closed out at the end of the Grant Agreement period and must identify any excess revenue over expenditures.”(Emphasis added)

Additionally, Section 8.02 of the Grant Agreement between DHHR and First Choice Health Systems, Inc. states:

“8.02 Record Retention:

8.02(a) Grantee shall retain all financial records, supporting documents, statistical records, and all other records pertinent to this Grant Agreement for a period of three years from the date of submission of the final expenditure report or payment of final invoice.

8.02(b) If any litigation, claim, or audit is started before the expiration of the three year period, the records shall be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken.

8.02© Records for equipment acquired with Federal funds shall be retained for three years after final disposition.”

First Choice was unable to provide us with any documentation to indicate that these voided check transactions had been properly deducted from the subsequent monthly billings submitted to DHHR. Also, First Choice has no procedure in place to verify that once a check transaction has been voided that this voided transaction is properly adjusted on a subsequent Monthly Billing Detail Report. There is no reconciliation process between the incurred expense billed for reimbursement on the Monthly Billing Detail Reports submitted to DHHR and the actual payment of this incurred expense represented by the bank statement and cancelled check received from the bank. We further believe the aforementioned instances of over billing are the direct result of an insufficient supervisory review by both the Program Director and CEO of the Monthly Billing Detail Report before this report is submitted to DHHR for reimbursement.

As a result of these voided check transactions not being properly adjusted on the monthly billing submitted to DHHR, First Choice was over reimbursed by \$15,481.08. Additionally, we noted that when First Choice invoiced DHHR each month during the audit period for reimbursement of expenses incurred that First Choice would include as part of the total amount invoiced an amount for indirect costs. The amount of indirect costs that would be added to the total invoice amount was calculated by multiplying the total amount of incurred expenses being submitted for reimbursement for the month by 10%. Based on this indirect cost rate, we determined an additional amount of \$1,548.11 was over reimbursed to First Choice, bringing the total amount over reimbursed to First Choice to \$17,029.19.

We recommend First Choice comply with the provisions of Exhibit D of the Grant Agreement with DHHR. We further recommend First Choice comply with the provisions of Sections 6.01 and 8.02 of the Grant Agreement and reimburse the Grant \$17,029.19 for the total amount over reimbursed. Additionally, we recommend First Choice institute a procedure to verify voided checks are properly adjusted from the Monthly Billing Detail Reports before submission for reimbursement.

First Choice's Response

First Choice Health Systems acknowledges the over billing of the Department of Health and Human Resources in the amount of \$17,029.19. First Choice agrees to the recommendation set forth in the report and will reimburse the funding source for the over billing.

Business & Occupation Tax

During the period of January 1, 2007 to March 31, 2007 First Choice paid a total of \$2,064.71 in B&O Taxes. We noted \$1,064.71 plus \$106.47 (10% administrative fee) was

charged to the Monthly Billing Detail Report for reimbursement to DHHR. The remaining balance of \$1,000.00 was drawn against First Choice funds not reimbursable by DHHR. Based on First Choice's quarterly gross income of \$20,583.10 received from administration of the program, which accounts for 10% of the reimbursement of grant expenditures, First Choice should have paid only \$205.83 in B&O tax which is one percent of First Choice's quarterly gross income. Also included in the calculation of B&O taxes was first quarter 2007 income (calendar) in the amount of \$ 640.00 generated from other sources not directly related to the program. These payments are detailed in the following schedule.

<u>Quarter</u>	<u>Grant Expense</u>	<u>First Choice B&O Tax Payments</u>			<u>Actual B&O Payment</u>	<u>First Choice Audited B&O</u>	
		<u>First Choice Gross Income</u>	<u>Other Income</u>	<u>Total</u>			
1st quarter 2007	\$205,831.00	\$20,583.10	\$640.00	\$206,471.0	\$2,064.71	\$205.83	\$1,858.88

