

STATE OF NEVADA

Performance Audit

Department of Health and Human Services
Division of Public and Behavioral Health

Adult Mental Health Services
Community-Based Living Arrangement Homes
Residential Services Payments

2018



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit report on the Adult Mental Health Services, Community-Based Living Arrangement Homes, Residential Services Payments issued on October 29, 2018. Legislative Auditor report # LA18-24.

Background

Within the Division of Public and Behavioral Health (Division), the Clinical Services Branch provides adult mental health services, primarily through Northern Nevada Adult Mental Health Services (NNAMHS), Southern Nevada Adult Mental Health Services (SNAMHS), and Rural Counseling and Supportive Services. The primary clients of these agencies are Nevadans with mental illness who are underinsured, uninsured, and those whose conditions have resulted in interaction with law enforcement.

Individuals with mental illness that meet eligibility requirements are screened and assessed for case management needs, which may include residential placement in various home settings throughout the community. CBLA providers are paid rent, utilities, and staff service hours up to a predetermined number of hours per month, per client, for supervision and assistance with activities of daily living. Payments to CBLA providers come from the State General Fund and individuals' Social Security Disability and Supplemental Security Income.

Purpose of Audit

The purpose of the audit was to determine if the Division had adequate controls over payments to providers of community-based living arrangements for adult mental health services, including controls to monitor provider financial sustainability during fiscal year 2017.

Audit Recommendations

This audit report contains 12 recommendations to improve the Division's oversight of CBLA home providers. Eight recommendations improve controls to help ensure the Division's payments to providers are appropriate. Four recommendations help ensure the Division effectively monitors providers for financial sustainability and compliance with labor laws.

The Division accepted the 12 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on January 29, 2019. In addition, the six-month report on the status of audit recommendations is due on July 29, 2019.

Adult Mental Health Services Community-Based Living Arrangement Homes Residential Services Payments

Division of Public and Behavioral Health

Summary

The Division's oversight of community-based living arrangement (CBLA) provider payments is not adequate to protect against providers overbilling the State, or to help ensure the validity of payments. We estimate the Division was overbilled about \$1.5 million in fiscal year 2017. These overbillings resulted from providers billing for more hours than were recorded on staff service logs and payroll documents, and billings for duplicate services. Adequate controls over provider payments are important to help ensure the Division and clients receive the services they pay for and to help ensure the Division's financial resources are used effectively.

In addition, the Division lacked proper oversight of NNAMHS' and SNAMHS' operations to help ensure consistent billing rates for provider services. As a result, the Division paid different rates for similar provider staff service hours, and paid more for client housing costs than it should have. We estimate the State could have realized savings of over \$600,000 in fiscal year 2017 with better oversight of CBLA provider pay rates and housing costs.

Some of the overbilling problems described in this report may be the result of provider fraud, while others may be unintentional errors. Therefore, as required by Nevada Revised Statutes (NRS) 218G.140(2), we reported this information to the Governor, each Legislator, and the Attorney General.

The Division needs to provide better management of residential services to help ensure CBLA home providers' sustainability and equality. Our analysis found some homes may find it difficult to make a profit while others may potentially generate annual profits of more than \$100,000 per home. The primary factors affecting the financial sustainability of homes' operations include the number of clients placed within each home, the clients' billable service hours, housing costs, and payroll practices.

Key Findings

We estimate providers overbilled the Division about \$1.5 million in fiscal year 2017 for staff service hours. Our estimate is based on a statistical sample of 45 monthly billings for provider homes. Because monthly billings include client service hours recorded on staff logs, we reviewed and analyzed tens of thousands of daily entries recorded on 167 staff service logs. Our detailed review of over \$475,000 in payments related to the 45 monthly billings identified overbillings totaling more than \$52,000 for 35 (78%) of the provider billings tested. Using statistical principles, these overbillings were then extrapolated to a yearly amount to make our estimate. (page 9)

The Division lacked proper oversight of NNAMHS' and SNAMHS' operations to ensure the State did not overpay for CBLA home staff service hours and client housing costs. As a result, the Division paid different rates for similar service hours in northern Nevada compared to southern Nevada. In addition, the Division paid more for client housing costs than it should have, mainly in southern Nevada. We estimate the State could have saved over \$600,000 in fiscal year 2017 if there was better oversight of provider pay rates and client housing costs. (page 14)

CBLA providers' supporting documentation used to bill the Division for staff service hours was often inadequate and lacked important information. In addition, this documentation included skills training hours recorded by provider staff that spoke a different language than the client. Because providers are paid for service hours that include teaching or helping a client relearn specific skills, it is important that supporting documentation accurately identifies the hours of service provided. Furthermore, it is imperative that providers' staff have the ability to effectively communicate with a client; thereby, achieving the desired outcome of the services provided. (page 18)

Financial sustainability of CBLA homes' operations varied significantly. The most significant factors affecting providers' cash flows, for the 45 monthly home payments tested, were the number of clients they housed and their monthly billable service hours. The more profitable CBLA providers housed the clients with the greater number of service hours. Conversely, providers housing clients that had fewer service hours, or fewer clients per home, had less favorable cash flows, with some barely breaking even or showing losses. (page 23 and 36)

CBLA home providers used a wide range of payroll practices, some of which may have violated state and federal labor laws and created an unfair advantage over other providers. Although most of the CBLA providers in northern Nevada had adequate documentation that payroll requirements were followed, most of the southern Nevada providers had questionable payroll practices. First, many providers were unable to provide basic employment records of timesheets to support hours worked. Second, nine employees received an hourly rate below the state minimum wage of \$8.25 per hour. Third, some providers treated their employees as independent contractors, thus avoiding employment taxes. (page 26)

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747

LEGISLATIVE COMMISSION (775) 684-6800
JASON FRIERSON, *Assemblyman, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
JOYCE WOODHOUSE, *Senator, Chair*
Mark Krmptic, *Fiscal Analyst*
Cindy Jones, *Fiscal Analyst*



RICK COMBS, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
ROCKY COOPER, *Legislative Auditor* (775) 684-6815
MICHAEL J. STEWART, *Research Director* (775) 684-6825

Legislative Commission
Legislative Building
Carson City, Nevada

This report contains the findings, conclusions, and recommendations from our performance audit of the Department of Health and Human Services, Division of Public and Behavioral Health, Adult Mental Health Services, Community-Based Living Arrangement Homes, Residential Services Payments. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes 12 recommendations to improve the Division's controls and monitoring over payments to providers of community-based living arrangements. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Rocky Cooper".

Rocky Cooper, CPA
Legislative Auditor

October 19, 2018
Carson City, Nevada

Adult Mental Health Services Community-Based Living Arrangement Homes Residential Services Payments Table of Contents

| | |
|--|----|
| Introduction | 1 |
| Background | 1 |
| Scope and Objective | 5 |
| Oversight of Community-Based Living Arrangement Provider Payments Not Adequate | 8 |
| CBLA Providers Overbilled the Division for Staff Service Hours | 9 |
| Lack of Division Oversight Resulted in Overpayments for Staff Service Hours and Housing Costs | 14 |
| Provider Supporting Documentation for Staff Service Hours Often Inadequate and Lacked Important Information | 18 |
| Better Management of Residential Services Needed to Help Ensure Providers' Sustainability and Equality | 23 |
| Financial Sustainability of CBLA Home Providers Varied | 23 |
| Appendices | |
| A. NRS 218G.140(2) Report Regarding Potential Provider Fraud | 30 |
| B. Duplicate Hours Billed by Home | 32 |
| C. Hours and Amounts Billed Teaching a Skill by CBLA Staff Not Speaking the Language of the Client | 34 |
| D. Revenue and Cost Information by Home | 36 |
| E. Audit Methodology | 38 |
| F. Response From the Division of Public and Behavioral Health | 43 |

Introduction

Background

In July 2013, the former Health Division and the Mental Health portion of the Division of Mental Health and Developmental Services merged to form the Division of Public and Behavioral Health (Division). Within the Division, the Clinical Services Branch provides statewide inpatient, outpatient, and community-based public and behavioral health services to Nevadans. There are four agencies within the Clinical Services Branch that provide adult mental health services:

- Lake's Crossing Center, a forensic psychiatric maximum security facility;
- Northern Nevada Adult Mental Health Services (NNAMHS);
- Rural Counseling and Supportive Services (Rural Clinics); and
- Southern Nevada Adult Mental Health Services (SNAMHS).

The primary clients of these agencies are Nevadans with mental illness who are underinsured, uninsured, and those whose conditions have resulted in interaction with law enforcement. Exhibit 1 shows the average caseload per month for adult mental health services statewide in fiscal year 2018.

**Monthly Average Caseloads
Fiscal Year 2018**

Exhibit 1

| Program | NNAMHS | SNAMHS | Rural Clinics | Totals |
|-------------------------------------|---------------|---------------|----------------------|---------------|
| Residential Services ⁽¹⁾ | 280 | 806 | 42 | 1,128 |
| Outpatient Services ⁽²⁾ | 360 | 1,332 | 2,010 | 3,702 |
| Medication Clinics ⁽³⁾ | 1,649 | 3,717 | 2,165 | 7,531 |

Source: Department of Health and Human Services, Director's Office.

⁽¹⁾ Includes all programs that provide clients with affordable housing.

⁽²⁾ Includes service coordination and other outpatient programs.

⁽³⁾ Represents the average population the agency serves.

Budget and Staffing

The Clinical Services Branch administers four budget accounts for adult mental health services, one for each of the mental health agencies. The four agencies are funded primarily through State appropriations, Medicaid, and Medicare. Exhibit 2 shows funding for adult mental health services was about \$144 million for fiscal year 2018.

**Revenues by Agency
Fiscal Year 2018**

Exhibit 2

| Source | SNAMHS | NNAMHS | Rural Clinics | Lake's Crossing | Totals |
|----------------------------|---------------------|---------------------|----------------------|------------------------|----------------------|
| Appropriations | \$77,346,800 | \$25,426,100 | \$10,687,827 | \$11,332,985 | \$124,793,712 |
| Beginning Cash | 357,515 | - | - | - | 357,515 |
| Medicaid and Medicare | 6,887,295 | 3,652,166 | 3,287,934 | - | 13,827,395 |
| Federal Funds | 1,762,667 | 770,175 | 108,834 | - | 2,641,676 |
| Transfers ⁽¹⁾ | 652,724 | 14,702 | 241,447 | - | 908,873 |
| Insurance Recoveries | 88,800 | 156,585 | 470,835 | - | 716,220 |
| Local Governments | - | - | - | 487,000 | 487,000 |
| Other ⁽²⁾ | 15,744 | 9,926 | 2,150 | 9,362 | 37,182 |
| Client Charge | 26,866 | 12,157 | 185,482 | - | 224,505 |
| Reversions to General Fund | (293,774) | - | - | - | (293,774) |
| Total Revenues | \$86,844,637 | \$30,041,811 | \$14,984,509 | \$11,829,347 | \$143,700,304 |

Source: State accounting system, as of September 4, 2018.

