Department of Human Services
Children’s System of Care Initiative

July 1, 2000 to June 30, 2002

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State Auditor
The Honorable James E. McGreevey  
Governor of New Jersey  

The Honorable John O. Bennett  
President of the Senate  

The Honorable Richard J. Codey  
President of the Senate  

The Honorable Albio Sires  
Speaker of the General Assembly  

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services  

Enclosed is our report on the audit of the Department of Human Services, Children’s System of Care Initiative for the period July 1, 2000 to June 30, 2002. If you would like a personal briefing, please call me at (609) 292-3700.

September 11, 2002
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Department of Human Services  
Children’s System of Care Initiative  

**Scope**  
We have completed an audit of the Department of Human Services’ Children’s System of Care Initiative expenditures for the period July 1, 2000 to June 30, 2002. Our audit included the expenditure transactions accounted for in the state’s General Fund. The provider payments are processed by the New Jersey Medicaid Management Information System (NJMMIS).

Total expenditures of the Children’s System of Care Initiative (CSOCI) through May 31, 2002 were $137.5 million. The prime responsibility of CSOCI is to provide a comprehensive system of care for children, adolescents and young adults who are in need of mental health services and related support services. The purpose of CSOCI is to restructure the system for delivering services to children with emotional and behavioral disturbances and their families by developing a single process of entering the system through the creation of an administrative body that registers and tracks children who are screened into the system at any level.

**Objectives**  
The objectives of our audit were to determine whether expenditure transactions were related to the Children’s System of Care Initiative, were reasonable, and were recorded properly in the accounting systems. This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

**Methodology**  
Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.
In preparation for our testing, we studied legislation, administrative code, and policies of the department. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of expenditure transactions. We also reviewed financial trends and interviewed agency personnel to obtain an understanding of the Children’s System of Care Initiative and the internal controls.

A nonstatistical sampling approach was used. Our samples of expenditure transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were judgmentally selected.

**Conclusions**

We found that the expenditure transactions included in our testing were related to the program, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.

**Auditee’s Response**

We are pleased to respond to the findings resulting from your review of the major systems restructuring for delivering services to children with emotional and behavioral disturbances and their families. We have begun and in some instances already addressed the findings that certain internal controls need to be strengthened and that purchasing procedures comply with Treasury Circular letter 00-13-DPP.
System edits are needed to avoid duplicate payments.

Provider Payments

The Children’s System of Care Initiative (CSOCI) is managed by the Department of Human Services (DHS) Commissioner’s Office and is a partnership between the Division of Medical Assistance and Health Services (DMAHS), the Division of Youth and Family Services (DYFS), and the Division of Mental Health Services (DMHS). The Department of Human Services has overall responsibility and authority for the system of care design, implementation and management. DYFS and DMHS are responsible for contracting with the providers; however, the terms, conditions and rates for the DYFS CSOCI contracts are determined by the department. Providers can submit service claims to both DMAHS and DYFS.

The operation of independent payment systems by each division has resulted in duplicate provider payments. Prior to January 1, 2001 and the implementation of the CSOCI, DYFS contract providers submitted their claims directly to DYFS, and were reimbursed through the DYFS Client Payment and Accounting System (CPAS). For services dates on and after January 1, 2001, CSOCI required participating DYFS providers to submit claims for rehabilitation and room and board to DMAHS for payment through the New Jersey Medicaid Management Information System (NJMMIS). However, all other client service claims are paid through CPAS. NJMMIS and CPAS do not interface with each other, allowing providers to claim and receive payments for the same child, same service dates, and same services from each system. Fourteen providers submitted duplicate claims to NJMMIS and CPAS resulting in $263,000 in overpayments for calendar year 2001 service dates.
Additional verification and edits could help ensure the accuracy of provider payments.

The Department of Human Services contracts with non-profit organizations, known as providers, for residential care and rehabilitation services for children with emotional and behavioral disturbances. Provider claims are processed and paid through the NJMMIS which is administered by the Division of Medical Assistance and Health Services within DHS. Management is responsible for establishing and maintaining a system of internal controls to ensure accurate payment of provider claims. In order to accomplish this objective, management generally develops edits within financial payment systems to prevent or identify inappropriate payments and to provide a means to verify that services have been rendered before payments are made. Our review of CSOCI payments indicated a lack of these control elements.

