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We have completed an audit of the Division of Child and Family Services. This audit is part of 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. The results of our audit, including findings, conclusions, recommendations, and the Division's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Division of Child and Family Services for their assistance during the audit.

Respectfully presented,

Paul V. Townsend, CPA
Legislative Auditor

May 7, 2004
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF HUMAN RESOURCES
DIVISION OF CHILD AND FAMILY SERVICES

AUDIT REPORT

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STATE OF NEVADA
DEPARTMENT OF HUMAN RESOURCES
DIVISION OF CHILD AND FAMILY SERVICES

AUDIT REPORT

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EXECUTIVE SUMMARY

DEPARTMENT OF HUMAN RESOURCES
DIVISION OF CHILD AND FAMILY SERVICES

Background

The Division of Child and Family Services (DCFS) was created in 1991 to improve the delivery of services to Nevada's children and families. The Division's mission is protection and permanency for children, preservation of families, unification of communities, and youth correctional services.

The Division provides mental health and developmental services, referred to as children's behavioral services, to clients throughout the State. These services are provided through Northern and Southern Nevada Child and Adolescent Services (NNCAS and SNCAS). A wide range of services is provided to emotionally disturbed and behaviorally disordered children, adolescents, and their families. In fiscal year 2003, the Division spent approximately $26 million to provide children's behavioral services – $7 million in the north and $19 million in the south.

Purpose

This audit focused on the billing process for services provided at NNCAS and SNCAS during fiscal year 2003. The purpose of our audit was to determine whether the Division maximized reimbursements from third parties for the cost of children's behavioral services.

Results in Brief

The Division of Child and Family Services has opportunities to increase revenues from Medicaid by several million dollars annually by improving its billing process for children's behavioral services. Because of numerous billing

issues, the Division did not bill for about $6.2 million over the past 2 years. Most of this amount relates to not billing Medicaid for the full cost of services provided. However, the Division can go back 2 years to obtain additional reimbursements for most services. The Division also has an opportunity to bill Medicaid for an additional $1.9 million annually to recover costs of operating its psychiatric hospital. Because the State and Federal Government share the costs for the Medicaid Program, about half of these amounts will be additional federal funds for the State.

Principal Findings

- The fees charged by NNCAS and SNCAS for most children's behavioral services were substantially less than the costs of providing services in fiscal year 2003. For example, the fees charged for 21 of 27 basic services were less than 75% of the actual cost. NRS 433B.250 requires the Division to establish fees for children's behavioral services that approximate the cost of providing the services. At NNCAS, most fees were based on costs from 1999. At SNCAS, personnel could not locate documentation for how fees were set, but believed they were based on costs prior to 1997. (page 11)

- The Division can bill for the actual cost of services provided to Medicaid recipients. According to State Medicaid management, it has been their intent to reimburse the Division based on the actual cost of services since early 2002. As a result, we estimate the Division can request reimbursement for an additional $4.7 million in unbilled costs for services provided in the past 2 years. Division personnel indicated they did not realize that Medicaid was offering the opportunity to receive reimbursement based on full costs when changes were proposed to the rate setting process in 2002. (page 11)

- SNCAS has the opportunity to bill Medicaid about $1.9 million more each year for services provided at its psychiatric hospital, Desert Willow Treatment Center. By seeking a change to the Medicaid State Plan, SNCAS can bill for the cost of services provided at Desert Willow in future years. According to State Medicaid representatives, the rate-setting process for Desert Willow is different than other Division services in that the reimbursement method cannot be changed for prior periods. However, DCFS and the Division of Health Care Financing and Policy can pursue an amendment to the Medicaid State Plan for cost-based reimbursement for Desert Willow in future years. (page 12)

- The Division could also collect more money from private insurance companies by charging fees based on its costs. If the Division increases private insurance reimbursements 25% by billing at cost, this would provide another $35,000 in revenues to the Division. A 25% increase in private insurance reimbursements should be attainable based on our review of rates paid by one insurer. (page 13)