This schedule indicates First Choice overpaid B&O taxes for the audit period in an amount totaling \$1,858.88 and over charged DHHR \$106.47 in administrative fees due to reimbursement of the portion of the overpayment charged to the Monthly Billing Detail Report. Under the terms and conditions set forth in the Grant Agreement, we do not believe First Choice should have been reimbursed by DHHR for the reimbursement of B&O taxes paid to the City of Charleston. We further believe First Choice's method of calculating B&O Taxes owed is in noncompliance with the Chapter 11, Article 13, Section 1 of the West Virginia Code, as amended, which states:

"...(4) "Gross income" means the gross receipts of the taxpayer, received as compensation for personal services and the gross receipts of the taxpayer derived from trade, business, commerce or sales and the value proceeding or accruing from the sale of tangible property (real or personal) or service, or both, and all receipts by

reason of the investment of the capital of the business engaged in, including rentals, royalties, fees, reimbursed costs or expenses or other emoluments however designated and including all interest, carrying charges, fees or other like income, however denominated, derived by the taxpayer from repetitive carrying of accounts, in the regular course and conduct of his or her business, and extension of credit in connection with the sale of any tangible personal property or service and without any deductions on account of the cost of property sold, the cost of materials used, labor costs, taxes, royalties paid in cash or in kind or otherwise, interest or discount paid or any other expenses whatsoever.”

Furthermore the definition of “Gross Income” as defined by the courts states:

““Gross income”. — Gross income does not include reimbursements from a party to a taxpayer for expenditures made by the taxpayer in accordance with the provisions of an agreement between the taxpayer and such party when it is clear from the terms of the agreement and the manner in which it is executed that such reimbursements were not a part of the remuneration of the taxpayer for services rendered to the other party to the agreement. *Dailey v. Bechtel Corp.*, 157 W. Va. 1023, 207 S.E.2d 169, 1974 W. Va.”

Exhibit D (Payment Methodology - Reimbursement of Costs) of the Grant Agreement between DHHR and First Choice Health Systems, Inc. states in part:

“After receipt of the fully executed Grant Agreement, the Grantee will submit invoices for reimbursement of actual costs incurred during the previous month. Each invoice must bear the original signature of the Grantee’s agency head or person designated as responsible for the invoicing. Such invoices must be submitted as an original with one (1) copies and must conform to the Department’s invoicing instructions....”

Based on our discussions with First Choice personnel, we believe the reason the aforementioned program expenses were billed for reimbursement was the result of a difference of interpretation of law of what constitutes gross income. We believe the difference in interpretation resulted in First Choice overpaying \$1,858.88 more than the required B&O Tax. Additionally, First Choice was reimbursed \$1,064.71 of the tax and received \$106.47 in administrative fee (indirect costs) reimbursements from DHHR. In total, First Choice was over reimbursed \$1,171.18.

We recommend First Choice reimburse the Grant Agreement \$1,171.18 for the overpayment of B&O taxes.

First Choice's Response

First Choice Health Systems is currently having this matter researched by its legal counsel. If this issues is resolved in a manner in which there has been an overpayment, we will request a refund from the City of Charleston.

Mis-classification of Program Expenses

During our review of grant reimbursements, we noted program expenses totaling \$9,821.64 which were submitted for reimbursement to DHHR by First Choice had been mis-classified under the wrong budgeted line item on the Monthly Billing Detail Report. These mis-classified program expenses are detailed in the following schedule.

<u>Vendor</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>	<u>Transaction Description</u>	<u>Actual Budgeted Line Item Program Expense Was Classified</u>	<u>Audited Budgeted Line Item To Which Program Expense Should Have Been Classified</u>
Clinician 1	3/10/2005	\$127.32	Travel reimbursement for Training	Diagnostic Assessment & Treatment	Training
Clinician 2	3/14/2005	\$ 50.40	Travel reimbursement for Training	Diagnostic Assessment & Treatment	Training
Custom Business	4/8/2005	\$ 76.45	Toner for copier	Diagnostic Assessment & Treatment	Direct Office Expense
Image by Design	8/28/2006	\$226.83	Custom Printed Tote Bags	Diagnostic Assessment & Treatment	Print Media
Superior Office Services Inc.	4/21/2005	\$513.74	Copies overage charge on copier	Repairs & Maint.	Direct Office Expense