⁽¹⁾ Transfers include funds from other state agencies and tobacco settlement funds from the State Treasurer.

⁽²⁾ Other includes photocopy service charges, rental income, and Social Security Administration incentive payments.

Expenditures for adult mental health services were about \$133 million in fiscal year 2018. Exhibit 3 shows expenditures for the Division's four mental health agencies.

**Expenditures by Agency
Fiscal Year 2018**
Exhibit 3

| Description | SNAMHS | NNAMHS | Rural Clinics | Lake's Crossing | Totals |
|---------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Personnel | \$49,695,247 | \$15,233,889 | \$ 8,986,438 | \$ 8,677,734 | \$ 82,593,308 |
| Program Costs | 22,127,476 | 8,740,303 | 2,420,025 | 1,872,488 | 35,160,292 |
| Operating and Travel | 5,532,975 | 1,468,511 | 1,397,575 | 619,242 | 9,018,303 |
| Medications | 2,511,746 | 310,845 | - | 307,824 | 3,130,415 |
| Information Services | 952,681 | 310,258 | 355,038 | 87,821 | 1,705,798 |
| State Cost Allocations | 459,452 | 272,350 | 109,188 | 72,875 | 913,865 |
| Reserve for Reversion | - | - | 460,397 | - | 460,397 |
| Total Expenditures | \$81,279,577 | \$26,336,156 | \$13,728,661 | \$11,637,984 | \$132,982,378 |

Source: State accounting system, as of September 4, 2018.

For fiscal years 2018 and 2019, NNAMHS and SNAMHS were approved for a combined total of 970 and 958 positions. For the 2018-2019 Biennium, the agencies' workforce was reduced 5% overall, with 51 positions less than fiscal year 2017 levels of 1,009 authorized positions. The Division explained the reduction in budgeted staff was due to the effects of decreased patient demand caused by a shift in services to the community as a result of the Affordable Care Act, the elimination of several programs and operating locations, and operational efficiencies.

NNAMHS' mental health services and administration are conducted from the Sparks, Nevada campus. SNAMHS conducts adult mental health services at locations throughout southern Nevada, including its main Charleston campus in Las Vegas.

Housing and Residential Services

NNAMHS and SNAMHS provide housing and residential services to the adult mental health clients they serve. Clients that meet eligibility requirements are screened and assessed for case management needs, which may include residential placement. Types of residential placements vary from the most restrictive to the least restrictive living arrangement, and include specialized programs. Many of NNAMHS' and SNAMHS' clients needing residential services are placed in community-based living arrangement (CBLA) homes operated by contract providers. SNAMHS' residential services policy, effective April 2016, states CBLA placement provides independent living with the security of monitoring, continued support, and behavioral skills training in a

scattered site community setting. NNAMHS has a similar policy in which clients who cannot live on their own and need ongoing support are placed in CBLA homes.

Provider Home Funding

The CBLA model reimburses a provider for rent and utility costs, and pays for staff service hours. Service hours are on an individual client basis, per month, for supervision and assistance with activities of daily living and behavioral management. The agencies use subjective methods to determine the amount of service hours needed for each client. Service hours are driven by the client's goals and individualized according to interests and needs. Different rates are paid for daytime versus nighttime (sleep) hours. Reimbursement rates for rent are determined using the U.S. Department of Housing and Urban Development fair market rates, and utility costs are to be allocated evenly, at cost, to all clients residing in a home.

Client Income

Clients primarily receive funding from the State General Fund, federal Social Security Disability Insurance (SSDI), and Supplemental Security Income (SSI) that is given to agencies to manage on behalf of the client as their representative payee. The agencies then deposit the funds into individual client trust fund (CTF) accounts to cover the client's monthly expenses. CTF funds are either issued to the client directly, or to the providers giving services. State funds are used to bridge the difference if a client's SSDI and SSI funding does not cover all costs related to residential services.

Financial Reserve Requirement

The Division has a regulation that requires the agencies to have a system in place to routinely assess the financial solvency of providers. This requires providers to produce their annual financial statement that consists of a balance sheet, income statement, and statement of cash flows within 120 days after the fiscal year end. The regulation also requires the agencies review the providers' finances to ensure sufficient capital for working operations based on current contracts and expenses.

Furthermore, both NNAMHS and SNAMHS had policies requiring all potential CBLA providers to have a minimum of 3 months capital reserves to be certified as a provider. However, our previous audit on adult mental health provider home conditions revealed 14 of 20 provider files tested contained no documentation as to the providers' financial solvency, while the financial information on file for the other 6 providers was insufficient for assessing their solvency. As of February 2018, corrective action was taken by the Division to transfer regulatory responsibilities of the provider certification process to the Bureau of Health Care Quality and Compliance (HCQC), including determining providers' financial solvency.

Financial solvency played a key role in the closure of Project Uplift, which by 2015, was reported to be the largest provider for NNAMHS. In its investigation of Project Uplift, a local newspaper in northern Nevada found the State ignored the minimum requirements of certification, which included 3 months of reserve capital. It was reported that this ultimately led to the provider not being able to pay its staff timely and the decline in home conditions. As a result, the newspaper reported that agency leadership stated they would assess whether to implement new policies to ensure existing businesses keep an adequate cash reserve.

Interim Study of Group Home Costs (Assembly Bill 343)

In 2017, A.B. 343, requiring the Legislative Committee on Health Care (Committee) to conduct an interim study, was passed and became effective July 1, 2017. This bill requires the Committee to study the rates paid to group homes contracted with SNAMHS. The Committee must review and evaluate the current rates SNAMHS pays to group homes and determine whether any changes in the rates may be necessary. This study will address rates paid to group homes, as described in Nevada Revised Statutes (NRS) 244.3549(1), which includes CBLA homes under NRS 449.017(2)(e).

Scope and Objective

The scope of our audit included a review of the Division's oversight of residential services payments and financial sustainability for CBLA providers at NNAMHS and SNAMHS

during fiscal year 2017. Our audit objective was to determine whether the Division has:

- Adequate controls over payments to providers of community-based living arrangements for adult mental health services, including controls to monitor provider financial sustainability.

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

Limitations

We conducted this audit in accordance with government auditing standards; however, there were some limitations regarding our accumulation of CBLA homes' revenue and expense data. Readers are encouraged to review the methodology section of this report for further detail regarding data obtained and assumptions made. The following are items for consideration regarding our analysis:

- Some CBLA providers selected for our sample did not provide complete documentation related to revenues from private-pay clients. As a result, some calculations regarding provider revenue may be understated.
- Many providers' payroll costs were difficult to determine because providers staffed homes using a variety of employment mechanisms. Specifically, many staff members were treated as independent contractors or salaried employees, and accurate timesheets were not kept. In addition, many providers did not give us documentation showing payment of payroll taxes. However, in our calculations of payroll costs, we used a

conservative estimate of hourly pay and the number of service hours billed to the Division. As a result, some calculations regarding provider payroll expenses could be overstated, resulting in understated provider cash flows.

- Documentation regarding overhead expenses such as expenses related to office rent, supplies, and staffing; company vehicles; and liability insurance was not included in the analysis. These expenses would need to be allocated between all the CBLA homes and other services provided. As a result, readers should be aware that, for a few homes with significant overhead, the estimates of home expenses are understated. However, we believe these expenses did not significantly affect our estimates of home cash flows as many providers had low overhead because they managed their businesses from home offices.
- Our calculations of cash flows of provider homes is based on data collected and analyzed from randomly selected months. Over time, various factors may impact a specific home's monthly cash flows. These factors could include changes in the number of clients in the home, changes in the number of service hours required, increasing lease costs, seasonal utility rate fluctuations, and other unforeseen factors. In spite of these potential variables, we believe our calculations are based on reliable data and sound assumptions.

Oversight of Community-Based Living Arrangement Provider Payments Not Adequate

The Division's oversight of community-based living arrangement (CBLA) provider payments is not adequate to protect against providers overbilling the State, or to help ensure the validity of payments. We estimate the Division was overbilled about \$1.5 million in fiscal year 2017. These overbillings resulted from providers billing for more hours than were recorded on staff service logs and payroll documents, and billings for duplicate services. Adequate controls over provider payments are important to help ensure the Division and clients receive the services they pay for and to help ensure the Division's financial resources are used effectively.

In addition, the Division lacked proper oversight of NNAMHS' and SNAMHS' operations to help ensure consistent billing rates for provider services. As a result, the Division paid different rates for similar provider staff service hours, and paid more for client housing costs than it should have. We estimate the State could have realized savings of over \$600,000 in fiscal year 2017 with better oversight of CBLA provider pay rates and housing costs.

Some of the overbilling problems described in this report may be the result of provider fraud, while others may be unintentional errors. Fraud involves obtaining something of value through willful misrepresentation. Therefore, as required by NRS 218G.140(2), we reported this information to the Governor, each Legislator, and the Attorney General. See Appendix A on page 30, of this report.

To test provider billings, we gathered and reviewed provider billing and staff payroll documentation. We randomly selected 45

monthly home payments made to CBLA providers in fiscal year 2017. These payments included supporting documentation sent to the Division by providers. Supporting documentation contained 167 staff logs used to bill service hours provided to Division clients. Providers used these staff logs to bill the Division over 19,500 hours of service. In addition, we traveled to providers' offices, met with providers and staff, and collected payroll documentation for staff that billed service hours for the 45 monthly home payments tested.

CBLA Providers Overbilled the Division for Staff Service Hours

We estimate providers overbilled the Division about \$1.5 million in fiscal year 2017 for staff service hours. Our estimate is based on a statistical sample of 45 monthly billings for provider homes. Because monthly billings include client service hours recorded on staff logs, we reviewed and analyzed tens of thousands of daily entries recorded on 167 staff service logs. Our detailed review of over \$475,000 in payments related to the 45 monthly billings identified overbillings totaling more than \$52,000 for 35 (78%) of the provider billings tested. Using statistical principles, these overbillings were then extrapolated to a yearly amount to make our estimate.

These overbillings by providers at NNAMHS and SNAMHS were identified in three areas: (1) more service hours billed than supported by providers' staff timesheets (\$24,200); (2) duplicate billings for the same service hours billed to multiple clients (\$21,100); and (3) billing for more hours than were recorded on supporting documentation used to bill the Division (\$6,700). The overbillings were not detected by the Division due to inadequate review of providers' records supporting the amounts billed.

Providers Billed More Hours Than Were Recorded on Staff Timesheets

Providers' staff logs used to bill the Division for service hours provided to clients included more hours than were recorded on staff's payroll documentation. For example, a provider billed the Division 553 service hours, for a month, for all the clients living in the home. However, for those provider staff that recorded service hours, timesheets for the month showed only 390 hours worked at the home. Based on provider payroll and invoice documents for

the homes tested, the Division was overbilled more than \$24,200 for the months tested.

