

Consolidated Financial Statements and Report of
Independent Certified Public Accountants in
Accordance with OMB Circular A-133

NHS Pennsylvania

June 30, 2011 and 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **MAR 07 2012**

Contents

	Page
Report of Independent Certified Public Accountants	3
Consolidated financial statements	
Consolidated balance sheets	5
Consolidated statements of operations and changes in unrestricted net assets	6
Consolidated statements of cash flows	7
Notes to consolidated financial statements	8
Supplemental information	
Schedule of Expenditures of Federal Awards	18
Notes to Schedule of Expenditures of Federal Awards	19
Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters	20
Report of Independent Certified Public Accountants on Compliance with Major Programs (OMB Circular A-133) and on Internal Control Over Compliance	22
Schedule of Findings and Questioned Costs	24
Summary Schedule of Prior Audit Findings	26
Agreed-Upon Procedures Report of Independent Certified Public Accountants on Indirect Cost Allocation	27
Intellectual Developmental Disabilities Cost Report Schedule A - Expense Report	28
Intellectual Developmental Disabilities Cost Report Schedule A - Expense Report Reconciliation	29
County Supplemental Information	



Audit • Tax • Advisory

Grant Thornton LLP
2001 Market Street, Suite 3100
Philadelphia, PA 19103-7080

T 215.561.4200
F 215.561.1066
www.GrantThornton.com

Report of Independent Certified Public Accountants

Board of Directors
NHS Pennsylvania

We have audited the accompanying consolidated balance sheets of NHS Pennsylvania as of June 30, 2011 and 2010 and the related consolidated statements of operations and changes in unrestricted net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of NHS Pennsylvania's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NHS Pennsylvania's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NHS Pennsylvania as of June 30, 2011 and 2010, and the consolidated results of operations and changes in unrestricted net assets and the consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2012 on our consideration of NHS Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of NHS Pennsylvania's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of NHS Pennsylvania taken as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis as required by pass-through agencies guidelines and is not a required part of the basic consolidated financial statements. The accompanying supplementary information listed in the table of contents on pages 28 and 29 is presented for purposes of additional analysis as required by the Waiver Direct Service Provider Audit Requirements of the Pennsylvania Department of Public Welfare, Office of Developmental Programs, and is not a required part of the basic consolidated financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania

January 27, 2012

NHS Pennsylvania

CONSOLIDATED BALANCE SHEETS

June 30,

ASSETS	<u>2011</u>	<u>2010</u>
Current assets		
Cash	\$ 33,901	\$ 29,719
Restricted cash	333,886	199,199
Accounts receivable, net	21,851,663	20,043,007
Due from affiliates	-	2,579,632
Earned but unbilled accounts receivable	292,701	355,423
Prepaid expenses and other current assets	<u>269,505</u>	<u>306,534</u>
Total current assets	22,781,656	23,513,514
Property and equipment, net	12,664,060	10,497,461
Other assets	<u>762,588</u>	<u>940,405</u>
Total assets	<u>\$36,208,304</u>	<u>\$ 34,951,380</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities		
Short-term borrowings	\$ 6,624,204	\$ 8,571,535
Current maturities of long-term debt	168,318	146,596
Due to affiliates	4,743,335	-
Deferred revenue, current	618,048	548,076
Accrued payroll	5,133,017	3,958,841
Accrued expenses and other current liabilities	<u>4,634,396</u>	<u>4,219,118</u>
Total current liabilities	21,921,318	17,444,166
Deferred revenue and other long-term liabilities	3,250,941	2,854,199
Long-term debt, net of current maturities	<u>3,344,247</u>	<u>2,896,287</u>
Total liabilities	28,516,506	23,194,652
Unrestricted net assets	<u>7,691,798</u>	<u>11,756,728</u>
Total liabilities and unrestricted net assets	<u>\$36,208,304</u>	<u>\$ 34,951,380</u>

The accompanying notes are an integral part of these consolidated financial statements.