<u>Vendor</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>	<u>Transaction Description</u>	<u>Actual Budgeted Line Item Program Expense Was Classified</u>	<u>Audited Budgeted Line Item To Which Program Expense Should Have Been Classified</u>
Hudson-Gilmore Associates	6/19/2006	\$226.00	Yellow Page Advertising	Print Media	Yellow Page Advertising
Tyler Mountain Water	4/1/2005	\$121.33	Bottle water for office	Utilities	Direct Office Expense
Pyramid Counseling	4/11/2007	\$ 160.00	Patient Treatment	Direct Office Supplies	Diagnostic Assessment & Treatment
Employee 1	1/19/2005	\$ 33.00	Data entry	General Program Supplies	Salaries (a)
Employee 2	3/20/2006	\$ 113.12	Reimbursement & placing of posters	General Program Supplies	Salaries (b)
Family Medicine Foundation	6/30/2006	\$ 950.00	Exhibition booth space	General Program Supplies	Educational Material
City of Charleston	4/1/2007	\$ 500.00	B&O Tax Payment	General Program Supplies	Indirect Costs ©
Midtown Center Association	4/17/2006	\$3,227.09	Office rent	General Program Supplies	Rent Expense
Employee 3	6/26/2006	\$ 75.61	Reimbursement	Benefits	Direct Staff Travel
Midtown Center Association	3/19/2007	<u>\$3,420.75</u>	Office rent	Benefits	Rent Expense
Total		<u>\$9,821.64</u>			

(a) - Employee was hired as temporary help to get caught up on data entry. However, FCHS did not withhold or pay any employment taxes on this person.

(b) - Employee was paid a bonus of \$25.00/place of business to place posters in businesses employing 100 or more people for outreach programs which resulted in employee receiving \$100.00 for their efforts of which \$13.12 was a reimbursement for expenses. However, FCHS did not include the \$100.00 paid, for calculation purposes of gross pay and failed to withhold or pay employment taxes on this payment.

© - First Choice misclassified, overpaid, and paid B&O taxes on other sources of income not connected with administration of the Grant, and billed DHHR for a partial reimbursement of its 1st quarter 2007 (calendar) B&O taxes, which should have been paid in total from First Choice funds.

Section 6.01 of the Grant Agreement between DHHR and First Choice Health Systems,

Inc. states:

“6.01 Financial Management System:

6.01(a) The Grantee will maintain an accounting system and a set of accounting records that, at a minimum, allows for the identification of the source of revenue and expenditures related to this Grant Agreement.

6.01(b) All records will be supported by source documentation.

6.01(c) The Grantee’s accounting records must be closed out at the end of the Grant Agreement period and must identify any excess revenue over expenditures.”

Based on our discussions with First Choice personnel, the aforementioned program expenses may have been misclassified as the result of a data entry error upon entering each transaction into the company’s accounting system by the Administrative Assistant. The Administrative Assistant also told us that the Program Director may have instructed her to classify some of these program expenses under a specific budgeted line item even though that budgeted line item may not have been the most appropriate line item under which the expense should have been classified. Additionally, we noted there was an inadequate supervisory review by either the Program Director or CEO of the Monthly Billing Detail Report before the submission of the report to DHHR for reimbursement, and a lack of Grant oversight by DHHR.

By misclassifying program expenses on the Monthly Billing Detail Report to an inappropriate budgeted line item, First Choice may not be able to prepare reliable Target Funding Budgets for future fiscal years. Our testing indicated that 4.3% of the randomly selected transactions tested were misclassified. Also, misclassification of program expenses on the Monthly Billing Detail Reports submitted to DHHR may result in the preparation of misleading financial statements.

We recommend First Choice comply with the provisions of Section 6.01 of the Grant Agreement with DHHR.

First Choice's Response

As was stated in the previous audit, First Choice Health Systems acknowledges the mis-classifications of program expenses. First Choice Health Systems agrees to reclassify these expenses in the appropriate line item.