For the 45 monthly home payments randomly selected, most providers did not use timesheets showing which days and times staff worked at CBLA homes. However, for 12 provider home payments tested, staff timesheets were used. We observed 8 of 12 homes had significant differences between the hours billed and those recorded on staff timesheets. Payroll records related to the staff in these homes showed providers paid their staff for 1,401 (26%) less hours than the 5,301 hours billed to the Division. Exhibit 4 shows service hours billed compared to staff timesheets for the eight homes with significant timesheet discrepancies.

Hours Paid Compared to Timesheet Hours **Exhibit 4**
Selected Homes With Significant Discrepancies

| Home No. | Paid Hours | Employee Timesheet Hours | Difference | Average Hourly Rate ⁽¹⁾ | Amount Overbilled |
|---------------|--------------|--------------------------|----------------|------------------------------------|-------------------|
| 2 | 1,091 | 718 | (373) | \$17.92 | \$ 6,684 |
| 3 | 629 | 348 | (281) | 17.18 | 4,828 |
| 4 | 424 | 389 | (35) | 19.51 | 683 |
| 7 | 301 | 280 | (21) | 19.51 | 410 |
| 9 | 713 | 442 | (271) | 17.08 | 4,629 |
| 13 | 553 | 390 | (163) | 16.38 | 2,670 |
| 14 | 598 | 431 | (167) | 16.32 | 2,725 |
| 17 | 992 | 902 | (90) | \$17.76 | 1,598 |
| Totals | 5,301 | 3,900 | (1,401) | | \$24,227 |

Source: Auditor prepared from CBLA provider invoices and payroll documents.

⁽¹⁾ Average hourly rate for all services hours the CBLA provider billed the home for the month tested.

Although we could not compare staff timesheet hours to all staff log hours because most providers did not use timesheets, significant discrepancies were observed for those with timesheets, as shown above.

For 33 of 45 (73%) payments tested, including all SNAMHS payments tested, providers had no timesheets for staff that worked in the homes, or lacked timesheets for employees that recorded significant hours to staff logs. Most providers did not keep staff timesheets because they treated staff as salaried employees or independent contractors. The appropriateness of

designating CBLA home staff as salaried or independent contractors is addressed later in this report. Despite how providers classified employees, the Fair Labor Standards Act requires that employers of domestic service workers track and record all hours worked.

The Division did not detect this problem because it has not established a process to perform periodic comparisons of provider payroll records to verify hours billed were actually paid to provider staff. Requesting payroll records from providers periodically will help detect this type of problem.

Duplicate Service Hours Billed to Multiple Clients

Our review of monthly bills found providers billed multiple times for the same hour of staff time worked. For 27 of 45 (60%) monthly home payments tested, providers' staff recorded the same date and time performing services to multiple clients in the same home, or between homes operated by the same provider. According to agency policy, service hours billed should be one-on-one hours and not shared between clients. Based on our review of provider service logs, the Division was overbilled more than \$21,000 for the months tested.

The Division issues client contracts to CBLA providers for each client served. Among other things, these contracts detail how many service hours are to be provided each month. Service hours include support activities such as meal preparation and social and communication training. These service hours should be one-on-one hours. However, we observed many instances when the same hours were billed to multiple clients. For the 45 monthly billings tested, providers billed 19,521 service hours. For 1,252 (6%) of those service hours the same staff member recorded serving more than one client at the same time. For example, the following was observed:

- **Home No. 44** – On the same day a provider staff member recorded taking one client shopping for clothes and personal needs from 9:00 a.m. to 11:30 a.m., the same staff recorded discussing another client's planned activities for the day from 9:00 a.m. to 11:30 a.m. Therefore, the

Division was billed an extra 2.5 hours from 9:00 a.m. to 11:30 a.m.

- **Home No. 11** – On the same day a provider staff member recorded providing hygiene and safety support services to client one from 8:00 a.m. to 9:00 a.m., they also recorded providing hygiene and safety support services to a second client from 7:15 a.m. to 9:15 a.m. As a result, the Division was billed an extra hour of staff time between 8:00 a.m. and 9:00 a.m.

While provider staff service logs were sometimes incomplete or difficult to read, our analysis of duplicate services included those instances where evidence clearly showed duplicate billings. See Appendix B on page 32 for additional details on the hours of duplicate services by home.

Some provider staff recorded working 24 or more hours in a day. For 4 of 45 (9%) monthly home payments tested, we observed multiple staff recorded working 24 or more hours in a day. Exhibit 5 shows the home, number of days, and maximum number of hours recorded in a day equal to or greater than 24.

**Recorded Staff Hours
24 Hours or More Per Day in Month Tested** **Exhibit 5**

| Home No. | Staff | Number of Days Equal to or Greater Than 24 Hours | Maximum Hours Recorded to a Single Day |
|-----------------|--------------|---|---|
| 2 | Staff 1 | 5 | 28 |
| | Staff 2 | 11 | 27.5 |
| 8 | Staff 1 | 12 | 24 |
| | Staff 2 | 11 | 24 |
| | Staff 3 | 1 | 24 |
| 10 | Staff 1 | 1 | 24 |
| | Staff 2 | 23 | 24 |
| | Staff 3 | 8 | 32 |
| 20 | Staff 1 | 27 | 32 |

Source: Auditor prepared from CBLA provider staff service logs submitted to Division.

Working excessive hours in a day is a sign that providers' staff have recorded duplicate hours between clients, especially when staff are not live-in caregivers. This information is difficult to

calculate because providers submit handwritten staff logs, and not all staff logs for clients living in a home are reviewed by the same Division employees.

Although the agencies' policies require that service hours billed are on an individual basis, they have not developed procedures to ensure service hours billed are not duplicated. Both agencies experienced billings for duplicate hours, but the average duplicate hours billed at NNAMHS was less than at SNAMHS. For NNAMHS, 7 of 17 (41%) payments tested included duplicated hours, averaging 9 hours per payment. At SNAMHS, 20 of 28 (71%) payments tested included duplicated hours, averaging 59 hours per payment. At NNAMHS an employee in the accounting unit uses a spreadsheet to try to identify duplicate hours within a home, which could have impacted the number of duplicate hours paid.

Division Paid for More Hours Than Shown on Staff Logs Submitted by Providers

For 17 of 45 (38%) monthly home payments tested, the Division paid for more service hours than were recorded on the staff logs submitted by the providers. Most of these overbillings, 14 of 17 payments, occurred at SNAMHS. For the payments tested, providers overbilled the Division an average of 23 hours for those months. Billing more hours than were recorded on staff service logs resulted in providers overbilling the Division about \$6,700 for the months tested.

We identified the overbillings by comparing staff logs showing service hours performed to providers' invoices billing the Division for client service hours. Provider staff use logs to record daily client service hours for each client in a home. Providers then submit the log to the Division to support the hours on the monthly bill for that client. Exhibit 6 shows hours paid by the Division and hours recorded on staff logs for the 17 homes with exceptions.

Hours Paid Compare to Staff Log Recorded Hours **Exhibit 6**

| Home No. | Paid Hours | Staff Log Hours | Difference | Average Hourly Rate⁽¹⁾ | Amount Overbilled |
|-----------------|-------------------|------------------------|-------------------|--|--------------------------|
| 2 | 1,091 | 1,049 | (42) | \$17.92 | \$ 753 |
| 4 | 424 | 420 | (4) | 19.51 | 78 |
| 14 | 598 | 564 | (34) | 16.32 | 555 |
| 23 | 428 | 383 | (45) | 18.91 | 851 |
| 24 | 252 | 245 | (7) | 15.68 | 110 |
| 25 | 144 | 136 | (8) | 18.41 | 147 |
| 26 | 325 | 302 | (23) | 17.34 | 399 |
| 27 | 474 | 472 | (2) | 16.43 | 33 |
| 29 | 645 | 614 | (31) | 15.56 | 482 |
| 30 | 229 | 219 | (10) | 16.75 | 168 |
| 31 | 354 | 343 | (11) | 16.92 | 186 |
| 32 | 379 | 328 | (51) | 15.61 | 796 |
| 33 | 167 | 137 | (30) | 15.51 | 465 |
| 34 | 584 | 573 | (11) | 18.19 | 200 |
| 39 | 89 | 74 | (15) | 15.29 | 229 |
| 44 | 255 | 226 | (29) | 15.48 | 449 |
| 45 | 284 | 235 | (49) | \$15.59 | 764 |
| Totals | 6,722 | 6,320 | (402) | | \$6,665 |

Source: Auditor prepared from CBLA provider invoices and payroll documents.

⁽¹⁾ Average hourly rate for all service hours the CBLA provider billed the State for the month tested.

Several factors contributed to this type of overbilling. First, the Division has not established detailed written procedures to instruct staff on how to review provider billing records. Second, review of provider billings is primarily delegated to program staff, not accounting personnel. While accounting personnel may not have always detected this type of error, they are generally more likely to perform procedures that would reconcile supporting documentation to billed amounts.

Lack of Division Oversight Resulted in Overpayments for Staff Service Hours and Housing Costs

The Division lacked proper oversight of NNAMHS' and SNAMHS' operations to ensure the State did not overpay for CBLA home staff service hours and client housing costs. As a result, the Division paid different rates for similar service hours in northern Nevada compared to southern Nevada. In addition, the Division paid more for client housing costs than it should have, mainly in southern Nevada. We estimate the State could have saved over \$600,000 in fiscal year 2017. Better Division oversight can help ensure adult mental health payments to CBLA providers are consistent and appropriate.

Different Rates Paid for Similar Services

The Division paid different rates for similar service hours in northern and southern Nevada. Based on our review of 45 monthly home payments, NNAMHS paid providers a higher rate for client supervision than SNAMHS. We estimate the Division overpaid providers over \$20,000 for the payments tested, or more than \$590,000 for fiscal year 2017. The Division has not developed policies and procedures for determining what rates to pay providers for different types of services.

NNAMHS and SNAMHS have established different rates for reimbursing provider service hours. Exhibit 7 shows the agency, description of services, and hourly rate at NNAMHS and SNAMHS.

Different Service Rates at NNAMHS and SNAMHS Exhibit 7

| NNAMHS | Rate | SNAMHS | Rate |
|--------------------|---------|----------------------|---------|
| 1) Direct Services | \$19.51 | 1) Case Management | \$19.51 |
| 2) Support Hours | 19.51 | 2) Direct Services | 19.51 |
| 3) Overnight | \$12.29 | 3) Support Hours | 19.51 |
| | | 4) Supervision Hours | 15.90 |
| | | 5) Overnight | \$12.29 |

Source: Auditor prepared from Division documentation.

As shown above, SNAMHS includes two additional categories of service hours: case management and supervision hours. While case management is paid at the same rate as direct and support services, supervision hours are paid at a significantly lower rate, \$15.90 (19%), than direct or support service hours.

During our testing of provider billings, we observed that most of the services billed by NNAMHS as direct support hours were the same types of services billed at SNAMHS as supervision hours. Exhibit 8 shows two examples where providers' description of services were similar but paid at different rates.