NHS Pennsylvania

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN
UNRESTRICTED NET ASSETS**

Years ended June 30,

	<u>2011</u>	<u>2010</u>
Revenues		
Net consumer service revenue	\$ 160,993,803	\$ 136,260,241
Other revenue	<u>886,289</u>	<u>722,087</u>
Total revenues	<u>161,880,092</u>	<u>136,982,328</u>
Expenses		
Salaries	78,980,452	65,486,766
Employee benefits	18,688,888	15,207,980
Purchased services	15,135,278	14,145,143
Occupancy	8,565,461	6,593,130
Insurance	1,855,912	1,648,450
Supplies and other	32,159,727	21,636,600
Provision for bad debts	1,895,160	2,685,486
Depreciation	1,685,627	1,338,902
Interest	<u>207,989</u>	<u>166,832</u>
Total expenses	<u>159,174,494</u>	<u>128,909,289</u>
Excess revenues over expenses	2,705,598	8,073,039
Unrestricted net assets, beginning of year	11,756,728	3,683,689
Net asset deficiency acquired via merger (Note J)	<u>(6,770,528)</u>	<u>-</u>
Unrestricted net assets, end of year	<u>\$ 7,691,798</u>	<u>\$ 11,756,728</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2011</u>	<u>2010</u>
Operating activities		
Change in unrestricted net assets	\$ 2,705,598	\$ 8,073,039
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Loss on disposal of property	-	15,020
Depreciation	1,685,627	1,338,902
Provision for bad debts	1,895,160	2,685,486
Changes in operating assets and liabilities		
Change in restricted cash	(134,687)	(19,962)
Accounts receivable	(2,781,002)	1,740,753
Due to/from affiliates	(195,280)	(11,632,090)
Earned but unbilled accounts receivable	174,339	96,636
Prepaid expenses and other current assets	153,986	234,175
Other assets	(42,826)	(69,229)
Deferred revenue, current	69,972	(26,107)
Accrued payroll	779,048	(181,146)
Accrued expenses and other current liabilities	(175,488)	759,679
Deferred revenue and other long-term liabilities	<u>19,829</u>	<u>(634,454)</u>
Net cash provided by operating activities	<u>4,154,276</u>	<u>2,380,702</u>
Investing activities		
Purchase of property and equipment	<u>(1,986,692)</u>	<u>(1,287,883)</u>
Net cash used in investing activities	<u>(1,986,692)</u>	<u>(1,287,883)</u>
Financing activities		
Net payments from short-term borrowings	(2,005,334)	(956,473)
Principal payments on long-term debt	<u>(158,068)</u>	<u>(136,856)</u>
Net cash used in financing activities	<u>(2,163,402)</u>	<u>(1,093,329)</u>
Net increase (decrease) in cash	4,182	(510)
Cash, beginning of year	<u>29,719</u>	<u>30,229</u>
Cash, end of year	<u>\$ 33,901</u>	<u>\$ 29,719</u>
Supplemental cash flow information		
Interest paid	<u>\$ 205,555</u>	<u>\$ 168,688</u>
Increase in mortgage payable for the purchase of property	<u>\$ 627,750</u>	<u>\$ 333,750</u>

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE A - ORGANIZATION

NHS Pennsylvania is a not-for-profit 501(c)(3), tax-exempt organization incorporated in the Commonwealth of Pennsylvania.

NHS Pennsylvania is the sole corporate member of NHS Stevens Center, which is the parent of Stevens Housing Corporation. NHS Pennsylvania and its subsidiaries provide comprehensive community mental health and intellectual developmental disabilities services, consisting of crisis outpatient, partial hospitalization, consulting and education. NHS Pennsylvania also provides residential, aftercare, foster care and case management services to residents of central and western Pennsylvania, Louisiana and New York.

Effective July 1, 2010, the assets, liabilities, net asset deficiency and operations of two related parties, Edgewater Psychiatric Center (Edgewater) and Northwestern Human Services of Susquehanna Valley (NHS Susquehanna Valley), were merged into NHS Pennsylvania (Note J). Both Edgewater and NHS Susquehanna Valley provided services similar to those provided by NHS Pennsylvania.

NHS Human Services, Inc. (NHS) is the sole corporate member of NHS Pennsylvania. NHS is a not-for-profit, tax-exempt corporation that serves as the parent organization of its for-profit and not-for-profit organizations, which are committed to delivering, and supporting the delivery of, mental health, intellectual developmental disabilities, drug and alcohol, juvenile justice and other health and human services to the residents of Pennsylvania, Louisiana, New York, New Jersey, Maryland, Delaware and Virginia.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The consolidated financial statements of NHS Pennsylvania are prepared and presented in accordance with accounting principles generally accepted in the United States of America for health care organizations. The consolidated financial statements include the accounts of NHS Pennsylvania and its subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Cash and Restricted Cash

NHS Pennsylvania participates in a consolidated cash management account with other NHS affiliates. All cash receipts are directed to lock boxes associated with the short-term borrowings (Note G). Restricted cash represents client funds held by NHS Pennsylvania.

3. Allowance for Doubtful Accounts

The allowance for doubtful accounts is maintained to absorb losses in NHS Pennsylvania's accounts receivable. NHS Pennsylvania continually monitors accounts receivable for collectability issues. An allowance for doubtful accounts is based upon management's judgment and is established based on a review of the types of individual accounts, prior collection history, the nature of the service provided and other pertinent factors. Accounts deemed uncollectible are charged to the allowance. The allowance for doubtful accounts was approximately \$2,237,000 and \$2,267,000 at June 30, 2011 and 2010, respectively.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Earned but Unbilled Accounts Receivable

NHS Pennsylvania is reimbursed by funding agencies for expenses in program-funded operations. Certain expenses are accrued for financial reporting purposes, but are not billed as program expenditures until paid. To properly match revenue and expenses, NHS Pennsylvania records an earned but unbilled accounts receivable for this accrual, and the related liability is included in accrued expenses. At June 30, 2011 and 2010, earned but unbilled accounts receivable of \$292,701 and \$355,423, respectively, are included in other current assets on the consolidated balance sheets and are attributable to accrued vacation expenses.

5. Property and Equipment

Property and equipment are recorded at cost. Depreciation has been provided by the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and building improvements	10 - 30 years
Equipment, furniture and automobiles	3 - 15 years

6. Deferred Revenue

Portions of grant awards are utilized to purchase property and equipment. NHS Pennsylvania has deferred the recognition of grant revenue related to these acquisitions until the equipment is depreciated to properly match grant revenue and depreciation expense. This deferral is recorded as deferred revenue. Such property acquired is considered to be owned by NHS Pennsylvania while used in the program for which it was purchased or in other future authorized programs; however, the funding agencies maintain a reversionary interest in the property. Its disposition, as well as the ownership of any proceeds therefrom, is subject to government regulations.