Undocumented Program Expenses

During our review of program expenses for which First Choice received reimbursement from DHHR, we noted \$732.53 of program expenses which were not properly documented. These unsupported program expenses are detailed in the following schedule.

<u>Vendor</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>	<u>Purpose of Transaction</u>
BB&T	9/22/04	\$ 523.71	Invoices missing for Holiday Inn for lodging
BB&T	10/22/04	260.00	Parking for November
BB&T	1/24/05	357.50	Parking for PGHN
BB&T	4/22/05	61.90	Invoice missing for Staples for office supplies
BB&T	7/21/06	131.14	Invoice missing for general program supplies
BB&T	4/21/07	<u>15.78</u>	Invoice missing for RealOne
	Total	\$1,350.03	

Each employee of First Choice (with the exception of the Administrative Assistant) has been issued a corporate credit card through the company to use to pay for business-related expenses such as travel or training expenses. A master credit card statement itemizing each individual cardholder's credit card charges is received monthly from BB&T. Payment of each master credit card statement is paid with company funds. The monthly credit card charges incurred by each cardholder are incorporated into the Monthly Billing Detail Reports submitted to DHHR for reimbursement.

Each program expense is recorded when incurred and then subsequently billed for reimbursement on the Monthly Billing Detail Report submitted to DHHR for reimbursement. A program expense is incurred when proper vendor invoice has been received. Approval of vendor invoices for payment is a function of the Program Director's job duties. Once approved, payment of vendor invoices is made by company check which is prepared by the Administrative Assistant and signed by the CEO.

Section 6.01 of the Grant Agreement between DHHR and First Choice Health Systems, Inc. States:

“6.01 Financial Management System:

6.01(a) The Grantee will maintain an accounting system and a set of accounting records that, at minimum, allows for the identification of the source of revenue and expenditures related to this Grant Agreement.

6.01(b) All records will be supported by source documentation.

6.01[©] The Grantee's accounting records must be closed out at the end of the Grant Agreement period and must identify any excess revenue over expenditures.”(Emphasis added)

Additionally, Section 8.02 of the Grant Agreement between DHHR and First Choice Health Systems, Inc. States:

“8.02 Record Retention:

8.02(a) Grantee shall retain all financial records, supporting documents, statistical records, and all other records pertinent to this Grant Agreement for a period of three years from the date of submission of the final expenditure report or payment of final invoice.

8.02(b) If any litigation, claim, or audit is started before the expiration of the three year period, the records shall be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken.

8.02[©] Records for equipment acquired with Federal funds shall be retained for three years after final disposition.”

Based on our discussions with First Choice personnel we believe the reason the aforementioned program expenses were not supported by the appropriate source documentation (such as a vendor invoice or credit card receipt) was the result of an insufficient supervisory review by both the Program Director and CEO before approval of expenses and signing of the checks for payment and a lack of Grant oversight by DHHR.

By not verifying the proper source documentation was present before approving program expenses for payment, First Choice may not be able to substantiate financial transactions for which reimbursement has been received from DHHR. Transactions involving inadequate documentation may also result in the State being billed for disallowed expenses charged to the Grant Program.

We recommend First Choice comply with the provisions of Sections 6.01 and 8.02 of the Grant Agreement with DHHR, and maintain proper documentation for all expenditures.

First Choice's Response

As with the previous audit, First Choice apologizes for any failure on its part to document correctly expenses incurred.

Outstanding Checks

During our review of missing checks that were unaccounted for on the bank statements, we noted ten checks totaling \$2,748.40 that were listed as outstanding checks in First Choice's monthly reconciliation detail report. These checks are detailed in the following schedule:

<u>Date</u>	<u>Check Number</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
6/8/05	6251	Clinician 1	Training	\$ 32.40
8/15/05	644	Psychological Assessments	Treatment	\$ 1,020.00
9/20/05	6590	City of Charleston	Utility	\$ 78.00