- In addition to not billing at cost, the Division continued to bill Medicaid for residential rehabilitation services at old rates for 3 years after rates increased. As a result, we estimate the Division under-billed Medicaid about $1.8 million in fiscal years 2001 through 2003. By re-billing Medicaid for these services provided in the past 2 fiscal years, we estimate the Division could receive reimbursement for about $1.3 million in costs. This billing problem occurred because the Division was unaware that Medicaid increased the maximum daily rate for these services from $210.02 to $292.50 effective July 2000. According to the Division, they were not notified when the maximum Medicaid reimbursement rate increased. (page 13)

- Billing problems occurred in about 20% of the outpatient services we tested at SNCAS for fiscal year

2003. These problems included not billing for outpatient services, billing for the wrong amount, and over-collecting the amount due. For example, SNCAS did not bill for 25 of the 353 (7%) outpatient services we tested. Based on the rate of unbilled services, we estimate SNCAS could have billed Medicaid an additional $100,000 in 2003. According to the Division, their new billing system should resolve most problems related to unbilled services and errors. Although we identified problems at SNCAS, outpatient services provided at NNCAS were billed correctly. (page 14)

- SNCAS did not bill Medicaid for all services provided to clients living in residential treatment homes. Outpatient therapy services, such as individual and group therapy, have never been billed. In addition, some case management services provided by outpatient therapists were not billed. We estimate SNCAS could have billed Medicaid an additional $100,000 in the past 2 years for outpatient services provided to clients in residential treatment homes. Although SNCAS did not bill for these services, our testing confirmed that NNCAS billed for both of these types of services. (page 15)

- Outpatient services provided by two SNCAS therapists were not billed during fiscal year 2003. These therapists provided 720 hours of billable services during the year. Services were not billed because of inaccurate billing information in the agency's computer system. We estimate SNCAS could have billed Medicaid another $30,000 in fiscal year 2003 for services provided by the two therapists. (page 17)

- SNCAS has significant control weaknesses over revenues. For example, payments for services rendered have not been recorded in its accounts receivable system for years, resulting in inaccurate accounts receivable records. In addition, staff did not

verify that all payments collected were deposited and properly accounted for. Furthermore, SNCAS does not have complete and up-to-date procedures on its process for billing children's behavioral services. These weaknesses increase the risk that losses could occur and go undetected, and that the agency will not bill for all of its services. Although SNCAS has control weaknesses, we did not identify significant control weaknesses at NNCAS related to recording payments received and reconciling collections to deposits. (page 17)

Recommendations

This audit report contains 10 recommendations to improve the billing process for children's behavioral services provided at NNCAS and SNCAS. Four recommendations relate to the Division billing Medicaid and private insurers for the cost of services to increase revenues. In addition, we made three recommendations to improve billing for outpatient services at SNCAS. Finally, three recommendations relate to strengthening controls over billing and recording revenues at SNCAS. (page 29)

Agency Response

The agency, in its response to our report, accepted all 10 recommendations. (page 25)

Introduction

Background

The Division of Child and Family Services (DCFS) was created in 1991 by combining child welfare services from the Welfare Division; children's behavioral services from the Division of Mental Hygiene and Mental Retardation; and all of the Youth Services Division, which included youth correctional services and child care licensing. The new Division was created to improve the delivery of services to Nevada's children and families. The Division's mission is protection and permanency for children, preservation of families, unification of communities, and youth correctional services. NRS 232.400 makes the Division responsible for:

- Providing a comprehensive state system for the coordination and provision of services to children and families who need assistance relating to juvenile justice and the care, welfare and mental health of children.
- Aiding in the preservation, rehabilitation and reunification of families.
- Ensuring children are placed in the least restrictive environment available which is appropriate to their needs.
- Coordinating and providing services for youth that are in need of residential care, treatment, or both.

Administrative offices are located in Carson City, with field offices located throughout the State, including Las Vegas, Reno, and Carson City. The Division is funded primarily by state appropriations and federal funds. In fiscal year 2003, the Division had a total of 953 authorized positions and expenditures of about $163 million.

The focus of the audit was on mental health and developmental services, referred to as children's behavioral services. These services are provided by the Division through Northern and Southern Nevada Child and Adolescent Services (NNCAS and SNCAS).