Examples of the Same Services Provided at Different Rates

Exhibit 8

| Example | NNAMHS (\$19.51 per hour) | SNAMHS (\$15.90 per hour) |
|---------|---|---|
| 1 | "Staff prompted client to do his laundry" – Home No. 2 | "Prompt, monitor, assist with laundry" – Home No. 18 |
| 2 | "Staff observed client preparing her lunch" – Home No. 3 | "Assistance with breakfast preparation and clean up" – Home No. 20 |

Source: CBLA provider staff service logs.

Providers at NNAMHS bill all daytime service hours at the highest rate as direct service hours, while SNAMHS providers bill only some hours at this rate. At NNAMHS, 9,046 of 11,138 (81%) service hours tested were billed as direct service hours at \$19.51 per hour. The remaining hours were overnight hours. No hours tested for NNAMHS were billed as supervision hours. In contrast, 2,585 of 8,385 (31%) service hours tested at SNAMHS were billed at the higher rate, while 5,300 (63%) were billed as supervision hours at \$15.90 per hour. The remaining hours were overnight hours.

Division management suggested two reasons to justify different rates. First, NNAMHS did not establish a lower rate because it serves a significantly smaller population than SNAMHS and has more capacity in its budget. Although budgets can affect an agency's ability to provide services, it should not be the primary reason for establishing one rate over another, especially when similar services are being provided.

Second, management suggested a higher rate is justified when teaching a client a skill that works towards independence. This type of teaching would require trained staff. However, the Division does not effectively monitor provider training, or ensure that staff members billing at a higher rate are trained. For example, NNAMHS did not have records of provider staff training. While SNAMHS kept records of provider staff training, we observed that for the 45 monthly home payments tested SNAMHS did not have training records for 20 of 49 (41%) staff that billed service hours.

Based on our review of staff logs and observations by Division management, most hours of service provided by CBLA staff should be supervision hours. According to the Division, a lower

rate should be used for supervision, oversight, or monitoring of health, safety, or basic chores. However, the Division does not have policies and procedures defining the different service categories and setting rates.

Some Housing and Utility Costs Overcharged

Housing and utility costs (shared costs) for CBLA homes were not always allocated equally between state and private-pay clients, and live-in caregivers. Shared costs included providers' housing costs associated with owning or leasing homes and utility expenses. Because these costs were not allocated equally between all individuals living in CBLA homes, providers overcharged the Division \$9,600 for the months tested.

For 22 of 45 (49%) monthly home payments tested, providers overcharged the Division because shared costs were not allocated correctly. Some CBLA homes included private-pay mental health clients that do not receive residential support services from the Division. In addition, some providers, mainly in southern Nevada, employed live-in caregivers to provide services. However, these individuals were not considered when calculating reimbursements for shared costs. Exhibit 9 shows an example for one home with the amounts paid for housing and utility costs, the amount of these costs based on equal allocation, and the difference.

Example of One Home's Housing and Utility Costs Allocated Unevenly

Exhibit 9

| Client/Caregiver | Amount Paid for Housing and Utilities | Cost Allocation Per Individual Residing in Home | Overallocated/ (Underallocated) |
|-------------------------|--|--|--|
| Client 1 | \$ 600 | \$ 486 | \$114 |
| Client 2 | 630 | 486 | 144 |
| Client 3 | 600 | 486 | 114 |
| Client 4 | 600 | 486 | 114 |
| Caregiver | 0 | 486 | (486) |
| Totals | \$2,430 | \$2,430 | \$ 0 |

Source: Auditor prepared from CBLA provider invoices and financial information.

As shown above, if housing and utility costs were allocated evenly between all individuals living in the home, the clients were overcharged a total of \$486.

The majority of overcharged costs were the result of housing costs not being allocated to SNAMHS' live-in caregivers. In southern Nevada, most homes tested were staffed with live-in caregivers. Documentation from SNAMHS indicated CBLA housing costs are determined using the U.S. Department of Housing and Urban Development (HUD) fair market housing rates, which take into account the number of bedrooms in a home. Therefore, providers should be assessed the same amount for live-in caregivers as all other residents in the home. Furthermore, when we reviewed provider payroll records, part of live-in caregivers' compensation was to include room and board.

In addition, we calculated the Division was overcharged \$500 for shared costs associated with private-pay clients. For 4 of 45 (9%) payments, all in northern Nevada, private-pay clients resided in CBLA homes. Housing and utility costs were not shared between the private-pay and Division clients.

The Division had unsigned and outdated policies and procedures. These policies and procedures make reference to HUD fair market rates; but do not specify how housing rates or utility costs will be allocated between clients, private-pay, and live-in caregivers. Another division's policy (Aging and Disability Services Division) is to identify housing and utility costs associated with a home and allocate these costs equally between those residing in the home. Furthermore, NNAMHS had a policy that addressed splitting housing and utility costs between family members or live-in caregivers, but this policy was not followed.

**Provider
Supporting
Documentation
for Staff
Service Hours
Often
Inadequate and
Lacked
Important
Information**

CBLA providers' supporting documentation used to bill the Division for staff service hours was often inadequate and lacked important information. Specifically, the majority of staff service logs tested included written information that was difficult to read and understand, lacked sufficient details to identify the staff member that served the client, or lacked enough detail to determine the time when a client was served. In addition, the descriptions of services given included recycled wording. Furthermore, service logs included skills training hours recorded by provider staff that spoke a different language than the client. The Division does not have formal written policies and procedures

to ensure provider documentation supporting client services is reliable and includes important information.

Providers are paid to give services to clients, and in some cases, those services include teaching or helping a client relearn specific skills. Therefore, it is imperative that providers' staff have the correct language skills to help ensure effective communication with a client; thereby, achieving the desired outcome of the services provided. Furthermore, because the Division's process for controlling provider payments is based on staff service logs, it is imperative these logs identify the staff member, what services were provided, and the dates services were performed. When the Division is unable to read the services provided or identify service times, its ability to ensure the proper services are given to clients diminishes. In addition, the Division may be unable to determine if it receives the services for which it is paying.

Inadequacies in Staff Service Logs

For 103 of 167 (62%) service logs tested, at least one deficiency was observed when reviewing provider staff service logs used to support service hours billed. Staff service hours are the greatest CBLA home expense billed to the Division. In addition, information from staff service logs is used by the Division's employees to help ensure clients receive the proper care. However, we observed the following issues when reviewing service logs:

- Difficult to Read or Illegible Information

For 44 of 167 (26%) staff logs tested, some of the written information detailing the services provided was difficult to read or illegible.

- Service Time or Staff Performing Services Could Not Be Determined

For 50 of 167 (30%) staff logs tested, we could not determine which staff member served the client or the start or end time that services occurred. For example, a provider recorded start times of 9:00 a.m. and end times of 9:00 p.m. on multiple occasions, but only billed for 2 hours of service each time.

- Descriptions of Services Recycled

For 71 of 167 (43%) staff logs tested, some descriptions of services given to the client were recycled. For example, one staff log included the same pattern of seven descriptions repeated for the entire month. While we recognize some tasks performed by provider staff will be repetitive, the pattern observed of copied wording indicates that provider staff recycle wording.

We also observed instances when the same wording was recycled between staff logs for clients living in the same home. For example, the staff logs for 3 clients living in a home contained the exact same wording on 18 of 19 lines describing the services provided.

Although NNAMHS has an outdated policy regarding the content and legibility of staff service logs, SNAMHS and the Division did not have a policy addressing these issues. A NNAMHS policy, revised in May 2012, requires that service logs include the exact dates and times services were provided and a short description of the services. The policy also requires that handwritten logs be legible. Finally, NNAMHS policy states that if signatures and initials appear to have been written at one time, rather than written at the time of each service, payment will not be made for the services.

The Effectiveness of Some Training Hours Billed by Providers Was Questionable

Our review of staff service logs found that providers billed service hours for training clients in specific skills; however, the staff lacked the ability to effectively communicate with the clients. Specifically, staff members providing the training sometimes spoke a different language than the client. The training of individuals with mental illness necessitates that provider staff can effectively teach the appropriate skills, and the ability to speak the language of the individual is a key component to effectively teaching.

For 6 of 45 (13%) monthly home payments tested, staff spoke a different language than the clients in the home. While supporting documentation showed providers billed for a variety of services

carried out by these specific staff, six service categories that were billed by these individuals required them to be able to effectively communicate with clients. We counted hours billed for budget, communication, education, medication, safety, and social support as requiring the provider staff be proficient in the same language as the client. These staff billed a total of 1,278 service hours for the monthly payments tested, of which, 353 hours required that they communicate effectively with the client. Appendix C on page 34 shows additional details of training hours billed by these staff and the associated costs.

We recognize that medication support consists of the provider staff prompting, monitoring, assisting, or administering the medications to the client and does not appear to be an obvious form of a training service. However, the provider staff performing this function should assist the client in relearning the proper time and dosage in which to take their medication. In addition, the staff's ability to read, interpret, and communicate with the client regarding the medication's side effects and how the client is feeling is crucial to the overall success and welfare of the clients, and their ability to become medication independent.

Provider staff identified as unable to speak the language of the clients living in the home were those we physically observed when performing inspections of the conditions in CBLA homes¹. During those inspections, we recorded the names of the staff present, and documented if they spoke the language of the clients. These names were matched with the hours recorded on service logs. Our determination of their ability to adequately speak the language of clients was based on our attempts to ask questions and receive responses.

Under service standards developed by the Division, provider staff is responsible for engaging, listening, and conversing with individuals receiving support. Although the Division has a standard requiring provider staff be able to effectively communicate with clients, it does not have specific policies or procedures to ensure staff providing client training can effectively

¹ LA18-13 Department of Health and Human Services, Division of Public and Behavioral Health, Adult Mental Health Services, Community-Based Living Arrangement Homes.

communicate. The ability to communicate with clients is an essential component of effectively training clients with the skills they need.

Recommendations

1. Review recent billings by CBLA providers to determine the amount of significant overpayments and obtain refunds, and communicate significant overpayments to the Office of Attorney General, as appropriate.
2. Establish written policies and procedures for reviewing and processing CBLA provider billings, including a checklist of items to review and a process to verify hours billed were worked and supporting documentation agrees to hours billed.
3. Ensure bills submitted by CBLA providers are reviewed by Division staff with the appropriate training and skills.
4. Develop written policies and procedures to detect and prevent providers from billing the same service hours for multiple clients.
5. Develop written policies and procedures to define those service hours paid to providers and which rates will be paid, including supervision hours that do not require specialized training.
6. Establish policies and procedures to help ensure shared costs, such as rent and utilities, are appropriately allocated between state-placed clients, private-pay clients, and live-in caregivers.
7. Develop policies and procedures to ensure information on staff service logs contains important, legible information that will help ensure the Division can verify that the appropriate services were provided, staff performing the services were documented, and service times were identified.
8. Develop policies and procedures to help ensure provider staff is capable and sufficiently qualified to provide necessary services, including the ability to effectively communicate with the client.

Better Management of Residential Services Needed to Help Ensure Providers' Sustainability and Equality

The Division needs to provide better management of residential services to help ensure CBLA home providers' sustainability and equality. Our analysis found some homes may find it difficult to make a profit while others may potentially generate annual profits of more than \$100,000 per home. The primary factors affecting the financial sustainability of homes' operations include the number of clients placed within each home, the clients' billable service hours, housing costs, and payroll practices.