NJMMIS should not pay claims for identical services provided to the same recipient for the same time period. Our review of CSOCI payments processed during calendar year 2001 revealed that system edits did not prevent identical service claims from being paid to multiple providers for the same recipient and time period, resulting in duplicate payments of $57,000.

In addition, during calendar year 2001, NJMMIS system edits did not limit reimbursement for hospital or therapeutic leave to 14 consecutive days. Therapeutic leave includes, but is not limited to, when a child is on vacation with parents, in a temporary shelter, or at residential camp. The policy of the Department of Human Services is to continue to pay CSOCI provider claims for a maximum of two weeks when a child is temporarily absent from a facility for hospitalization or therapeutic leave. Providers are required to use specific procedure codes when seeking reimbursement from the NJMMIS for the dates a client is temporarily absent from the facility. Payments of $290,000 were made to 27 providers for 87 clients who were absent from the facilities from 15 to 64 consecutive days.
**Recommendation**

We recommend the CSOCI management establish proper verification procedures for service days billed and edit checks to identify and reject duplicate payments and other ineligible costs. We further recommend that CSOCI management take the necessary steps to recover overpayments.

**Auditee’s Response**

We will institute system edits to prevent duplicate claims. In addition to financial system edits, the Contracted Systems Administrator (CSA), a key partner in the system reform will enable DHS management to appropriately track and monitor provider activity and services delivered to children. Of course DHS will recoup any overpayments that have not already been recovered.

**Provider payments should be made in accordance with contractual provisions**

The Department of Human Services entered into a contract for the period July 1, 2001 to June 30, 2002 with Education and Health Centers of America to provide services at Lipman Hall for adolescent boys with the most serious psychological, emotional, and behavioral problems. The agreement provides funding for operations at a daily rate of $350 per client beginning with the first client placements on November 5, 2001. The facility was to provide 80 beds. Monthly installments of $847,000 made from November 2001 through June 2002 were not based on the actual client population. Client placement at Lipman Hall was gradual and reached a high of 65 by June 30, 2002. Using a client population figure of 65, monthly payments should have been no greater than $676,800.

**Recommendation**

We recommend the CSOCI management seek reimbursement for any overpayments. We further recommend future payments be made in accordance with contractual provisions.

**Auditee’s Response**

The contract with the Education and Health Centers of America, Inc./Lipman Hall was structured to proved monthly installments during a contract start-up period as children were phased in over a period of eight months. The per diem rate that appears in
the contract was designed to position the agency to move to per diem (rate) reimbursement, which is consistent with the contract reform instituted through the CSOCI. In the future, such start-up contracts will specify rate setting in an addendum so as not to appear that the rate is the reimbursement method.

Purchasing procedures need to be improved.

Purchasing

In accordance with Department of the Treasury Circular Letter 00-13-DPP, a Direct Purchase Authorization (DPA) purchase is defined as a non-recurring, one-time purchase transaction that cannot be procured through one of the following four primary contracting methods: a state contract, the State Distribution and Support Services Center, the Bureau of State Use Industries (Deptcor) or the Central non-profit agency CNA (The New Jersey Association of Rehabilitation Facilities). The circular requires telephone quotations for DPA purchases over $500 but not greater than $12,500 and three sealed written quotations for purchases over $12,500 but not greater than $25,000. The circular also states that purchases or contracts exceeding the DPA threshold shall not be divided to circumvent the dollar limit imposed.

Consultant services procured for the implementation of the CSOCI during fiscal years 2001 and 2002 were obtained through DPAs, without evidence that the required telephone or sealed written quotations were obtained. We also found seven instances where the costs of the services exceeded the $25,000 DPA threshold and were split between the Division of Medical Assistance and Health Services, and the Division of Youth and Family Services or the Division of Mental Health Services. The CSOCI’s fiscal staff stated that the consultants hired were the best and the brightest in their field, and based on recommendations and/or prior dealings with the
consultants, the DPA was the most expeditious option to secure the services.

**Recommendation**

We recommend CSOCI management comply with Treasury Circular Letter 00-13-DPP.

**Auditee’s Response**

The need to comply with procedures as articulated in the report has already been revised to assure compliance with Treasury Circular Letter 00-13-DPP.