7. Revenue Recognition

NHS Pennsylvania receives its funding through contracts with states, various cities and counties, federal programs, and agreements with managed care and insurance organizations. These contracts generally fall into two categories: cost reimbursement and fee-for-service.

Net consumer service revenue is reported at the estimated net realizable amounts from consumers, third-party payors, and others for services rendered, including estimated retroactive settlements under reimbursement agreements with third-party payors. Payment arrangements include prospectively determined fee-for-service rates. The ultimate determination of amounts reimbursable under cost reimbursement contracts is based upon allowable costs to be reported to and audited by grantors and/or their agents.

Laws and regulations governing these programs are complex and subject to interpretation. NHS Pennsylvania believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future regulatory review and interpretation.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Use of Estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of the allowance for doubtful accounts for receivables, allocation of administrative expenses, assumptions used to determine liabilities for self-insured employee benefit plans and the useful lives of fixed assets. Actual results could differ from those estimates.

9. Income Taxes

A tax position is recognized or derecognized by NHS Pennsylvania based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. NHS Pennsylvania does not believe its consolidated financial statements include any material uncertain tax positions.

10. Recently Adopted Accounting Pronouncement

In January 2010, the Financial Accounting Standards Board (FASB) issued accounting guidance to enhance fair value measurement disclosures by requiring the reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reason for the transfers. Furthermore, activity in Level 3 fair value measurements should separately provide information about purchases, sales, issues and settlements rather than providing that information as one net number. This guidance is effective for financial statements issued for periods beginning after December 15, 2009, with the exception of the enhanced Level 3 disclosures, which are effective for reporting periods beginning after December 15, 2010. The adoption of this guidance, with the exception of the enhanced Level 3 disclosures which will be adopted the fiscal year ending June 30, 2012, did not have a material impact on the consolidated financial statements.

11. Pending Accounting Pronouncements

In August 2010, the FASB issued guidance to reduce the diversity in practice related to the accounting by health care entities for medical malpractice and similar liabilities, and their related expected insurance recoveries. The new guidance requires that insurance claims liabilities be determined without consideration of any expected insurance recoveries, consistent with practice in other industries. The guidance also clarifies that health care entities should no longer net expected insurance recoveries against the related claims liabilities. The malpractice liability guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Retrospective and early application is also permitted. NHS is evaluating the impact of adopting this guidance on its results of operations and financial position.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

In July 2011, the FASB issued authoritative guidance to provide amendments to the presentation of the statement of operations for certain health care entities and enhanced disclosure about net patient service revenue and the related allowance for doubtful accounts. These amendments require certain health care entities to present their provision for bad debts associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts). These amendments also require disclosure of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. Additionally, health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. This guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by the amendments in this update should be provided for the period of adoption and subsequent reporting periods. NHS is evaluating the impact of adopting this guidance on its results of operations and financial position.

NOTE C - NET CONSUMER SERVICE REVENUE

Concentrations of revenues are as follows for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Managed care organizations	42%	48%
County contracts	26%	23%
Medical Assistance	24%	23%

Net accounts receivable consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
County	\$ 8,197,280	\$ 3,796,594
Managed care organizations	7,223,374	8,904,518
Medical Assistance	3,422,466	6,081,491
Other third parties	<u>3,008,543</u>	<u>1,260,404</u>
	<u>\$ 21,851,663</u>	<u>\$ 20,043,007</u>

NOTE D - PENSION PLAN

NHS has a 403(b) plan for substantially all employees of NHS and certain affiliates, including NHS Pennsylvania. Vesting in the plan is immediate. Employee contributions to the plan are fully matched up to 4.5% of the employees' salary. The plan also provides for an additional match of 5% of employee contributions for employees with at least 5 years of service, and 10% of employee contributions for employees with at least 10 years of service.

Employer contributions for the years ended June 30, 2011 and 2010 were \$866,582 and \$863,924, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 757,387	\$ 734,882
Buildings and building improvements	14,223,051	10,483,190
Furniture, equipment and automobiles	<u>6,374,732</u>	<u>4,550,292</u>
Total property and equipment	21,355,170	15,768,364
Less accumulated depreciation	<u>(8,691,110)</u>	<u>(5,270,903)</u>
Property and equipment, net	<u>\$12,664,060</u>	<u>\$10,497,461</u>

Depreciation expense related to the property and equipment was \$1,488,292 and \$1,187,553 for the years ended June 30, 2011 and 2010, respectively.

NOTE F - RELATED PARTY TRANSACTIONS

NHS Pennsylvania is one of a group of affiliated organizations related by way of common ownership and/or membership. NHS is the sole corporate member or parent company of each of the affiliated organizations. NHS Pennsylvania has significant transactions with members of the affiliated group for administrative and support services, and facility and equipment rentals. Repayment and receipt of amounts due to or from affiliated organizations is expected when cash is available. The Board of Directors authorized NHS, at the discretion of management, to charge a management fee to all non-profit subsidiaries of which it is the sole corporate member, in an amount not to exceed net income for the fiscal year. The amount due to affiliated organizations was \$4,743,335 for the year ended June 30, 2011. The amount due from affiliated organizations was \$2,579,632 for the year ended June 30, 2010.