Financial Sustainability of CBLA Home Providers Varied

Financial sustainability of CBLA homes operations varied significantly. The most significant factors affecting providers' cash flows were the number of CBLA clients they housed and their monthly billable service hours. The more profitable CBLA providers housed the clients with the greater number of service hours, and many providers operated more than one home. Conversely, providers housing clients that had fewer service hours, or fewer clients per home, had less favorable cash flows, with some barely breaking even or showing losses. Exhibit 13 shows the net monthly cash flows per client for the 14 providers we tested.

Net Monthly Cash Flows Per Client for Providers and Homes Tested

Exhibit 13

| Provider No. | No. of Homes | Average No. of Clients Per Home⁽¹⁾ | Average Service Hours Per Client⁽²⁾ | Net Monthly Cash Flow Per Client⁽³⁾ |
|---------------------|---------------------|--|---|---|
| 1 | 1 | 2.0 | 30 | \$(656) |
| 2* | 1 | 1.0 | 0 | (271) |
| 3 | 1 | 2.0 | 45 | (21) |
| 4 | 2 | 2.0 | 38 | 188 |
| 5 | 1 | 4.0 | 76 | 444 |
| 6 | 4 | 2.3 | 176 | 1,084 |
| 7 | 15 | 3.7 | 67 | 733 |
| 8 | 1 | 5.0 | 103 | 659 |
| 9 | 8 | 3.8 | 166 | 1,209 |
| 10 | 2 | 3.5 | 148 | 1,677 |
| 11 | 4 | 6.3 | 96 | 1,015 |
| 12 | 3 | 4.3 | 185 | 1,491 |
| 13 | 1 | 6.0 | 71 | 1,545 |
| 14 | 1 | 3.0 | 561 | \$5,734 |
| Total | 45 | | | |

Source: Auditor prepared from the Division's billing records and providers' operating expense data.

⁽¹⁾ Client count excludes four private pay individuals residing in three NNAMHS homes.

⁽²⁾ Average Service Hours Per Client is contracted service hours billed for the month.

⁽³⁾ Net Monthly Cash Flow Per Client is total monthly client billings (service hours, rent, and utilities) less providers' payroll and housing expenses, divided by number of clients the provider housed.

* Provider No. 2 housed one client who paid rent, but had no billable service hours.

As shown above, some provider homes might not make a profit during a given month while others realize significant monthly profits, and could potentially see annual profits exceed \$100,000. Appendix D on page 36, shows the monthly net cash flow for the 45 monthly home payments tested and provides additional details of the effect that the placement of clients and service hours have on CBLA home providers' cash flows.

The Division does not perform regular financial assessments of CBLA providers to understand providers' monthly operating costs for payroll and housing. Although an understanding of the clients' needs is important when placing clients, an understanding of the CBLA providers' finances is also necessary in order to make fair and equitable placement decisions when practicable. By performing regular financial assessments of CBLA providers, the Division can help ensure CBLA providers house a sufficient

number of clients with balanced service hours necessary to recover their operating costs and sustain their operations.

Housing Costs in CBLA Homes

Variability in housing costs also impacted the CBLA providers' bottom line. Providers' ability to recover their housing costs via the NNAMHS' and SNAMHS' established rates for rent, was influenced, in large part, on whether providers leased, mortgaged, or owned their homes debt-free. CBLA homes in northern Nevada had higher housing costs due to leasing, while the majority of southern Nevada homes we tested either had a mortgage payment or were owned debt-free. Exhibit 15 shows the general breakdown of the housing types for the 45 monthly payments in our sample.

| No. of Homes | Agency | Leased, Mortgaged, or Owned | Average Monthly Payment* | Lowest Monthly Payment | Highest Monthly Payment |
|---------------------|---------------|------------------------------------|---------------------------------|-------------------------------|--------------------------------|
| 17 | NNAMHS | Leased | \$1,441 | \$1,200 | \$2,000 |
| 8 | SNAMHS | Leased | 1,024 | 600 | 1,300 |
| 0 | NNAMHS | Mortgaged | - | - | - |
| 11 | SNAMHS | Mortgaged | 1,245 | 860 | 1,651 |
| 0 | NNAMHS | Owned | - | - | - |
| 9 | SNAMHS | Owned | \$ 231 | \$ 70 | \$ 461 |

Source: Auditor prepared from providers' operating expense data.

* Average monthly payment for mortgaged and owned homes includes property taxes and homeowner's insurance.

Many of the CBLA homes we tested had deficit spending for housing costs because the providers' out-of-pocket costs exceeded their revenues attributable to payments for rent and utilities. Specifically, for the homes and months we tested, six NNAMHS homes and eight SNAMHS homes had deficit spending for housing costs. When CBLA homes are unable to recover their housing costs, the number of service hours they bill becomes more critical to their financial success. The following examples highlight the importance of equitably balancing service hours among CBLA providers for their financial stability.

- A NNAMHS home with 2 clients had deficit housing costs of \$(972) for 1 month, but billed nearly \$12,000 for

services. The amount billed was sufficient to cover the provider’s operating costs of payroll, housing, and utilities and resulted in positive cash flow of \$5,900 for the month.

- A NNAMHS home with 2 clients had deficit housing costs of \$(559) for 1 month, and about \$1,800 in services billed. The amount billed was insufficient to cover the provider’s operating costs of payroll, housing, and utilities, and the provider showed a small operating loss for the month.

Payroll Practices in CBLA Homes

CBLA home providers used a wide range of payroll practices, some of which may have violated state and federal labor laws and created an unfair advantage over other providers. Although most of the CBLA providers in northern Nevada had adequate documentation that payroll requirements were followed, most of the southern Nevada providers had questionable payroll practices. First, many providers were unable to provide basic employment records of timesheets to support hours worked, with some providing us with only a check stub or a paper receipt to document a cash payment. Second, nine employees received an hourly rate below the state minimum wage of \$8.25². Third, some providers treated their employees as independent contractors, thus avoiding employment taxes.

Timesheet Records Not Maintained

Most providers were unable to provide timesheets showing which days and times staff worked at CBLA homes, as noted previously in this report. Exhibit 16 shows the breakdown of timesheet exceptions by region.

Provider Staff Without Timesheets

Exhibit 16

| Provider Staff* | NNAMHS | SNAMHS |
|--|--------|--------|
| No timesheets to support wages paid | 6 | 41 |
| Total employees tested with service hours billed | 88 | 48 |
| Exception rate | 7% | 85% |

Source: Auditor prepared from providers’ payroll records.

* Excludes owners of CBLA homes that billed service hours for themselves.

² Nevada minimum wage is \$8.25 for workers without health insurance offered by employer, \$7.25 if employer offers coverage. Federal minimum wage is \$7.25.

The Fair Labor Standards Act (FLSA) and Statutes of Nevada require employers to keep basic employment records for each employee including the hours worked each day, total hours worked each workweek, rate of pay, and total straight-time and overtime earnings. Exceptions with NNAMHS' providers included no timesheets for a family member, or being unable to provide a specific timesheet. However, most SNAMHS' providers did not maintain timesheets to support the hours their caregivers worked in the CBLA homes we tested.

Employees Paid Less Than Minimum Wage

Nine employees of SNAMHS providers were paid less than the state minimum wage of \$8.25. Hourly rates ranged from \$3.25 to \$7.08 for the payments we tested. Seven of these employees worked as live-in caregivers and their hourly rate was imputed to include the value of the lodging they received as compensation, in accordance with U.S. Department of Labor guidance. In addition, two employees were paid in cash, and their hourly rate was calculated based upon their service hours billed, since timesheets were not maintained. Examples of both types of employees paid below minimum wage as follows:

- An employee was paid \$980 in January 2017, to work in a home with 4 clients. The employer's records consisted of four calendar entries of varying weekly cash payments. Using 262 unduplicated hours logged for the month, the employee was paid at the rate of \$3.74 per hour.
- A live-in caregiver was paid a salary of \$1,500 in February 2017, to live and work in a home with 7 clients. The employer had a signed contract stating room and board was included in the caregiver's compensation, but did not document its value. Factoring in a value for room and board of \$641, based upon HUD and USDA rates, and using 302.33 unduplicated hours logged, the employee was paid at the rate of \$7.08 per hour.

Employees Treated As Independent Contractors

Some providers treated their employees as independent contractors rather than hourly employees, thereby avoiding

employment taxes. Specifically, CBLA providers at NNAMHS and SNAMHS treated 20 of 136 (15%) non-owner employees as independent contractors for payroll purposes. However, the employees performed essentially the same caregiver functions at the CBLA homes as the other 116 employees of CBLA providers we tested. The State Administrative Manual (SAM 320) clearly defines an independent contractor as follows:

An independent contractor is a natural person, firm, or corporation who agrees to perform services for a fixed price according to his/her or its own methods and without subjection to the supervision or control of the other contracting party, except as to the results of the work, and not as to the means by which the services are accomplished.

Furthermore, the Nevada Office of the Labor Commissioner informed us staff generally do not have the flexibility or control in the work relationship in terms of work schedule, hours, work performed, or how the work is done, to qualify as independent contractors.

The Division does not have policies and procedures to help ensure CBLA providers follow state and federal labor laws. Wages and payroll taxes are the largest expense for CBLA providers, averaging about 44% of the total expenses for the 45 payments we tested. The Division should take steps to help ensure provider equity with regards to their compliance with labor laws.


Recommendations

9. Perform regular financial assessments of CBLA provider homes' operating costs.
10. Develop policies and procedures over client placements to help ensure a fair and equitable balance of billable service hours among CBLA providers when practicable.
11. Develop policies and procedures to help ensure providers are fairly compensated for housing and utility costs.
12. Develop policies and procedures to assess provider compliance with state and federal labor laws.

Appendices

Appendix A

NRS 218G.140(2) Report Regarding Potential Provider Fraud

| | | |
|--|---|---|
| <p>STATE OF NEVADA LEGISLATIVE COUNSEL BUREAU LEGISLATIVE BUILDING 401 S. CARSON STREET CARSON CITY, NEVADA 89701-4747</p> |  | <p>LEGISLATIVE COMMISSION (775) 684-6800 JASON FRIERSON, <i>Assemblyman, Chairman</i> Rick Combs, <i>Director, Secretary</i></p> <p>INTERIM FINANCE COMMITTEE (775) 684-6821 JOYCE WOODHOUSE, <i>Senator, Chair</i> Mark Krmpotic, <i>Fiscal Analyst</i> Cindy Jones, <i>Fiscal Analyst</i></p> |
| <p>RICK COMBS, <i>Director</i> (775) 684-6800</p> | | <p>BRENDA J. ERDOES, <i>Legislative Counsel</i> (775) 684-6830 ROCKY COOPER, <i>Legislative Auditor</i> (775) 684-6815 MICHAEL J. STEWART, <i>Research Director</i> (775) 684-6825</p> |

September 27, 2018


Members of the Nevada State Legislature
Legislative Building
Carson City, Nevada 89701

This letter is issued in accordance with Nevada Revised Statutes 218G.140(2), which requires the Legislative Auditor to report evidence of illegal transactions to the Governor, each Legislator, and the Attorney General. During our audit of adult mental health services provided by the Division of Public and Behavioral Health (Division), we identified some providers overbilled the Division for services. Some of the overbilling problems may be the result of provider fraud, while others may be unintentional errors. Based on a sample of payments tested, we estimate the Division overpaid providers over \$1.5 million dollars in fiscal year 2017.