Services Provided at NNCAS and SNCAS

NNCAS and SNCAS provide a wide range of mental health services to emotionally disturbed and behaviorally disordered children, adolescents, and their families. The agencies strive to provide quality treatment within the least restrictive environment, utilizing community-based and family-oriented services developed to address the needs of the children and their families. A continuum of services is provided, including:

- **Early Childhood Mental Health** – This includes services to children between birth and 6 years of age with severe emotional disturbance and associated developmental delays. Services include behavioral and psychological assessments; individual, family, and group therapies and behavioral management; and in-home crisis intervention.

- **Outpatient** – This includes individual and family-oriented mental health services for children from 6 to 17 years old. Services include individual, family, and group therapies; psychological assessment and evaluation; and case management.

- **Residential Treatment Homes** – These are family-style residential homes providing intensive, highly-structured treatment for severely emotionally disturbed children and adolescents, ages 7 to 17 years.

- **Adolescent Treatment Center (ATC)** – The ATC is a 16-bed residential program providing staff–secure, 24-hour supervised treatment for severely emotionally disturbed and behaviorally disordered adolescents (13 to 17 years old). Services include psychiatric evaluation and medication monitoring, and individual, family, and group therapies. (NNCAS only)

- **Desert Willow Treatment Center** – This is a 56-bed psychiatric hospital accredited by the Joint Commission on Accreditation of Healthcare Organizations. The facility consists of two acute units (20 beds) and three non-acute units (36 beds). The acute units provide psychiatric care to the most severely emotionally-disturbed youth and represent the most restrictive service alternative. (SNCAS only)

Expenditures and Caseloads

In fiscal year 2003, the Division spent approximately $26 million to provide children's behavioral services – $7 million in the north and $19 million in the south. As of June 30, 2003, NNCAS had 91 authorized positions, while SNCAS had 271. Average monthly caseloads for fiscal year 2003 are shown in Exhibit 1.

Exhibit 1

Average Monthly Caseloads
Fiscal Year 2003

Program	NNCAS	SNCAS	Total
Early Childhood Mental Health	133	278	411
Children's Clinical Services/Outpatient	173	193	366
Residential Treatment Homes	22	15	37
Adolescent Treatment Center (NNCAS)	12	—	12
Desert Willow Treatment Center (SNCAS)	—	50	50
Happy/First Step	not avail.	212	212
Total	340	748	1,088

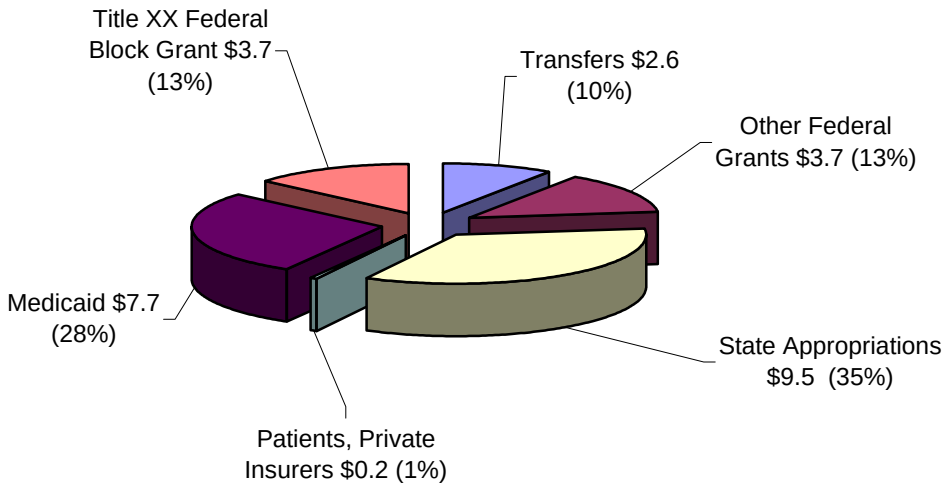
Source: Agency management reports.
Note: The Happy/First Step Program provides services, such as speech and physical therapy, to children up to age 3 that have developmental delays. The Program was transferred to the Health Division in FY 04.