For the years ended June 30, 2011 and 2010, NHS Pennsylvania incurred the following expenses with related parties:

	<u>2011</u>	<u>2010</u>
Administration and support services	\$ 16,334,902	\$ 13,086,199
Management fee	5,000,000	-
Depreciation	63,994	151,349
Facility, equipment and auto rentals	<u>705,531</u>	<u>526,057</u>
	<u>\$ 22,104,427</u>	<u>\$ 13,763,605</u>

Interest expense related to the outstanding short-term borrowings is charged to the affiliated organizations in accordance with the NHS cost allocation plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE G - SHORT-TERM BORROWINGS

NHS Pennsylvania has a revolving credit loan with maximum borrowings to \$15,000,000. Interest is payable monthly at the annual LIBOR rate plus 4.00%, with an interest rate floor of 6.75% (effective rate of 6.75% at June 30, 2011 and 2010). The note expires in January 2012. The outstanding balance of this loan was \$6,624,204 and \$8,571,535 at June 30, 2011 and 2010, respectively. This line of credit facility is secured by all assets of NHS Pennsylvania.

NOTE H - LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Mortgages and notes payable	\$ 3,512,565	\$ 3,042,883
Less current maturities	<u>(168,318)</u>	<u>(146,596)</u>
	<u>\$ 3,344,247</u>	<u>\$ 2,896,287</u>

NHS Pennsylvania obtained financing through various mortgage agreements to purchase residential properties. Each note is secured by the underlying property. Principal and interest payments are made in monthly installments throughout the terms of the mortgages (5 - 20 years). Interest rates on the mortgages are based on both fixed and variable rates ranging from 4.5% to 8.63%.

At June 30, 2011 and 2010, NHS and the Stevens Center have a secured note payable outstanding in the amount of \$430,000 and \$490,000, respectively. The note bears interest at the Wall Street Prime Rate plus 0.5% (effective rate of 3.75% at June 30, 2011 and 2010). Principal payments in the amount of \$5,000 are due monthly. This note expires in July 2018.

Future Principal Payments

Future maturities of principal payments on long-term debt, for the next five years, are as follows:

Year ending June 30:

2012	\$ 168,318
2013	1,118,251
2014	919,366
2015	373,653
2016	611,795

The debt agreements require NHS to comply with certain terms, covenants, provisions and conditions, including, but not limited to, limitations on additional indebtedness and satisfaction of certain measures of financial performance.

The estimated fair value of long-term debt, based on quoted market prices for the same or similar issues, approximates its carrying value at June 30, 2011 and 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE I - COMMITMENTS AND CONTINGENCIES

1. Lease Commitments

NHS Pennsylvania has entered into lease agreements for real estate, vehicles and equipment with various vendors. NHS Pennsylvania also enters into formal leases with affiliates. Various leases, both with vendors and affiliates, are renewed on a year-to-year basis, and are thus excluded from the future minimum rental payments in the following table.

The following is a schedule of future minimum lease payments for operating leases with noncancellable lease terms in excess of one year:

Year ending June 30:

2012	\$ 2,181,884
2013	1,391,203
2014	1,209,886
2015	973,860
2016	801,905
Thereafter	<u>915,174</u>
	<u>\$ 7,473,912</u>

Rental expense for the years ended June 30, 2011 and 2010 totaled \$6,496,003 and \$5,306,552, respectively.

2. Professional Liability Insurance

NHS Pennsylvania maintains professional liability insurance coverage of \$5,000,000 per occurrence up to an annual aggregate of \$5,000,000. The cost of professional liability insurance amounted to \$852,689 and \$671,075 in 2011 and 2010, respectively.

There are known incidents occurring through June 30, 2011 that may result in the assertion of claims against NHS Pennsylvania, and other claims may be asserted arising from services provided to consumers in the past. In management's opinion, NHS Pennsylvania has adequate insurance coverage with respect to each of these incidents and does not believe that ultimate resolution of such claims would materially impact the accompanying consolidated financial statements.

3. Self-Insured Employee Benefit Plans

NHS provides vision, dental, prescription, unemployment and workers' compensation coverage on a self-insured basis to substantially all employees of NHS.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE I - COMMITMENTS AND CONTINGENCIES - Continued

Management has established premiums for the self-funded plans based upon the combined claims history of all plan members. Additionally, NHS maintains a reinsurance policy for workers' compensation claims that exceed specified deductibles on an individual and aggregate basis.

Due to the complexities and uncertainties involved in the actuarial evaluations, actual results could vary significantly from the estimated projections.

4. Litigation

NHS Pennsylvania is from time to time subject to routine litigation incidental to its business. Management and its counsel believe that insurance policies are sufficient to cover potential settlements and that any pending litigation will not have a materially adverse effect on NHS Pennsylvania's consolidated financial position.

NOTE J - MERGER

Effective July 1, 2010, the assets, liabilities, net asset deficiency and operations of Edgewater and NHS Susquehanna Valley were merged into NHS Pennsylvania.