The Division, through its Clinical Services Branch, is responsible for coordinating services to persons with mental illness. Many services are provided through community-based living arrangement (CBLA) providers that contract with the Division. CBLA providers offer residential support to persons with mental illness through monitoring and behavioral skills training in a scattered site community setting. The CBLA model reimburses a contractor for rent and utility costs, and pays for staff service hours. During fiscal year 2017, the Division paid about \$11 million to CBLA providers serving clients at Northern Nevada and Southern Nevada Adult Mental Health Services.

During our audit, we found CBLA providers overbilled the Division in a variety of ways. These overbillings by providers were identified in three areas: (1) providers billed the Division for more hours than were actually worked by provider staff, based on our review of provider payroll records; (2) providers billed multiple times for the same hour of staff time worked; and (3) providers billed for more staff service hours than were recorded on supporting documentation. The overbillings were not detected by the Division due to the inadequate review of providers' records supporting the amounts billed. Our detailed review of payments for more than \$475,000 of CBLA services found overbillings of about 11% of the total dollars billed. Based on our testing and use of statistical principles, we estimate the Division overpaid providers of CBLA services about \$1.5 million in fiscal year 2017 due to potentially fraudulent overbillings. Most of the CBLA providers tested (8 of 14) had overbillings in the months tested.

Because we tested a random sample of monthly provider payments, the Division needs to perform additional work to identify providers with significant overbillings and determine amounts that each provider was overpaid in recent months and years, as appropriate, given the


(NSPO Rev. 1-18) (O) 1578E 

Members of the Nevada State Legislature
September 27, 2018
Page 2

costs associated with performing additional work and the expected recovery. As we complete our audit, we will continue to work with the Division to establish efficient processes for preventing, detecting, and recovering overpayments. After the Division completes its review to determine the extent of overpayments, by provider, it should request refunds and communicate the significant overpayments to the Office of Attorney General, as appropriate.

Our audit report of the Division of Public and Behavioral Health's Adult Mental Health Services, Community-Based Living Arrangement Homes, Residential Services Payments will be issued at the next meeting of the Audit Subcommittee of the Legislative Commission, planned for October 29, 2018.

Respectfully Submitted,



Rocky Cooper, CPA
Legislative Auditor

RC:sy

cc: The Honorable Brian Sandoval, Governor of Nevada
The Honorable Adam Paul Laxalt, Attorney General, State of Nevada
Michael J. Willden, Chief of Staff, Office of the Governor
Richard Whitley, MS, Director, Department of Health and Human Services (DHHS)
Julie Kotchevar, PhD, Administrator, Division of Public and Behavioral Health, DHHS

Appendix B

Duplicate Hours Billed by Home

| | Total Staff Hours | Total Duplicate Hours | Total Cost for Months Tested |
|------------------|--------------------------|------------------------------|-------------------------------------|
| NNAMHS | | | |
| Home 1 | 90 | 0 | \$ - |
| Home 2 | 1,091 | 11 | 216 |
| Home 3 | 629 | 0 | - |
| Home 4 | 424 | 0 | - |
| Home 5 | 210 | 0 | - |
| Home 6 | 420 | 0 | - |
| Home 7 | 301 | 0 | - |
| Home 8 | 1,200 | 2 | 33 |
| Home 9 | 713 | 0 | - |
| Home 10 | 1,684 | 0 | - |
| Home 11 | 514 | 10 | 190 |
| Home 12 | 302 | 0 | - |
| Home 13 | 553 | 0 | - |
| Home 14 | 598 | 2 | 24 |
| Home 15 | 462 | 5 | 94 |
| Home 16 | 951 | 6 | 109 |
| Home 17 | 993 | 25 | 468 |
| Subtotals | 11,135 | 61 | \$ 1,134 |
| SNAMHS | | | |
| Home 18 | 60 | 0 | \$ - |
| Home 19 | 228 | 3 | 44 |
| Home 20 | 955 | 378 | 6,421 |
| Home 21 | 315 | 29 | 461 |
| Home 22 | 275 | 4 | 64 |
| Home 23 | 428 | 30 | 568 |
| Home 24 | 252 | 73 | 1,161 |
| Home 25 | 144 | 0 | - |
| Home 26 | 325 | 40 | 586 |
| Home 27 | 474 | 0 | - |
| Home 28 | 280 | 4 | 61 |
| Home 29 | 645 | 1 | 8 |
| Home 30 | 229 | 39 | 606 |
| Home 31 | 354 | 3 | 54 |
| Home 32 | 379 | 18 | 285 |
| Home 33 | 167 | 15 | 252 |
| Home 34 | 584 | 41 | 773 |
| Home 35 | 88 | 0 | - |

Appendix B

Duplicate Hours Billed by Home (continued)

| | Total Staff Hours | Total Duplicate Hours | Total Cost for Months Tested |
|-------------------------------|-------------------|-----------------------|---------------------------------|
| SNAMHS (continued) | | | |
| Home 36 | 410 | 263 | 4,876 |
| Home 37 | 457 | 75 | 1,065 |
| Home 38 | 307 | 96 | 1,532 |
| Home 39 | 89 | 0 | - |
| Home 40 | 170 | 13 | 200 |
| Home 41 | 170 | 0 | - |
| Home 42 | 0 | 0 | - |
| Home 43 | 62 | 0 | - |
| Home 44 | 255 | 54 | 840 |
| Home 45 | 284 | 12 | 180 |
| Subtotals | 8,386 | 1,191 | \$20,037 |
| Totals | 19,521 | 1,252 | \$21,171 |

Source: Auditor prepared from CBLA staff service logs submitted to the Division.

Appendix C

Hours and Amounts Billed Teaching a Skill by CBLA Staff Not Speaking the Language of the Client

| Staff Name | <u>Budget</u> | | <u>Communication</u> | | <u>Education</u> | | <u>Medication</u> | | <u>Safety</u> | | <u>Social</u> | | Total Hours | Total Costs for Months Tested |
|------------------------------|---------------|--------------|----------------------|--------------|------------------|--------------|-------------------|----------------|---------------|--------------|---------------|--------------|-------------|-------------------------------|
| | Hours | Costs | Hours | Costs | Hours | Costs | Hours | Costs | Hours | Costs | Hours | Costs | | |
| Staff 1 (Home 18) | 0 | \$ - | 0 | \$ - | 0 | \$ - | 37 | \$ 596 | 0 | \$ - | 0 | \$ - | 37 | \$ 596 |
| Staff 2 (Homes 21 and 22) | 15 | 249 | 2 | 32 | 25 | 412 | 100 | 1,641 | 3 | 48 | 2 | 32 | 147 | 2,414 |
| Staff 3 (Homes 32 and 45) | 13 | 201 | 0 | - | 1 | 16 | 72 | 1,119 | 37 | 577 | 17 | 265 | 140 | 2178 |
| Staff 4 (Home 34) | 5 | 104 | 8 | 163 | 0 | - | 8 | 159 | 3 | 62 | 5 | 98 | 29 | 586 |
| Totals | 33 | \$554 | 10 | \$195 | 26 | \$428 | 217 | \$3,515 | 43 | \$687 | 24 | \$395 | 353 | \$5,774 |

Source: Auditor inspection of CBLA homes and provider invoices.

This page intentionally left blank.

Appendix D

Revenue and Cost Information by Home

The following information represents the estimated monthly cash flows of selected CBLA homes for a randomly selected month in fiscal year 2017. Based on an extensive analysis of revenues and costs, some homes may find it difficult to make a profit. Assuming client services hours and placements do not change significantly, more than 10% of these homes may make more than \$100,000 in annual profits, with two homes potentially profiting \$150,000 to \$200,000 annually, per home. Consequently, the placement of clients, factoring in their service hour needs, and consideration for coverage of housing costs is needed to ensure provider profitability and equality.

| NNAMHS | No. of Clients | Revenues | | | Costs | | | | Estimated Cash Flow (Per Month) |
|------------------|----------------|---------------------------------------|-------------------------------|------------------|---------------------------------|--------------------------------|---------------------------------|------------------|---------------------------------|
| | | Provider Service Hours ⁽¹⁾ | Provider Other ⁽²⁾ | Total | Provider Housing ⁽³⁾ | Provider Client ⁽⁴⁾ | Provider Payroll ⁽⁵⁾ | Total | |
| Home 1 | 2 | \$ 1,760 | \$ 1,057 | \$ 2,817 | \$ 1,563 | \$ - | \$ 1,295 | \$ 2,858 | \$ (41) |
| Home 2 | 3 | 19,513 | 3,064 | 22,577 | 2,284 | 679 | 10,302 | 13,265 | 9,312 |
| Home 3 | 5 | 10,528 | 3,873 | 14,401 | 1,902 | 1,052 | 4,705 | 7,659 | 6,742 |
| Home 4 | 5 | 8,277 | 3,407 | 11,684 | 1,896 | 988 | 6,169 | 9,053 | 2,631 |
| Home 5 | 3 | 4,111 | 2,323 | 6,434 | 1,520 | 766 | 4,365 | 6,651 | (217) |
| Home 6 | 5 | 8,222 | 3,223 | 11,445 | 1,734 | 696 | 7,184 | 9,614 | 1,831 |
| Home 7 | 4 | 5,863 | 2,851 | 8,714 | 1,686 | 743 | 4,099 | 6,528 | 2,186 |
| Home 8 | 3 | 21,404 | 2,975 | 24,379 | 2,121 | 676 | 13,665 | 16,462 | 7,917 |
| Home 9 | 2 | 11,971 | 2,157 | 14,128 | 2,058 | 453 | 5,761 | 8,272 | 5,856 |
| Home 10 | 3 | 32,715 | 3,648 | 36,363 | 1,616 | 663 | 16,881 | 19,160 | 17,203 |
| Home 11 | 5 | 9,328 | 4,028 | 13,356 | 2,292 | 966 | 6,801 | 10,059 | 3,297 |
| Home 12 | 4 | 5,898 | 3,611 | 9,509 | 1,750 | 1,318 | 4,667 | 7,735 | 1,774 |
| Home 13 | 4 | 8,991 | 3,283 | 12,274 | 1,442 | 1,209 | 3,803 | 6,454 | 5,820 |
| Home 14 | 4 | 9,765 | 3,206 | 12,971 | 1,429 | 1,271 | 4,352 | 7,052 | 5,919 |
| Home 15 | 3 | 7,320 | 3,598 | 10,918 | 1,885 | 828 | 5,186 | 7,899 | 3,019 |
| Home 16 | 4 | 16,790 | 3,425 | 20,215 | 1,562 | 1,306 | 9,075 | 11,943 | 8,272 |
| Home 17 | 5 | \$ 17,627 | \$ 3,372 | \$ 20,999 | \$ 1,582 | \$ 1,267 | \$ 10,052 | \$ 12,901 | \$ 8,098 |
| Subtotals | 64 | \$200,083 | \$ 53,101 | \$253,184 | \$30,322 | \$14,881 | \$118,362 | \$163,565 | |
| SNAMHS | | | | | | | | | |
| Home 18 | 2 | \$ 954 | \$ 1,766 | \$ 2,720 | \$ 1,487 | \$ 276 | \$ 2,269 | \$ 4,032 | \$(1,312) |
| Home 19 | 3 | 3,914 | 2,926 | 6,840 | 1,123 | 819 | 3,781 | 5,723 | 1,117 |
| Home 20 | 7 | 16,068 | 6,897 | 22,965 | 2,063 | 2,048 | 4,792 | 8,903 | 14,062 |
| Home 21 | 3 | 5,153 | 2,746 | 7,899 | 589 | 385 | 3,978 | 4,952 | 2,947 |
| Home 22 | 3 | 4,373 | 2,072 | 6,445 | 585 | 157 | 4,253 | 4,995 | 1,450 |
| Home 23 | 6 | 8,084 | 5,061 | 13,145 | 901 | 1,188 | 1,788 | 3,877 | 9,268 |
| Home 24 | 4 | 3,953 | 2,442 | 6,395 | 1,316 | 42 | 2,475 | 3,833 | 2,562 |
| Home 25 | 5 | 2,651 | 2,207 | 4,858 | 1,951 | 102 | 2,260 | 4,313 | 545 |
| Home 26 | 4 | 5,637 | 2,664 | 8,301 | 2,025 | 601 | 1,087 | 3,713 | 4,588 |