Funding of NNCAS and SNCAS

Funding for children's behavioral services is primarily from federal funds and state appropriations. Funding includes transfers, most of which represent an offset for payments made by Medicaid to Mojave Mental Health Services for clients referred by the Division. Exhibit 2 shows the funding sources and combined amounts for NNCAS and SNCAS for fiscal year 2003.

Exhibit 2

NNCAS and SNCAS
Funding Sources and Amounts (millions)
Fiscal Year 2003



Source: State accounting records.

Federal funds are derived from three main sources – a social services block grant (Title XX), a neighborhood care center grant obtained by SNCAS, and the Medicaid Program.

Medicaid Funding

The Federal Government pays about half of the costs of the Medicaid Program. Most of the Division's clients are Medicaid eligible because they fall below income guidelines. When NNCAS or SNCAS provide services to a Medicaid-eligible client, a bill is sent to the claims administrator for Medicaid. For most services, the Division is sent a check for the federal and state share of the Medicaid rate. In such cases, the state share is funded by state appropriations included in the Division of Health Care Financing and Policy's budget. For some services, the Division only receives a check for the federal share of the Medicaid rate. The state share of the Medicaid rate is funded by state appropriations included in the budget account for NNCAS or SNCAS. For all services provided to Medicaid clients, the federal share is the same – 51.79% in fiscal year 2003.

Scope and Objective

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 218.737 to 218.893. 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.

This audit focused on the billing process for services provided at Northern and Southern Nevada Child and Adolescent Services during fiscal year 2003. The objective of our audit was to determine whether the Division maximized reimbursements from third parties for the cost of children's behavioral services.

Findings and Recommendations

The Division of Child and Family Services (DCFS) has opportunities to increase revenues from Medicaid by several million dollars annually by improving its billing process for children's behavioral services. Because of numerous billing issues, the Division did not bill for about $6.2 million over the past 2 years. Most of this amount relates to not billing Medicaid for the full cost of services provided. However, the Division can go back 2 years to obtain additional reimbursements for most services. The Division also has an opportunity to bill Medicaid for an additional $1.9 million annually to recover costs of operating its psychiatric hospital. Because the State and Federal Government share the costs for the Medicaid Program, about half of these amounts will be additional federal funds for the State.

Billing for Cost of Services Will Increase Revenues

The Division can substantially increase revenues by billing for children's behavioral services at its cost. In fiscal year 2003 and prior years, the Division charged fees to Medicaid and private insurers that were much less than the cost of providing services. By adjusting fees to reflect cost, the agency can receive more revenues in the future. Moreover, the Division can request reimbursement from Medicaid for the full cost of most services provided in the past 2 years.

The Division will need to work with personnel at the Division of Health Care Financing and Policy (DHCFP), the State's Medicaid agency, on obtaining approval for rates based on cost. DHCFP has already established forms and procedures to help state agencies recover their costs of providing services to Medicaid recipients. The Division's two entities providing these services, Northern and Southern Nevada Child and Adolescent Services (NNCAS and SNCAS) have different costs. Therefore, both entities must submit their costs to DHCFP for approval.

Fees Charged Were Less Than Costs

The fees charged by NNCAS and SNCAS for most children's behavioral services were substantially less than the costs of providing services in fiscal year 2003. For example, the fees charged for 21 of 27 basic services were less than 75% of the actual cost. Exhibit 3 shows some examples comparing the fees charged to the cost for services in fiscal year 2003:

Exhibit 3

NNCAS and SNCAS
Examples of Fees Compared to Actual Costs
Fiscal Year 2003

NNCAS Services	Fee Charged	Actual Cost	% of Cost Charged
Early Childhood, Case Management	$57.50 / hr.	$146.69 / hr.	39.2%
Outpatient, Individual Counseling	$105.00 / hr.	$180.29 / hr.	58.2%
Adolescent Treatment Center	$210.02 / day	$299.03 / day	70.2%
SNCAS Services			
Early Childhood, Day Treatment	$26.80 / hr.	$115.78 / hr.	23.1%
Outpatient, Individual Counseling	$130.00 / hr.	$265.91 / hr.	48.9%
Early Childhood, Individual Counseling	$80.00 / hr.	$145.91 / hr.	54.8%

Source: Agency billing records and Audit Division recalculations of fiscal year 2003 costs.