The following table summarizes the assets, liabilities and net asset deficiency merged into NHS Pennsylvania on the date of the merger:

	<u>Edgewater</u>	NHS Susquehanna <u>Valley</u>	<u>Total</u>
Current assets	\$ 510,805	\$ 646,914	\$ 1,157,719
Property and equipment, net	696,699	343,750	1,040,449
Other assets	<u>7,648</u>	<u>12,239</u>	<u>19,887</u>
Total assets	<u>\$ 1,215,152</u>	<u>\$ 1,002,903</u>	<u>\$ 2,218,055</u>
Current liabilities	\$ 7,644,046	\$ 967,624	\$ 8,611,670
Deferred revenue, long-term	310,131	66,782	376,913
Net asset deficiency	<u>(6,739,025)</u>	<u>(31,503)</u>	<u>(6,770,528)</u>
Total liabilities and net asset deficiency	<u>\$ 1,215,152</u>	<u>\$ 1,002,903</u>	<u>\$ 2,218,055</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE K - FUNCTIONAL EXPENSES

NHS Pennsylvania is committed to delivering, or supporting the delivery of, behavioral health and intellectual developmental disabilities to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2011</u>	<u>2010</u>
Program expenses		
Behavioral health	\$ 95,137,078	\$ 84,539,113
Intellectual developmental disabilities	40,040,359	29,865,169
General and administrative expenses		
Indirect costs	18,997,057	14,505,007
Management fee	<u>5,000,000</u>	<u>-</u>
Total expenses	<u>\$159,174,494</u>	<u>\$128,909,289</u>

NOTE L - SUBSEQUENT EVENTS

NHS Pennsylvania evaluated its June 30, 2011 consolidated financial statements for subsequent events through January 27, 2012, the date the consolidated financial statements were available to be issued. NHS Pennsylvania is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTAL INFORMATION

NHS Pennsylvania

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2011

Grantor/pass-through grantor/program title	Federal program name	Federal CFDA number	Grant period	Expenditures
U.S. Department of Health and Human Services				
Pass-through Pennsylvania Department of Health and Human Services	Medical Assistance Program (Medicaid)	93.778	07/01/10 - 06/30/11	\$ 20,747,993
	Medical Assistance Program (Medicaid) - Stimulus	93.778	07/01/10 - 06/30/11	<u>2,955,873</u>
				23,703,866
Pass-through Department of Substance Abuse and Mental Health Services Administration	Block Grants for Prevention and Treatment of Substance Abuse	93.959	07/01/10 - 06/30/11	12,074
Pass-through Department of Public Welfare	Temporary Assistance for Needy Families (TANF)	93.558	07/01/10 - 06/30/11	115,370
Various County Children & Youth Programs	Foster Care: Title IV-E	93.658	07/01/10 - 06/30/11	1,877,155
	Foster Care: Title IV-E Stimulus	93.658	07/01/10 - 06/30/11	<u>32,240</u>
				1,909,395
Pass-through Department of Substance Abuse and Mental Health Services Administration	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	07/01/10 - 06/30/11	124,964
Pass-through Department of Public Welfare	Block Grants for Community Mental Health Services	93.958	07/01/10 - 06/30/11	160,291
County Mental Health and IDD Programs	Social Services Block Grant	93.667	07/01/10 - 06/30/11	<u>468,550</u>
				26,494,510
Total U.S. Department of Health and Human Services				
U.S. Department of Housing and Urban Development				
Direct Funding	Supportive Housing Program	14.235	07/01/10 - 06/30/11	<u>47,192</u>
				47,192
Total U.S. Department of Housing and Urban Development				
U.S. Department of Justice				
Direct Funding	Edward Byrne Memorial Justice Assistance Grant - Stimulus	16.803	07/01/10 - 06/30/11	90,704
Pass-through Bureau of Justice Assistance	Second Chance Act Prisoner Re-entry Initiative	16.812	07/01/10 - 06/30/11	<u>236,975</u>
				327,679
Total U.S. Department of Justice				\$ 26,869,381
Total Expenditures of Federal Awards				

The accompanying notes to the Schedule of Expenditures of Federal Awards should be read in conjunction with this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2011

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the grant expenditures of NHS Pennsylvania and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B - PENNSYLVANIA CONFIRMATION

The audit confirmation received from the Department of Public Welfare contained Medical Assistance payment history for the period July 1, 2010 through June 30, 2011. These payments represented all payments made through the Provider Reimbursement and Operations Management Information Systems (PROMISe). This payment history contained payments for expenditures for both the period ended June 30, 2011 as well as June 30, 2010. The Schedule of Expenditures of Federal Awards contains only the expenditures related to the period ended June 30, 2011.



Grant Thornton

**Report of Independent Certified Public Accountants on
Internal Control Over Financial Reporting and on
Compliance and Other Matters**

Audit • Tax • Advisory

Grant Thornton LLP
2001 Market Street, Suite 3100
Philadelphia, PA 19103-7080

T 215.561.4200
F 215.561.1066
www.GrantThornton.com

Board of Directors
NHS Pennsylvania

We have audited the consolidated financial statements of NHS Pennsylvania, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NHS Pennsylvania's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of NHS Pennsylvania's internal control over financial reporting. Accordingly, we express no such opinion.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in NHS Pennsylvania's internal control over financial reporting. We did not identify any deficiencies in NHS Pennsylvania's internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NHS Pennsylvania's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of NHS Human Services, Inc. in a separate letter dated November 4, 2011.