Appendix D

Revenue and Cost Information by Home (continued)

| SNAMHS (Continued) | No. of Clients | Revenues | | | Costs | | | | Estimated Cash Flow (Per Month) |
|-----------------------|-------------------|---|----------------------------------|------------------|------------------------------------|-----------------------------------|------------------------------------|------------------|---------------------------------------|
| | | Provider Service Hours ⁽¹⁾ | Provider Other ⁽²⁾ | Total | Provider Housing ⁽³⁾ | Provider Client ⁽⁴⁾ | Provider Payroll ⁽⁵⁾ | Total | |
| Home 27 | 4 | 7,789 | 3,341 | 11,130 | 611 | 228 | 1,701 | 2,540 | 8,590 |
| Home 28 | 2 | 4,344 | 1,909 | 6,253 | 1,326 | 228 | 3,465 | 5,019 | 1,234 |
| Home 29 | 3 | 10,039 | 3,189 | 13,228 | 1,683 | 591 | 7,017 | 9,291 | 3,937 |
| Home 30 | 6 | 3,836 | 5,067 | 8,903 | 1,170 | 228 | 3,079 | 4,477 | 4,426 |
| Home 31 | 4 | 5,990 | 3,317 | 9,307 | 1,678 | 831 | 3,675 | 6,184 | 3,123 |
| Home 32 | 2 | 5,918 | 1,851 | 7,769 | 1,831 | 487 | 2,363 | 4,681 | 3,088 |
| Home 33 | 2 | 2,590 | 1,861 | 4,451 | 451 | - | 2,276 | 2,727 | 1,724 |
| Home 34 | 5 | 10,621 | 3,040 | 13,661 | 1,487 | 611 | 8,646 | 10,744 | 2,917 |
| Home 35 | 2 | 1,717 | 1,400 | 3,117 | 1,412 | - | 1,374 | 2,786 | 331 |
| Home 36 | 6 | 7,472 | 4,820 | 12,292 | 2,278 | 1,148 | 4,648 | 8,074 | 4,218 |
| Home 37 | 7 | 8,024 | 3,757 | 11,781 | 1,925 | - | 5,677 | 7,602 | 4,179 |
| Home 38 | 4 | 4,917 | 2,914 | 7,831 | 1,812 | 103 | 1,210 | 3,125 | 4,706 |
| Home 39 | 2 | 1,361 | 1,997 | 3,358 | 306 | - | 1,231 | 1,537 | 1,821 |
| Home 40 | 5 | 2,956 | 4,218 | 7,174 | 1,002 | 281 | 3,438 | 4,721 | 2,453 |
| Home 41 | 5 | 2,956 | 4,228 | 7,184 | 1,120 | 409 | 5,516 | 7,045 | 139 |
| Home 42 | 1 | - | 1,150 | 1,150 | 1,421 | - | - | 1,421 | (271) |
| Home 43 | 2 | 1,155 | 1,250 | 2,405 | 1,277 | - | 706 | 1,983 | 422 |
| Home 44 | 2 | 3,946 | 1,328 | 5,274 | 683 | - | 3,717 | 4,400 | 874 |
| Home 45 | 2 | \$ 4,429 | \$ 1,851 | \$ 6,280 | \$ 1,797 | \$ 82 | \$ 2,902 | \$ 4,781 | \$ 1,499 |
| Subtotals | 103 | \$140,847 | \$ 81,269 | \$222,116 | \$37,310 | \$10,845 | \$ 89,324 | \$137,479 | |
| Totals | 167 | \$340,930 | \$134,370 | \$475,300 | \$67,632 | \$25,726 | \$207,686 | \$301,044 | |

Source: CBLA provider invoices and payroll records.

⁽¹⁾ Provider Service Hours are Division payments made to the provider for claimed service hours.

⁽²⁾ Provider Other includes rent, utilities, food, and personal needs. These revenues include payments from the Division using State and client trust funds (CTF), from SSI and SSDI, as direct reimbursement for clients' expenses. Unspent CTF funds, retained by the Division, are not included in provider revenues. In some cases, the Division makes CTF distributions directly to the client, which are also not a provider revenue.

⁽³⁾ Provider Housing costs include mortgages, leases, property taxes (as applicable), and utilities. For mortgaged homes, actual mortgage costs do not account for potential unrealized gains in real estate values. For owned homes, only taxes and insurance costs were included as housing costs. In some cases, housing costs may not include potential home maintenance costs or include overhead and operating cost as complete documentation was not available. However, we believe these expenses do not significantly affect our estimates.

⁽⁴⁾ Provider client costs include those incurred for clients including food, travel, and personal needs. Direct distributions to clients from the Division for personal needs are not reflected as a provider client cost.

⁽⁵⁾ Provider payroll includes actual payments to providers' staff and estimated payments using best available information based on staff logs, timesheets, and average pay rates. For live-in caregivers, payroll costs include actual payments and an assigned cost based on the fair market value of housing and food provided under these employment arrangements.

Note: Additional details regarding the analysis are detailed in the methodology section of the report in Appendix E on page 38.

Appendix E

Audit Methodology

To gain an understanding of adult mental health services, we interviewed staff at the Division of Public and Behavioral Health (Division) and reviewed statutes, regulations, policies, and procedures significant to its operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing Division activities. Furthermore, we assessed internal controls over the community-based living arrangement (CBLA) provider billing process, and the financial sustainability and staffing of provider homes.

To determine if the Division had adequate controls over payments to CBLA providers, we tested provider payments to ensure payments did not exceed contracted amounts, and documentation supported the amounts billed. To test CBLA payments, we obtained lists of fiscal year 2017 provider homes from residential services staff at Northern Nevada Adult Mental Health Services (NNAMHS) and Southern Nevada Adult Mental Health Services (SNAMHS). To verify the completeness of these lists, we compared them to provider payments in the state accounting system. From the list of 105 homes, we randomly selected 45 monthly home payments (17 NNAMHS and 28 SNAMHS). Our sample included \$475,000 of the \$11,208,000 (4%) paid to CBLA providers at NNAMHS and SNAMHS in fiscal year 2017.

To test CBLA provider payments, we traveled to NNAMHS and SNAMHS and collected client contracts and provider billing documentation. We then tested provider billings to ensure payments did not exceed contract amounts and Division staff reviewed and approved payments. Furthermore, we verified that supporting documentation was complete and mathematically accurate, shared costs were split appropriately among clients and

staff living in the provider home, and services were not double billed.

The majority of expenses for the 45 CBLA payments tested related to provider staff hours. To test the validity of staff hours billed by providers, we traveled to CBLA providers' offices and collected payroll records for those staff that worked the homes during the months we tested. We calculated the hours billed for each staff member on the staff service logs that supported provider billings and compared those hours to provider payroll records and to providers' billings for Division clients. In addition, to identify duplicate billings, we entered staff service log information into spreadsheets. Then, using data analytics software, we identified overlapping service hours logged by the same provider staff to different clients within a home, and between homes of the same provider and month tested. Finally, we compared service hour rates paid for similar services at NNAMHS and SNAMHS.

To calculate our estimate of CBLA provider overbillings in fiscal year 2017, we used professional judgement and statistical principles. For our estimate of overbillings related to discrepancies in staff timesheets, the monthly overbilled amount was extrapolated to a yearly amount at a 90% confidence level, resulting in a level of precision of plus or minus 46% of \$679,133. For exceptions where providers billed more service hours than were recorded on staff service logs, the monthly overbilled amount was extrapolated to a yearly amount at a 90% confidence level, resulting in a level of precision of plus or minus 27% of \$186,810. For duplicate service hours billed, the monthly overbilled amount was extrapolated to a yearly amount at a 90% confidence level, resulting in a level of precision of plus or minus 48% of \$592,794. Wide levels of precision were observed because of the standard deviation for each type of exception.

Housing and utility costs were also significant expenses for the 45 CBLA payments tested. To determine if housing and utility costs were split appropriately among the Division's clients, private-pay clients, and staff living within the provider home, we identified the total housing and utility costs in the home and divided it by the

total number of individuals residing in the home. We then compared the average housing and utility amount per individual to the amount each client and staff contributed.

To calculate our estimate of \$600,000 in potential savings to the State if provider payment rates were consistent and housing and utility costs were split appropriately, we extrapolated monthly savings to an annual amount. Specifically, we calculated the average number of CBLA staff service hours (532) for the NNAMHS' homes included in our testing. We then computed the percentage of these hours that could be supervision hours based on SNAMHS' rate (63%) of supervision to direct service hours for the 45 monthly home payments tested. In addition, we multiplied these hours by the 41 NNAMHS CBLA homes operating in fiscal year 2017.

Next, we multiplied the number of service hours per month by the difference in pay rates (\$3.61) for supervision versus direct support services. Furthermore, we annualized this monthly cost saving for all NNAMHS homes (\$597,000). Finally, we added to this amount the monthly savings of \$9,600 identified from our testing of NNAMHS and SNAMHS homes where providers were over paid for housing and utility costs. We did not annualize this savings as all CBLA homes with live-in caregivers or private pay client could not be easily identified.

