Department of Human Services
Division of Developmental Disabilities
Community Programs - Grants-In-Aid

July 1, 2003 to March 18, 2005

Richard L. Fair
State Auditor
The Honorable Richard J. Codey
Acting Governor of New Jersey

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, Division of Developmental Disabilities, Community Programs – Grants-In-Aid, for the period of July 1, 2003 to March 18, 2005. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor
June 7, 2005
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Objectives</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>1</td>
</tr>
<tr>
<td>Conclusions</td>
<td>2</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Community Care Waiver Billing</td>
<td>3</td>
</tr>
<tr>
<td>Contract Closeout</td>
<td>8</td>
</tr>
<tr>
<td>Skill Sponsor Payments</td>
<td>9</td>
</tr>
<tr>
<td>Family Support Program</td>
<td>10</td>
</tr>
<tr>
<td>Auditee Response</td>
<td>12</td>
</tr>
</tbody>
</table>
Department of Human Services  
Division of Developmental Disabilities  
Community Programs - Grants-In-Aid

**Scope**

We have completed an audit of the Department of Human Services, Division of Developmental Disabilities (DDD), Community Programs - Grants-In-Aid for the period July 1, 2003 to March 18, 2005. The audit included financial activities accounted for in the state’s General Fund and Casino Revenue Fund.

The prime objective of the community programs is to provide prompt and effective care, treatment, training, and habilitation of individuals with developmental disabilities to function in the community or in an institutional environment. Total expenditures for the community programs during fiscal year 2004 were $618 million. The major component of expenditures was payment for group homes.

**Objectives**

The objectives of our audit were to determine whether financial transactions were related to the division's programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report dated February 1, 1999.

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, circular letters promulgated by the State Comptroller 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 financial transactions. We read the budget message, reviewed financial trends, and interviewed department personnel to obtain an understanding of the programs and internal controls.

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

To ascertain the status of significant findings included in our prior report, we identified corrective action, if any, taken by the division and walked through the system to determine if the corrective action was effective.

**Conclusions**

We found that the financial transactions included in our testing were related to the division's programs, 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. We also found that the division has resolved some of the significant conditions noted in our prior report. The issues concerning contract closeout and the family support program have been updated in our current report.
Community Care Waiver Billing

The Community Care Waiver (CCW) is a federal Medicaid program that reimburses DDD for up to 50 percent of the cost of certain community based services. Persons currently receiving supplemental security income (SSI) meet the eligibility requirements for the CCW and should be enrolled in the program. Those not receiving SSI need to complete an application for financial determination. This application is referred by the division to the state's Institutional Services Section (ISS) of the Division of Medical Assistance and Health Services (DMAHS) to determine eligibility.

During fiscal year 2004 there were 10,181 clients receiving CCW services. Of those, 8,005 have been determined to be eligible for reimbursement and 2,176 were not reimbursed. The division requests reimbursement for eligible services from the Medicaid program by submitting bills, usually monthly, to Unisys, the fiscal agent. The bills are submitted using a Medicaid approved interim rate. Once final rates are approved there is a retroactive adjustment due to the rate change.

Federal reimbursements are dependent upon several factors. These include the completion of the proper application, monitoring and recording of eligible clients, timely submission of attendance data and claims, accurate and timely rate setting for each service, and the correction and resubmission of denied claims when necessary. We found that the division has not fully maximized their federal reimbursement.
Ineligible clients need to be reevaluated for eligibility.

We reviewed information for clients the division declared ineligible and found many clients who appear to be CCW eligible. From the list of 2,176 non-reimbursed clients, we identified 1,240 whose value of services received in fiscal year 2004 exceeded the department's financial breakeven point for eligibility. From these 1,240 clients, we selected 100 clients for initial review using the department's statewide lookup system. Only nine had indication of sufficient or recent documentation of agency review. We suspected there were clients that had not been recently reviewed who could be eligible for reimbursement.

We then selected 26 of these clients for detailed examination of case files with both the fiscal and eligibility coordinators. We were able to review these cases and come to these conclusions in a short period of time.

- Seventy-three percent of these files did not have recent information regarding client finances or CCW eligibility. It does not appear that fiscal coordinators are monitoring or considering eligibility on a routine basis.

- Over 50 percent of the files examined appear to be CCW eligible. Applications will be sent as a result of our review. For example, there was one client that lived in a group home for 14 years, from 1987 to 2001. This client was not referred for eligibility until 2001. The client is still in a group home and eventually became eligible in 2004.

- Nineteen percent were considered ineligible because the client or agency was not cooperative in completing an application.
The review found six of the 26 were already collecting SSI benefits meaning they were automatically CCW eligible, but were never billed for reimbursement. One of these clients has lived in a group home since 1987. For eleven of those years he was collecting SSI but was never included in the Medicaid billing.