This report is intended solely for the information and use of management, the Board of Directors and the applicable federal agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Philadelphia, Pennsylvania

January 27, 2012



Audit • Tax • Advisory

Grant Thornton LLP
2001 Market Street, Suite 3100
Philadelphia, PA 19103-7080

T 215.561.4200
F 215.561.1066
www.GrantThornton.com

Report of Independent Certified Public Accountants on Compliance with Major Programs (OMB Circular A-133) and on Internal Control Over Compliance

Officers and Directors
NHS Pennsylvania

Compliance

We have audited the compliance of NHS Pennsylvania with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2011. NHS Pennsylvania's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of NHS Pennsylvania's management. Our responsibility is to express an opinion on NHS Pennsylvania's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NHS Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of NHS Pennsylvania's compliance with those requirements.

In our opinion, NHS Pennsylvania complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of NHS Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered NHS Pennsylvania's internal control over compliance with requirements that could have a direct and

material effect on a major federal program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of NHS Pennsylvania's internal control over compliance. Accordingly, we express no such opinion.

A deficiency in NHS Pennsylvania's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance on a timely basis with a type of compliance requirement of a federal program. A material weakness is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that the material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, we did not identify any deficiencies in NHS Pennsylvania's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

This report is intended for the use of management, the Board of Directors and the applicable federal agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Philadelphia, Pennsylvania

January 27, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes X no

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

93.778
93.658
93.667

Medical Assistance (Medicaid)
Foster Care: Title IV-E
Social Services Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$806,081

Auditee qualified as low-risk auditee? X yes _____ no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended June 30, 2011

Section II - Financial Statement Findings

No matters required to be reported.

Section III - Federal Award Findings and Questioned Costs

No matters required to be reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2011

Finding #2010-01

93.778 - Medical Assistance Program (Medicaid) - Pass-through Pennsylvania Department of Public Welfare

Summary

During the prior year, NHS Pennsylvania did not comply with the special tests and provisions of OMB Circular A-133 that require all not-for-profit organizations receiving American Reinvestment and Recovery Act (ARRA) funding to agree to maintain records that identify adequately the source and application of ARRA awards and to provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC).

Corrective Action Status

NHS Pennsylvania has complied with the special tests and provisions of OMB Circular A-133 as it relates to ARRA funding.



Grant Thornton

**Agreed-Up Procedures Report of Independent Certified
Public Accountants on Indirect Cost Allocation**

Board of Directors
NHS Pennsylvania

Audit • Tax • Advisory

Grant Thornton LLP
2001 Market Street, Suite 3100
Philadelphia, PA 19103-7080

T 215.561.4200
F 215.561.1066
www.GrantThornton.com

We have examined management's assertion about NHS Pennsylvania's compliance with The Commonwealth of Pennsylvania, Department of Public Welfare, Section 4300.94 of the Title 4300 regulations during the year ended June 30, 2011. Management is responsible for NHS Pennsylvania's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about NHS Pennsylvania's compliance based on our examination.

Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about NHS Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on NHS Pennsylvania's compliance with The Commonwealth of Pennsylvania, Department of Public Welfare, Section 4300.94 of the Title 4300 regulations.

In our opinion, NHS Pennsylvania complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2011.

This report is intended for the information of the Board of Directors, management of NHS Pennsylvania, and applicable federal agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Philadelphia, Pennsylvania

January 27, 2012

**INTELLECTUAL DEVELOPMENTAL DISABILITIES COST REPORT
SCHEDULE A - EXPENSE REPORT**

Year ended June 30, 2011

Schedule A column reference	E	F
	Excluded Non- Allowable Waiver Expenses	Eligible and Ineligible Expenses for Waiver Participants
Expenses by category		
1 Program direct care staff salary/wages (Schedule D)	\$ 1,779	\$ 12,925,136
2 Program direct care staff ERE (Schedule D)	531	3,904,679
3 Other program staff salary/wages (Schedule D-1)	-	4,143,125
4 Other program staff ERE (Schedule D-1)	-	1,177,755
5 Contracted staff (Schedule D-2)	-	998,130
6 Administrative staff salary/wages (Schedule D-3)	-	716,204
7 Administrative staff ERE (Schedule D-3)	-	186,423
8 Program supplies (Schedule F)	17,347	97,099
9 Other vehicle expense (Schedule E-1)	-	-
10 Other program expense (Schedule F)	-	3,852,319
11 Transportation - participant motor vehicle (Schedule E-1)	-	10,360
12 Transportation - participant (Schedule I)	-	1,254,904
13 Other occupancy expense (Schedule F-1)	-	528,848
14 Depreciation - buildings (Schedule E)	-	2,829
15 Depreciation - fixed assets/equipment (Schedule E-2)	-	6,528
16 Total expenses, excluding residential occupancy	19,656	29,804,338
17 Contributions/revenue (expense offset) (Schedule B)	-	46,067
18 Expenses, net of contributions/revenue	19,656	29,758,271
Residential occupancy		
24 Residential occupancy (Schedule J)	13,154	4,017,272
26 Total expenses (line 16 + line 24)	<u>\$ 32,810</u>	<u>\$ 33,821,611</u>