To help determine the validity of service hours billed to the Division, we identified those provider staff that billed service hours for the 45 monthly payments tested. We then compared the names to staff we observed as not being able to speak the same language as the clients when we inspected the conditions in CBLA provider homes, reported in our audit, Adult Mental Health Services, Community-Based Living Arrangement Homes (LA18-13). To identify provider service hours that required the ability to speak the same language as the client, we reviewed staff's entries on the provider support logs, and using professional judgment, selected activities that would require the staff to teach a skill, or discuss the effects of medication with the client. We then calculated those hours and costs billed the Division for those staff, using the average rate of pay per provider staff.

To determine the profitability of the provider homes we gathered and analyzed revenue and expense information for the homes we tested. We obtained providers' documentation for payroll, lease or mortgage costs, utilities, and homeowner's insurance. We then calculated the net cash flow for the CBLA homes for the monthly payments we tested, and included an estimate for the four private-pay individuals. Because providers used different mechanisms to pay staff working in the homes (e.g. salary or independent contractors) and sometimes providers or relatives would staff homes, we used a regional average of \$13 (NNAMHS) and \$15 (SNAMHS) per hour for home health care workers when an hourly wage could not be determined. Provider expenses did not include all overhead and operating costs, such as office rent or liability insurance. However, most providers operated their business from home and a few rented modest office spaces. Furthermore, we estimated federal payroll taxes and state unemployment insurance taxes when calculating staff's gross wages.

To verify compliance with state and federal labor laws, we met with the Office of the Labor Commissioner and reviewed federal and state labor laws. In addition, we obtained providers' payroll documentation for the 45 monthly home payments tested, including documentation for live-in caregivers. To estimate live-in caregivers' room and board, we used fiscal year 2017 regional fair market rent values from the U.S. Department of Housing and Urban Development and U.S. Department of Agriculture's monthly, moderate cost plan for food as of May 2017. We calculated each employee's wages for the month tested, including room and board, when applicable, and their hourly pay rates, using payroll and service log hours.

For our audit work regarding provider sustainability, we used non-statistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objective. Based on our professional judgement, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that non-statistical sampling provided sufficient, appropriate audit evidence to support the conclusions in our report. For this test, we did not project the

findings to the population. Our sample included randomly selected items.

Our audit work was initiated in November 2016. Due to the severity of issues found while inspecting CBLA homes, work on this audit was delayed for about 4 months as we focused on completing our audit related to the condition of CBLA homes. Work concluded in September 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Division of Public and Behavioral Health. On October 9, 2018, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix F, which begins on page 43.

Contributors to this report included:

Diana Giovannoni, CPA
Deputy Legislative Auditor

James T. Thorne, MPA, CCM
Deputy Legislative Auditor

Paul E. Casey, MBA
Deputy Legislative Auditor

Drew Fodor, CIA, MBA
Deputy Legislative Auditor

Todd C. Peterson, MPA
Audit Supervisor

Daniel L. Crossman, CPA
Chief Deputy Legislative Auditor

Appendix F

Response From the Division of Public and Behavioral Health

BRIAN SANDOVAL
Governor



JULIE KOTCHEVAR, Ph.D.
Administrator

RICHARD WHITLEY, MS
Director

IHSAN AZZAM, Ph.D., M.D.
Chief Medical Officer

DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION OF PUBLIC AND BEHAVIORAL HEALTH
4150 Technology Way
Carson City, Nevada 89706
Telephone (775) 684-4200 • Fax (775) 687-7570
<http://dpbh.nv.gov>

October 19, 2018

Rocky Cooper, CPA
Legislative Auditor
Legislative Counsel Bureau
401 S. Carson Street
Carson City, Nevada 89701

RE: Preliminary Audit Report - *Adult Mental Health Services, Community-Based Living Arrangement Homes, Residential Services Payments*

Dear Mr. Cooper:

Thank you for meeting with my team on October 9th to review and discuss the results of the above-mentioned audit. Pursuant to NRS 218G.230, this letter serves as the written statement of explanation or rebuttal concerning the findings of the preliminary audit report on *Adult Mental Health Services, Community-Based Living Arrangement Homes, Residential Services Payments*. The agency accepts all recommendations as indicated in the attached page entitled "Division of Public and Behavioral Health's Response to Audit Recommendations". Below, each recommendation is listed. Discussion regarding how the agency plans to address or implement each of the recommendations contained in the preliminary report follows each recommendation.

Recommendation 1

Review recent billings by CBLA providers to determine the amount of significant overpayments and obtain refunds, and communicate significant overpayments to the Office of Attorney General, as appropriate.

DPBH Response

DPBH accepts this audit finding. DPBH will review recent billings by CBLA providers to determine the amount of significant overpayments. When possible, refunds of significant overpayments will be requested. The Office of Attorney General will be provided information related to this process, as appropriate.

*Nevada Department of Health and Human Services
Helping People -- It's Who We Are And What We Do*

October 18, 2018
Page 2

Recommendation 2

Establish written policies and procedures for reviewing and processing CBLA provider billings, including a checklist of items to review and a process to verify hours billed were worked and supporting documentation agrees to hours billed.

DPBH Response

DPBH accepts this audit finding. DPBH will establish written policies and procedures for reviewing and processing CBLA provider billings, including a checklist of items to review and a process to verify hours billed were worked and supporting documentation agrees to hours billed.

Recommendation 3

Ensure bills submitted by CBLA providers are reviewed by Division staff with the appropriate training and skills.

DPBH Response

DPBH accepts this audit finding. DPBH will ensure bills submitted by CBLA providers are reviewed by Division staff with the appropriate training and skills.

Recommendation 4

Develop written policies and procedures to detect and prevent providers from billing the same service hours for multiple clients.

DPBH Response

DPBH accepts this audit finding. DPBH will develop written policies and procedures to detect and prevent providers from billing the same service hours for multiple clients.

Recommendation 5

Develop written policies and procedures to define those service hours paid to providers and which rates will be paid, including supervision hours that do not require specialized training.

DPBH Response

DPBH accepts this audit finding. DPBH will develop written policies and procedures to define those service hours paid to providers and which rates will be paid, including supervision hours that do not require specialized training.

Recommendation 6

Establish policies and procedures to help ensure shared costs, such as rent and utilities, are appropriately allocated between clients, private-pay, and live-in caregivers.

DPBH Response

DPBH accepts this audit finding. DPBH will establish policies and procedures to help ensure shared costs, such as rent and utilities, are appropriately allocated between clients, private-pay, and live-in caregivers.

October 18, 2018
Page 3

Recommendation 7

Develop policies and procedures to ensure information on staff service logs contains important, legible information that will help ensure the Division can verify that the appropriate services were provided, staff performing the services were documented, and service times were identified.

DPBH Response

DPBH accepts this audit finding. DPBH will develop policies and procedures to ensure information on staff service logs contains important, legible information that will help ensure the Division can verify that the appropriate services were provided, staff performing the services were documented, and service times were identified.

Recommendation 8

Develop policies and procedures to help ensure provider staff is proficient in the language of the client, when billing for services that require communication with a client.

DPBH Response

DPBH accepts this audit finding. DPBH will develop policies and procedures to help ensure provider staff is proficient in the language of the client, when billing for services that require communication with a client.

Recommendation 9

Perform regular financial assessments of CBLA provider homes' operating costs.

DPBH Response

DPBH accepts this audit finding. DPBH will perform regular financial assessments of CBLA provider homes' operating costs.

Recommendation 10

Develop policies and procedures over client placements to help ensure a fair and equitable balance of billable service hours among CBLA providers when practicable.

DPBH Response

DPBH accepts this audit finding. It is important to note that client placement will first be prioritized by the needs of the individual and the ability for each client to function in the home with other residents. However, DPBH will establish more consistent policies and procedures with regard to placement.

Recommendation 11

Develop policies and procedures to help ensure providers are fairly compensated for housing and utility costs.

DPBH Response

October 18, 2018
Page 4

DPBH accepts this audit finding. DPBH will develop policies and procedures to help ensure providers are fairly compensated for housing and utility costs.

Recommendation 12

Develop policies and procedures to assess provider compliance with state and federal labor laws.

DPBH Response

DPBH accepts this audit finding. DPBH will develop policies and procedures to assess provider compliance with state and federal labor laws.

As requested, a completed "Division of Public and Behavioral Health's Response to Audit Recommendations" form is attached to this response.

Please contact me at jukotchevar@dhhs.nv.gov or 775-684-5959 if you have any questions, concerns or would like additional information.

Sincerely,



Julie Kotchevar, Ph.D.
Administrator

Division of Public and Behavioral Health, Department of Health and Human Services

cc: Richard Whitley, MS, Director, Department of Health and Human Services
Margot Chappel, MS, DPBH Deputy Administrator, Regulatory and Planning Services
Debi Reynolds, DPBH Deputy Administrator, Administrative Services

Division of Public and Behavioral Health's Response to Audit Recommendations

| <u>Recommendations</u> | <u>Accepted</u> | <u>Rejected</u> |
|--|-----------------|-------------------|
| 1. Review recent billings by CBLA providers to determine the amount of significant overpayments and obtain refunds, and communicate significant overpayments to the Office of Attorney General, as appropriate..... | <u>X</u> | <u> </u> |
| 2. Establish written policies and procedures for reviewing and processing CBLA provider billings, including a checklist of items to review and a process to verify hours billed were worked and supporting documentation agrees to hours billed | <u>X</u> | <u> </u> |
| 3. Ensure bills submitted by CBLA providers are reviewed by Division staff with the appropriate training and skills..... | <u>X</u> | <u> </u> |
| 4. Develop written policies and procedures to detect and prevent providers from billing the same service hours for multiple clients..... | <u>X</u> | <u> </u> |
| 5. Develop written policies and procedures to define those service hours paid to providers and which rates will be paid, including supervision hours that do not require specialized training | <u>X</u> | <u> </u> |
| 6. Establish policies and procedures to help ensure shared costs, such as rent and utilities, are appropriately allocated between state-placed clients, private-pay clients, and live-in caregivers | <u>X</u> | <u> </u> |
| 7. Develop policies and procedures to ensure information on staff service logs contains important, legible information that will help ensure the Division can verify that the appropriate services were provided, staff performing the services were documented, and service times were identified | <u>X</u> | <u> </u> |
| 8. Develop policies and procedures to help ensure provider staff is capable and sufficiently qualified to provide necessary services, including the ability to effectively communicate with the client | <u>X</u> | <u> </u> |
| 9. Perform regular financial assessments of CBLA provider homes' operating costs | <u>X</u> | <u> </u> |
| 10. Develop policies and procedures over client placements to help ensure a fair and equitable balance of billable service hours among CBLA providers when practicable | <u>X</u> | <u> </u> |
| 11. Develop policies and procedures to help ensure providers are fairly compensated for housing and utility costs..... | <u>X</u> | <u> </u> |
| 12. Develop policies and procedures to assess provider compliance with state and federal labor laws | <u>X</u> | <u> </u> |
| TOTALS | <u>12</u> | <u> </u> |