As a result of our review of these 26 clients, we estimate the division has a cumulative loss of over $1 million by not sufficiently monitoring these cases for CCW eligibility. We would expect there to be a considerable amount of additional lost revenue attributable to the other 1,200 clients on the list which we have not reviewed. If the results of our review were indicative of the eligibility rate for the remaining 1200 clients, the division may be eligible to bill medicaid $12 million annually.

Prior to a change in the administrative code effective December 2003, clients and agencies were not required to cooperate with the CCW application process before receiving services. Current clients can still receive services even though they have refused to complete an application.

When billing for federal reimbursement for the CCW program, the division uses both interim and final rates that are approved by DMAHS. Final rates reflect actual costs and are calculated after the division gathers sufficient cost and attendance data for the fiscal year. In the absence of final rates, the division is authorized to use interim rates which attempt to approximate costs and enable the division to claim reimbursement until final rates are calculated.
Once finalized, a retroactive adjustment is made for the difference between what was billed using the interim rate and the approved final rate. Since final rates are generally higher than interim rates, this adjustment results in additional federal revenue for the state. Ideally, final rates should be calculated soon after the end of the fiscal year.

During fiscal year 2004 the department completed the final rates for fiscal years 1999 and 2000 for habilitation and personal care services, the two largest rate services. These final rate adjustments resulted in an additional $26 million of federal funds for the state. Final rates for habilitation and personal care have not been completed for fiscal years 2001 through 2003. These rates are not prepared timely since they are based on attendance and expenditure reports from contracted agencies and not all the agencies have submitted the required reports. We project that when final rates are prepared for these three fiscal years the state will receive an additional $10 million of federal funding.

Under the guidelines of the CCW program, the division must submit eligible claims within one year of the date of service to be reimbursed. These claims are based on attendance reports received from the division's contracted agencies that provide the CCW services. When attendance data is not received or is received later than one year after the services are rendered, the reimbursement for the cost of these services can not be claimed. Our review disclosed that due to attendance records that have not been received prior to March 2004 there is approximately $1.2 million of lost federal funding for fiscal year 2004, $750,000 for fiscal year 2003, and $1.1 million for fiscal year 2002. We did not review information prior to fiscal year 2002. The division has recognized the problem and is converting to electronic submission of attendance records.
Currently, 60 percent are reporting attendance on this web based system. This however does not solve the problem of those that fail to report timely or at all. The division has also applied to the DMAHS for approval to submit claims going back a second year.

Since billings are dependent on attendance data, we visited four group homes to review the accuracy of attendance reporting. We found that two of the four monthly attendance records for March 2004 contained errors resulting in billings that are incorrect. These records need to be reviewed by case managers during their site visits.

Denied claims need to be investigated and resubmitted for reimbursement.

CCW claims are electronically submitted to Unisys for processing and a remittance report is returned indicating those claims approved for reimbursement or denied for various reasons. Denied claims can often be corrected and resubmitted. We reviewed the March 2004 remittance, which included 609 denied claims totaling $418,586, to determine if the division was investigating denials and correcting errors and resubmitting the claims. We noted that 7 of 8 reviewed were not corrected and rebilled.

In November 2004 the division changed the way denied claims were investigated and resubmitted from a manual process to an electronic format. This process, while an improvement, is unable to identify and correct all the denied claims. As a result, many continue to require a manually intensive investigative process for correction. A portion of these denials represents lost revenue to the state if not corrected.
**Recommendation**

We recommend the department review the list of CCW ineligible clients and immediately place those receiving SSI on the waiver. Consideration of client eligibility should be documented in the fiscal coordinator’s files as part of an annual review process and applications for eligibility should be sent to these clients. We also recommend the department consider withholding a portion of the payments to contract agencies until required expenditure and attendance reports are submitted. This would help enforce compliance and allow the division to submit waiver claims for reimbursement within one year of date of the service. It would also provide for more timely data to aid in the preparation of final waiver billing rates and retroactive adjustments. In addition, we recommend the division investigate, correct, and resubmit prior denied claims.

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**Contract Closeout**

Timely reporting could accelerate contract closeout.

The Division of Developmental Disabilities contracts with provider agencies to render services to DDD clients living in the community. Contracts are for one year and are normally renewed for subsequent years. The Department of Human Services Policy Circular P7.01 requires the provider to submit the Final Report of Expenditures (FROE) to the department within 120 days of the contract expiration. The division is responsible to reconcile the amount of funding paid to the provider against the FROE, to calculate any over/underpayments, and to make financial settlement.

We requested the division's Contract Status Report for fiscal year 2003 to review contracts that expired on June 30, 2003. The majority of the amounts recorded on this report were found to be incorrect and therefore we could not rely on this report.
Our further review noted that 46 of 94 providers had not submitted their FROE as of November 19, 2004, more than one year past due. The delinquency of these reports and the inaccurate records maintained by the division could result in potential questioned costs and overpayments not being reviewed and recovered from the providers in a timely manner.