<u>Date</u>	<u>Check Number</u>	<u>Payee</u>	<u>Purpose</u>	<u>Amount</u>
6/22/06	7537	Clinician 2	Expense Reimbursement	\$ 9.00
9/27/06	7833	Clinician 3	Treatment	\$ 220.00
11/6/06	7978	Clinician 4	Training	\$ 213.00
11/17/06	7989	Clinician 5	Training	\$ 171.08
11/30/07	8069	Clinician 6	Expense Reimbursement	\$ 329.92
1/8/07	8218	WV Board of Social Work Examiners	License Renewal	\$ 65.00
1/25/07	8285	Clinician 7	Treatment	<u>\$ 610.00</u>
Total				<u>\$2,748.40</u>

First Choice has been reimbursed for the \$2,748.40 for the incurred expenses as per invoices. In addition First Choice has also collected an additional 10% or \$274.84 for indirect expenses. Thus, First Choice has been over reimbursed a total of \$3,023.24 by DHHR for these outstanding checks.

Exhibit D (Payment Methodology - Reimbursement of Costs) of the Grant Agreement between DHHR and First Choice Health Systems, Inc. states in part:

“After receipt of the fully executed Grant Agreement, the Grantee will submit invoices for reimbursement of actual costs incurred during the previous month. Each invoice must bear the original signature of the Grantee’s agency head or person designated as responsible for the invoicing. Such invoices must be submitted as an original with one (1) copies and must conform to the Department’s invoicing instructions....”

Also, Section 6.01 of the Grant Agreement between DHHR and First Choice Health Systems, Inc. states:

“6.01 Financial Management System:

601(a) The Grantee will maintain an accounting system and a set of accounting records that, at a minimum, allows for the identification of the source of revenue and expenditures related to this Grant Agreement.

6.01(b) All records will be supported by source documentation.

6.01(c) The Grantee's accounting records must be closed out at the end of the Grant Agreement period and must identify any excess revenue over expenditures.”(Emphasis added)

We believe the aforementioned outstanding checks were the result of no specific company policy of review for disposition of these uncleared transactions. Further, First Choice's lack of due diligence in ensuring all checks issued for payment to vendors are properly processed through the banking system to completion may cause First Choice's financial statements to become misstated. Also, an over billing to DHHR for the reimbursing of expenses may be caused due to the Monthly Billing Detail report not being properly adjusted for checks that should have been voided and later reissued. Additionally, we noted there was a lack of supervisory review by the Program Director and the CEO of these clerical errors.

By not verifying the status of the outstanding checks, First Choice may have paid an invoice that should not have been paid nor billed to DHHR for reimbursement. Accounts payable may be understated and a valid debt may be subject to collection procedures.

We recommend that First Choice determine the status of the outstanding checks and the related accounts payable and adopt a policy for disposition of uncleared transactions. We further recommend First Choice reimburse the Grant Agreement for the amount of the outstanding checks plus ten percent First Choice received for indirect costs.

First Choice's Response

First Choice Health Systems acknowledges the ten checks mentioned totaling \$2,748.40 which have not cleared the bank. A number of these checks are less than 12 months old. First Choice management has asked legal counsel to research West Virginia State Code regarding the proper methodology as it relates to unclaimed property. After receiving opinion from legal counsel, First choice will then take corrective action on this matter.

Disallowed Costs

During the period July 1, 2004 through June 30, 2007, we noted First Choice was reimbursed \$500.00 by DHHR for various program expenses which should have been disallowed for reimbursement based on the terms and conditions of the Grant Agreement between First Choice and DHHR. These disallowed costs are detailed in the following schedule.

<u>Vendor</u>	<u>Transaction Date or Time Period</u>	<u>Transaction Amount</u>	<u>Purpose of Transaction</u>
WV Board of Examiners in Counseling	10/4/204	\$500.00	Donation

Exhibit A (Statement of Work) of the Grant Agreement between DHHR and First Choice Health Systems, Inc. states in part:

“This exhibit establishes the obligations, expectations and relationship between the Bureau and the Problem Gamblers Help Network of West Virginia (PGHNWV) operated by First Choice Health Systems.