INTELLECTUAL DEVELOPMENTAL DISABILITIES COST REPORT
 SCHEDULE A - EXPENSE REPORT RECONCILIATION

Year ended June 30, 2011

Schedule A Column F Reconciliation			
Schedule A column reference	Audit F	Cost Report F	Difference [A] F
	Eligible and Ineligible Expenses for Waiver Participants	Eligible and Ineligible Expenses for Waiver Participants	Eligible and Ineligible Expenses for Waiver Participants
Expenses by category			
1	Program direct care staff salary/wages (Schedule D)	\$ 12,925,136	\$ 12,925,136
2	Program direct care staff ERE (Schedule D)	3,904,679	3,904,679
3	Other program staff salary/wages (Schedule D-1)	4,143,125	4,143,125
4	Other program staff ERE (Schedule D-1)	1,177,755	1,177,755
5	Contracted staff (Schedule D-2)	998,130	998,130
6	Administrative staff salary/wages (Schedule D-3)	716,204	716,204
7	Administrative staff ERE (Schedule D-3)	186,423	186,423
8	Program supplies (Schedule F)	97,099	97,099
9	Other vehicle expense (Schedule E-1)	-	-
10	Other program expense (Schedule F)	3,852,319	3,852,319
11	Transportation - participant motor vehicle (Schedule E-1)	10,360	10,360
12	Transportation - participant (Schedule I)	1,254,904	1,254,904
13	Other occupancy expense (Schedule F-1)	528,848	528,848
14	Depreciation - buildings (Schedule E)	2,829	2,829
15	Depreciation - fixed assets/equipment (Schedule E-2)	6,528	6,528
16	Total expenses, excluding residential occupancy	29,804,338	29,804,338
17	Contributions/revenue (expense offset) (Schedule B)	46,067	46,067
18	Expenses, net of contributions/revenue	29,758,271	29,758,271
Residential occupancy			
24	Residential occupancy (Schedule J)	4,017,272	4,017,272
26	Total expenses (line 16 + line 24)	<u>\$ 33,821,611</u>	<u>\$ 33,821,611</u>

Schedule B Column B Reconciliation			
	Audit	Cost Report	Difference
Total revenue - waiver LOB	<u>\$ 36,110,645</u>	<u>\$ 36,110,645</u>	<u>\$ -</u>

LOUISIANA CAPITAL AREA HUMAN SERVICES DISTRICT
MH PROGRAM SCHEDULES



Grant Thornton

**Report of Independent Certified Public Accountants on
Supplemental Information**

Board of Directors
NHS Pennsylvania

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole of NHS Pennsylvania as of and for the year ended June 30, 2011, which are presented in the preceding section of this report. The following supplemental information for the year ended June 30, 2011 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we express no opinion on it.

Grant Thornton LLP

Philadelphia, Pennsylvania

January 27, 2012

Audit • Tax • Advisory

Grant Thornton LLP
2001 Market Street, Suite 3100
Philadelphia, PA 19103-7080

T 215.561.4200
F 215.561.1066
www.GrantThornton.com

NHS Pennsylvania
Capital Area Human Services District - Baton Rouge, LA
 Schedule of Individual Program Revenues and Expenses
 For the year ended June 30, 2011

	F/ACT	ICM	Total
REVENUE			
CAHSD LOUISIANA	\$ 892,684	\$ 171,684	\$ 1,064,368
OTHER			
TOTAL REVENUE	892,684	171,684	1,064,368
DIRECT PERSONNEL SERVICES			
PERSONAL SERVICES	511,839	98,155	609,994
RELATED BENEFITS	81,280	12,239	93,519
PROFESSIONAL SERVICES	49,990	8,066	58,056
TOTAL DIRECT PERSONNEL SERVICES	643,109	118,460	761,569
OPERATING EXPENSES			
OPERATING SERVICES	74,058	6,351	80,409
SUPPLIES	8,255	638	8,893
TRAVEL	36,525	6,475	43,000
CAPITAL ASSETS	39,802	21,337	61,139
TOTAL OPERATING EXPENSES	158,640	34,801	193,441
OTHER EXPENSES			
ADMINISTRATIVE	91,509	18,619	110,128
TOTAL OTHER EXPENSES	91,509	18,619	110,128
TOTAL EXPENSES	893,258	171,880	1,065,138
DUE TO COUNTY / (UNREIMBURSED COST)	\$ (574)	\$ (196)	\$ (770)



Grant Thornton

March 2, 2012

Tanya A. Forbes, MSA
Engagement Analyst II
Louisiana Legislative Auditor
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Audit • Tax • Advisory

Grant Thornton LLP
2001 Market Street, Suite 3100
Philadelphia, PA 19103-7080

T 215.561.4200
F 215.561.1066

www.GrantThornton.com

RE: NHS of Pennsylvania ID # 10394 NP

Dear Ms. Forbes,

In connection with our financial statement and Single Audit of NHS Pennsylvania as of and for the year ended June 30, 2011, we verbally communicated to management a finding related to reporting to the State of Louisiana as an instance of non-compliance. In our opinion, this instance of non-compliance did not meet the criteria for material non-compliance required to be reported in a schedule of findings and questioned costs in accordance with OMB Circular A-133 Section 510 (a) (2).