**Recommendation**

The division needs to encourage providers to submit their FROE in a timely manner. The division might wish to consider withholding a portion of the contract payments until the report is received. In addition, the division should utilize their IT unit to develop a program that will collect the needed data for the contract status report and perform their reconciliation function.

**Skill Sponsor Payments**

DDD contracts with individual sponsors to train and care for clients who have been placed in community care residences. The level of compensation is determined by the regional office's placement review team based on the level of care required by the client. Skill levels are determined based on the client's health, mobility, self-care, and behavior. For each designated skill level, there is a corresponding rate. Skill rates are determined by the rate setting unit within the division. Monthly payments are calculated at four regional offices. Payments will continue unless there is a change in status, such as a change in sponsors, change in level of care, etc. A sponsor is required to report to the case manager when a client moves or is hospitalized.
Our review noted errors in these sponsor payments. Clients that changed sponsors were not adjusted timely either by a lack of reporting by the sponsor or input from the case manager. Some clients erroneously stayed on the record for several months.

We also noted inconsistencies in payments for the date a client moves from a sponsor. The central regional office pays both current and prior sponsor for the date a client moves from one sponsor to another. This practice differed from the other regional offices. These regions pay only the sponsor where the client slept that night.

**Recommendation**

We recommend the division closely monitor client movement reports and sponsor payments. In addition, the division should standardize the sponsor payment policies for all four regions.

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**Family Support Program**

The New Jersey Family Support Act of 1993 was enacted to help support families with developmentally disabled members in their homes. One aspect of the program provides financial assistance to a client or family to meet a specific need. The act and administrative code (N.J.A.C. 10:46A) set forth program guidelines for the implementation and administration of the family support system. The act requires income criteria to be established by the Commissioner of the Department of Human Services. The income criteria has not yet been established.
Recommendation

The division should establish income criteria in accordance with the act and seek approval from the Commissioner for inclusion in the administrative code.
June 2, 2005

Mr. Richard L. Fair
State Auditor
Office of the State Auditor
P.O. Box 067
Trenton, NJ 08625-0067

Dear Mr. Fair:

Thank you for the opportunity to respond to the Draft Audit Report for the Department of Human Services, Division of Developmental Disabilities (DDD) Community Programs – Grants In Aid for the period of July 1, 2003 to March 18, 2005. I was pleased to note that your review disclosed that fiscal activities of DDD Community Programs – Grants In Aid were reasonable and were properly recorded in the accounting system.

Regarding the specific findings and recommendations, I have attached documentation commenting on each audit issue with clarifications. I assure you that the Department is working with the Division of Developmental Disabilities to take appropriate action in addressing these issues.

Thank you.

Sincerely,

James M. Davy
Commissioner

JMD:7
Audit Finding:
Ineligible clients need to be reevaluated for eligibility.

Comments:
The Division has previously recognized that many clients not billed under the CCW program should be reevaluated and that process is ongoing. In September of FY04, a long term plan was developed and approved, which included augmenting staff and improving process to accomplish the goal of improving claiming through increased client eligibility reviews. This Plan also called for issuing new prospective regulations, updating cost reports and rates, and streamlining other division and provider practices.

Historically, for all individuals reviewed for eligibility, 20% of the consumers could not be made waiver eligible. Recent review of a 75% sample of the entire population yielded a 32% ineligible result even before a waiver application was completed and CCW eligibility determination was begun. These cases fall within the not eligible for billing category, due for example, to excess income or excess resources. Of the total number of consumers in the population subject to OLS review, another 17% were known to be difficult cases where individuals would not cooperate based on an earlier review begun in FY02.

The audit states that non-statistical sampling was used. Assumptions were made for a group of 1,240 based on a sample of 26. While the Division cannot agree that a sampling technique to extrapolate from 2% of a population is accurate, the Division does agree that some portion of the individuals in services may be found eligible.

For individuals currently receiving CCW services, but not claimed, policy decisions will have to be reached regarding whether to continue funding the placement if the individual cannot be made eligible or will not cooperate.

The Division has partially addressed this by issuing regulations effective January 2004, stating that all new individuals require waiver eligibility determination prior to entering services unless by no fault of their own, they cannot be made eligible, at which time they would be entitled to state only services.

The Division increased the number of fiscal staff that review eligibility in the regions in FY04. In addition, new data processing reports have been created to assist in this endeavor. That coupled with streamlining Medicaid processes and file matches has led to an improved tracking system and faster turnaround times. Efforts are concentrated. To
date, all individuals receiving SSI benefits have been added to the waiver and all interactions with individuals are being documented in the fiscal case files.

Audit Finding:
The preparation of final waiver billing rates should be timely.