The general services are:

- Outreach**
- Assessment**
- Treatment**
- Referral**

GENERAL REQUIREMENTS

1. The Problem Gamblers Help Network of West Virginia shall develop and implement a statewide program of outreach for self-identification of the problem gambler. This program of outreach shall consist of a variety of pro-active activities developed to create public awareness about the symptoms, warning signs, and risk factors of problem gambling and the availability of resources for assistance...
2. The PGHNWV shall develop and implement a program for the assessment of individuals who self-identify as problem gamblers or their family member. The assessment shall include, but not be limited to, a toll-free telephone number answered 24/7 by appropriately licensed counselors with a minimum of thirty hours of education in problem gambling. They will provide a professional assessment and subsequent referral for services as necessary...
2. The PGHNWV shall develop a statewide network of providers of services which will accept referrals of individuals who self-identify as problem gamblers or their family members. The network shall include licensed behavior health providers (corporations or individuals), self-help groups, and support groups. The network of providers shall insure the referral of any individual to treatment, self-help, and supports within 30 miles of their residence and within a 72 hour period of the initial contact. Also PGHNWV will maintain and upgrade, as needed, a training system to ensure the availability of competent counselors statewide. PGHNWV will provide evidence of agreements with potential providers of services...
4. The Problem Gamblers Help Network of West Virginia will develop a fee-for-service system to reimburse for outpatient treatment services that conforms with best practices in treating problem gamblers. This system will include methodology for approving levels of care and subsequently authorizing outpatient units of service, as well as, monitoring provider treatment service plans and their various components. PGHNWV will manage available funding for treatment purposes and will provide reimbursement to the extent that funding allows....”

Also, Section 5.04 of the Grant Agreement between DHHR and First Choice Health Systems, Inc. states:

“5.04 Unallowable Costs:

The Grantee’s invoice shall be subject to reduction for amounts included in any invoice or prior payment made which are determined by the Department not to constitute allowable costs on the basis of audits, reviews, or monitoring of this Grant Agreement.”

Responsibility for managing the day-to-day operations of the Problem Gamblers Help Network is a function of the Program Director's job duties. Thus, approval of the aforementioned program expense for submission to DHHR for reimbursement would have been the responsibility of the Program Director. We believe the reason these program expenses were allowed to be submitted for reimbursement was the result of an insufficient supervisory review by both the Program Director and CEO and a lack of oversight of the Grant by DHHR.

As a result of First Choice being reimbursed by DHHR for this disallowed cost, First Choice was over reimbursed by \$500.00. Additionally, we noted that when First Choice invoiced DHHR each month during the audit period for reimbursement of expenses incurred that First Choice would include as part of the total amount invoiced an amount for indirect costs. The amount of indirect costs that would be added to the total invoice amount was calculated by multiplying the total amount of incurred expenses being submitted for reimbursement for the month by 10%. Based on this indirect cost rate, we determined an additional amount of \$50.00 was over reimbursed to First Choice, bringing the total amount over reimbursed to First Choice to \$550.00.

We recommend First Choice comply with the provisions of Exhibit A of the Grant Agreement with DHHR. We further recommend First Choice reimburse the Grant the disallowed costs and comply with the provisions of Sections 5.04 and 6.01 of the Grant Agreement.

First Choice's Response

First Choice acknowledges the \$500.00 discovered as disallowed costs and agrees to the recommendation set forth in the report.

Salaries & Benefits

During our review of time cards and pay records for employees of First Choice Health Systems, Inc., we noted that hours were calculated incorrectly for three of the hourly employees. First Choice underpaid its employees a total of \$53.44. These errors are shown in the following schedule.