A summary of that deficiency is as follows:

Criteria

Section 334.01 of the Louisiana Governmental Audit Guide (the "Guide") requires that all audits and engagements must be completed and transmitted to the legislative auditor within six months of the close of the auditee's fiscal year. An agency may request an extension of the deadline to submit the audit by completing an on-line form at the Louisiana Legislative Auditor's website.

Condition

The audit of NHS Pennsylvania was not transmitted to the legislative auditor within six months of the close of the NHS Pennsylvania's fiscal year, June 30, 2011. A request for extension was sent by management in December via email to Louisiana Legislative Auditor contact personnel, however, a formal request as required by the Guide was not made until January 2012. Management was not familiar with the formal request process. The request was made in January of 2012 and the results of the audit engagement were transmitted to Louisiana by February 2012.

Cause

NHS Pennsylvania receives funding from various state and local funding sources. These funding sources provide audit confirmations that is the basis of the Schedule of Expenditures of Federal Awards for NHS Pennsylvania. Certain audit confirmations from these funding sources were not received until January 2012 and accordingly the audit of NHS Pennsylvania's financial statements was not completed until this time.

Questioned Costs

Not applicable.

Recommendation

We recommend that NHS Pennsylvania complete the on-line form at the Louisiana Legislative Auditor's website if the audit will not be completed within six months of the end of the fiscal year.

Management Response

Management concurs with the auditor's recommendation.

Please feel free to contact me with any questions at 215.656.3068.

Sincerely,



Terri E. Albertson
Partner

Internal Control Letter

NHS Human Services, Inc.

June 30, 2011



Audit • Tax • Advisory

Grant Thornton LLP
2001 Market Street, Suite 3100
Philadelphia, PA 19103-7080

T 215.561.4200
F 215.561.1066
www.GrantThornton.com

November 4, 2011

Management and the Audit Committee of the Board of Directors
NHS Human Services, Inc.
Lafayette Hill, Pennsylvania

Ladies and Gentlemen:

In connection with our audit of NHS Human Services, Inc.'s ("NHS") consolidated financial statements as of June 30, 2011 and for the year then ended, auditing standards generally accepted in the United States of America ("US GAAS") established by the American Institute of Certified Public Accountants require that we advise management and the board of directors (hereinafter referred to as "those charged with governance") of the following internal control matters identified during our audit.

Our Responsibilities

Our responsibility, as prescribed by US GAAS, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit includes consideration of internal control over financial reporting (hereinafter referred to as "internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of identifying deficiencies in internal control or expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion on internal control effectiveness.

Identified deficiencies in internal control

We identified the following internal control matters as of the date of this letter that are of sufficient importance to merit your attention.

Control deficiencies

A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

Recommendations to strengthen internal control

We recommend that NHS and those charged with governance consider the following actions:

INFORMATION TECHNOLOGY

Observation and Recommendation:

During our current year audit, we recognized that management has implemented recommendations for improvement from the prior year within their overall information technology ("IT") plan to improve their IT infrastructure and network security.

In the current year, the following recurring opportunities for improvement exist to continue to enhance the overall security and change management process at NHS:

- We identified that CSM and Avatar password settings for invalid logon attempts are not enabled. Weak passwords can result in account compromise. We recommend management reassess the system requirements to enforce this, in accordance with NHS Policy.
- NHS has not formalized its process and methodology for systems implementation and change management. Accordingly, certain procedures may not be consistently implemented. We recommend that management establish formal procedures to ensure that systems implementation projects and changes follow a standardized process, including proper documentation of approval.

- Currently, certain security event logs are reviewed on an as-needed basis. However, documentation of review is not formally documented nor retained. NHS is currently testing event logging and monitoring solutions such as Log Logic, Log Rhythm, and Splunk, which will offer a more efficient review of available system logs. We recommend that management implement a periodic review and retain formal documentation of the review of security events.

Management's Response

- Management recognizes the existing risk in regard to the current Avatar logon configuration. A decision was made to leave that specific configuration in place during the implementation period, through the 2nd Quarter of FY 2013, so as not to incur excessive administrative overhead in regard to application support functions. In October of 2011, primary support for logon and password issues is being transitioned outside of the Avatar Implementation Team, to the NHS Help Desk staff. Based on the success of that initiative, the current system configuration could very well be reviewed and possibly modified to meet the requirements set forth by NHS Policy ahead of full implementation. The CSM application will be phased out as NHS programs transition to Avatar, so there is no plan in place to further modify that system's configuration.
- In conjunction with our existing IT Work Order System, where all System Changes, Application Patches, and Maintenance actions are documented, we have also adopted a much more focused utilization of SharePoint and corresponding automated workflow functionality. Management has also established a dedicated Systems Implementation Team as of July 2011, comprised of four existing staff, which will work closely with the NHS Business Units in developing and facilitating a more formalized process for Change Management and related documentation.
- As indicated above, a direct result of previous audit findings was for IT to budget for a Log Management solution in FY 2012. Management's intention is to develop the formal processes, procedures, and policies during implementation of this solution. In addition, budget is in place to supplement our team with a dedicated full-time IT Security Analyst in the second half of FY 2012, in order to provide initial and ongoing focus for this critical function.

Management's Response

NHS Human Services, Inc.'s written response to the recommendations identified herein has not been subjected to our audit procedures, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, those charged with governance, others within NHS Human Services, Inc. and applicable federal agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Grant Thornton LLP