Comments:

The Division agrees with the audit that billing rates should be finalized in a timely manner. Recognizing that final rates increase cash flow and better project future earnings, staff was instructed to step up efforts to acquire all of the data necessary to prepare final rates. This included but is not limited to, attendance reports, quarterly expenditure reports and final expenditure reports from provider agencies. In the past, the waiver was invisible to agencies doing business with the Division. This changed in FY02, when management began to educate the agencies, families and staff about the importance of the Community Care Waiver. In addition, recognizing that the paper process exchange of information needed to be automated, the Division completed a web-based intranet recording system in the fall of 2004. With corporate provider entities now having the capability to record their own attendance, information is more timely and accurate. This will soon be followed by a web-based system to record expenditure reports. The receipt of timely and accurate reports from all agencies providing waiver services for all rate categories is of utmost importance.

With efforts focused on completing prior year rates, the Division is closely working with the Department’s Central Office and the Medicaid office to prepare and set rates utilizing this data. Recorded expenditures represent actual amounts includable in the billing rates. These rates will be completed during FY05. All revenues generated from this effort apply to expenditures already incurred against federal accounts in the CFS system. Until the rates are finalized, the Division cannot confirm the estimated rate adjustment amount stated in the OLS audit.

Audit Finding:
Attendance needs to be reported timely.

Comments:

The Division agrees that attendance records should be timely. Internal procedures were issued effective February 1, 2004 identifying the steps staff would be taking to acquire missing attendance reports. It was intended that if the process does not yield its intended result, agencies in non-compliance would be faced with sanctions including the cut off of all contracts payments until compliance is achieved. The sanctions were delayed because it was expected that the attendance web-based recording system would correct some of the problems. In the meantime, the Division made great efforts to educate the constituency groups regarding the importance of the waiver and the benefit of the timely submission of attendance reports. Most agencies have been cooperative and responsive.
Moving forward, the Division issued memorandum dated March 22, 2005 to provider agencies reminding them of their responsibilities in providing reports, attendance being one of them. Though the Division continues to assist agencies to meet their contractual obligations, the Division will now implement sanctions if necessary. The lack of cooperation and submission may result in the default of contract. Monthly contract payments may be withheld and requests for new funding may be denied.

With the receipt of missing attendance reports, the Division has been able to generate additional federal revenues.

**Audit Finding:**
Denied claims need to be investigated and resubmitted for reimbursement.

**Comments:**
The Division converted to an electronic pre-edit process in the fall of 2004 to reduce and/or eliminate errors prior to submission. All failed claims are now investigated, corrected and resubmitted. This process has resulted in the reduction, but not elimination of unclaimable costs.

**Audit Finding:**
Timely reporting could accelerate contract closeout.

**Comments:**
The Division agrees that contracts should be closed in a timely manner. The receipt of reports of expenditures from provider agencies delays the Division’s ability to complete the close of the contract. As with attendance records, the Division issued internal procedures effective February 1, 2004 regarding the submission of Final Reports of Expenditures. Agencies have been responsive to Division efforts for the timely submission of cost report data. However, if an agency does not comply with these reporting requirements, they may be in default of contract and future payments may be withheld until compliance is achieved. Future requests for additional funding will be carefully considered before such approval is given. This was stated in memorandum dated March 22, 2005 reminding provider agencies of their responsibilities regarding the submission of reports as required under the contract.

In addition, the Division requested that the Office of Audit (OOA) within the Department of Human Services review the Division’s contract closeout process to offer recommendations and discussions are continuing regarding the results of the audit.

**Audit Finding:**
Sponsor payments should be closely monitored.

**Comments:**
Sponsor payments for individuals residing in a community care residence are prepared in the month prior to the month of service being rendered. Providers of these services rely
upon these funds to provide their services to the individual. If movements occur, it may not be known until after the payment has gone to the provider; therefore, there is a need to adjust payments retroactively. In recognizing issues identified upon audit, the Division issued fiscal memorandum to regional offices dated February 23, 2005 specifying that payments to the provider should only be on the day of admission, not the day of discharge, avoiding the duplication of payment when an individual moves from one provider to another.

Secondly, the Division has instituted an internal control procedure requiring that the Central Office of the Division review records of the four regional offices on a quarterly basis. This review will assure that payments for an individual in a community care residence are made only once for any given day and two, recalculations for movements are appropriate. The Central Fiscal Office will offer assistance and training as necessary to the regional coordinators.

**Audit Finding:**
Program income criteria needs to be established and included in the administrative code.

**Comments:**
The Division agrees that under Title 30, the Family Support System states that individuals must meet certain criteria in order to receive funding under the Family Support program. In distributing funding under this program the Division does ensure that the program costs stay within the limits of the funds available. The auditor’s comments are noted with regard to proposals for income guidelines and appropriate action will be taken.