<u>Date</u>	<u>Employee</u>	<u>Audited Hours</u>	<u>Audited Wages</u>	<u>Hours Calculated by First Choice hrs/min</u>	<u>Wages Paid</u>	<u>Difference</u>
6/24/06	Employee	45.25 hrs	\$ 678.75	46:00 hrs/min	\$ 690.00	\$11.25
7/24/06	Employee 2	36.50 hrs	\$ 794.97	36:18 hrs/min	\$ 790.60	(\$ 4.37)
8/7/06	Employee 3	54.50 hrs	<u>\$1,094.91</u>	51:30 hrs/min	<u>\$1,034.61</u>	<u>(\$60.30)</u>
	Totals	136.25 hrs	<u>\$2,568.63</u>	133:48 hrs/min	<u>\$2,515.21</u>	<u>(\$53.42)</u>

Employees are either salaried or hourly. Hourly time is calculated at a set hourly rate. Employees are required to sign and date time cards when they come in and when they leave work, including lunch. Time is calculated by adding the hours and the minutes to get the total hours for the two-week period. The Administrative Assistant prepares the payroll checks, showing the total hours, total withholdings and net pay in preparation for the CEO to sign. Based on our discussions with First Choice personnel, we believe the aforementioned errors in payroll

calculations were the result of clerical error and insufficient supervisory review by the Program Director and CEO to ensure hours and gross pay are calculated correctly.

Chapter 21, Article 5, Section 3 of the West Virginia Code states in part:

“Every person, firm or corporation doing business in this state, except railroad companies as provided in section one of this article, shall settle with its employees at least once in every two weeks, unless otherwise provided by special agreement, and pay them the wages due, less authorized deductions and authorized wage assignments, for their work or services in lawful money of the United States, . . .”

Section XII, 12.01(d) of the grant agreement between First Choice Health Systems, Inc. and DHHR states:

12.01(d) Grantee shall be exclusively responsible for the payment to its employees and contractors of all wages and salaries, taxes, withholding payments, penalties, fees, fringe benefits, compliance with the wage and hour law and all other employment laws.”

By not verifying the correct number of hours on employees' time cards, prior to checks being created and signed for payment, gross pay and related withholdings were miscalculated in the aforementioned instances. Of the 45 randomly selected payroll transactions tested three transactions or 6.7% exhibited errors were miscalculated. The three transactions involved the calculation of hours worked by hourly employees. Of the 13 hourly transactions in the population tested these three errors resulted in an error rate of 23.1%. The errors in gross pay resulted in DHHR being under billed for reimbursement of Salaries Expense in an amount of \$53.44 for these transactions. Also, First Choice under billed \$5.34 in indirect costs. Total under billing for reimbursement was \$58.78. In addition these miscalculations have caused First Choice to also mis-state employee and employer obligations related to taxes and social programs on the state and national levels.

We recommend that First Choice Health Systems, Inc. comply with Chapter 21, Article 5, Section 3 of the West Virginia Code and Section XII, 12.01(d) of the grant agreement between the DHHR and First Choice Health Systems, Inc. We also recommend First Choice review all hourly employees payroll calculations for accuracy.

First Choice's Response

First Choice Health Systems acknowledges the underpayment of \$53.44 to its employees. First Choice has taken proactive measures to ensure this issue no longer persists.

First Choice's Conclusion

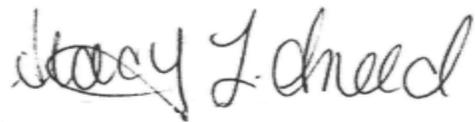
First Choice Health Systems will agree to reimburse the appropriate state agency \$17,029.19 from this audit as well as make the needed changes as requested by the West Virginia Legislative Post Audit Division. This report along with the previous report provided by the West Virginia Legislative Post Audit Division has been reviewed by First Choice Health Systems regular independent auditor. Further discussion has been conducted about additional actions we can take to ensure or reduce the likelihood of future errors. We believe the new contract will avoid a number of the situations that have led to these findings.

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

I, Acting Director of the Legislative Post Audit Division, do hereby certify that the report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 10th day of December 2007.

A handwritten signature in black ink that reads "Stacy L. Sneed". The signature is written in a cursive style with a large, stylized 'S' at the beginning.

Stacy L. Sneed, CPA Acting Director
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the Department of Health and Human Resources; First Choice Health Systems, Inc.; Governor; Attorney General; State Auditor; and, Director of Finance Division, Department of Administration.