NRS 433B.250 requires the Division to establish fees for children's behavioral services that approximate the cost of providing the services. At NNCAS, most fees were based on costs from 1999. At SNCAS, personnel could not locate documentation for how the fees were set, but believed they were based on costs prior to 1997. Current cost information is also important for monitoring the efficiency of the Division's programs. Cost information can be useful in identifying areas for improvement, making budget decisions, and providing accountability for resources spent.

Medicaid Will Reimburse the Division Based on Costs

The Division can bill for the actual cost of services provided to Medicaid recipients. According to State Medicaid management, it has been their intent to reimburse the Division based on the actual cost of services since early 2002. To assist with the recovery of actual costs, Medicaid has developed forms and procedures to help state agencies monitor their billing rates and ensure full cost reimbursement.

We estimate the Division can request reimbursement for an additional $4.7 million ($1.1 million for NNCAS and $3.6 million for SNCAS) in unbilled costs for services provided in the past 2 years. According to State Medicaid representatives, 2 years is the maximum time for which adjustments may be processed for services reimbursed on the basis of cost. This estimate is based on our recalculation of the costs for each service less the amounts previously paid to the Division. The estimate includes all services except those provided at SNCAS' psychiatric hospital, Desert Willow Treatment Center, which is discussed below.

Medicaid's intent to reimburse state agencies that are Medicaid providers for the cost of services was not clear to the Division. State Medicaid representatives proposed changes to the rate-setting process in 2002; however, Division personnel indicated they did not realize that Medicaid was offering the opportunity to receive reimbursement based on full costs. After we discussed the issue further with Division personnel and communicated Medicaid's intent, the Division indicated they would work with State Medicaid personnel to implement a process in which fees reflect the cost of providing services.

Reimbursement of Costs at Desert Willow Treatment Center

SNCAS has an opportunity to bill Medicaid about $1.9 million more each year for services provided at its psychiatric hospital, Desert Willow Treatment Center. By seeking a change to the Medicaid State Plan, SNCAS can bill for the cost of services provided at Desert Willow in future years. This estimate is based on our recalculation of fiscal year 2003 costs for Desert Willow less the amounts previously paid to the Division.

According to State Medicaid representatives, the rate-setting process for services at Desert Willow is different than the other children's behavioral services provided by the Division. State Medicaid representatives indicated they cannot change the reimbursement method for Desert Willow for prior periods. However, the Division and DHCFP can pursue an amendment to the Medicaid State Plan to establish cost-based reimbursement for public facilities, such as Desert Willow.

Reimbursements From Private Insurers

The Division could collect more money from private insurance companies by charging fees based on its cost. In fiscal year 2003, the Division collected $142,000 from private insurers. If the Division increases private insurance reimbursements 25% by billing at cost, this would provide another $35,000 in revenues to the Division.

A 25% increase in private insurance reimbursements should be attainable based on our review of rates paid by one insurer. We compared the "usual, customary, and reasonable" rates paid by this insurer to the actual costs for children's behavioral services at NNCAS and SNCAS. This analysis indicated that reimbursements would increase by an average of 24% and 61% respectively, compared to fees charged in 2003. However, because of the many variables involved with each individual's private insurance plan, we estimated an increase of 25% to be conservative.

Division Unaware of Residential Rate Increase in 2001

The Division continued to bill Medicaid for residential rehabilitation services at old rates for 3 years after rates increased. As a result, we estimate the Division under-billed Medicaid about $1.8 million ($0.64 million for NNCAS and $1.16 million for SNCAS) in fiscal years 2001 through 2003. By re-billing Medicaid for these services provided in the past 2 fiscal years, we estimate the Division could receive reimbursement for about $1.3 million in costs.

In fiscal years 2001 through 2003, NNCAS and SNCAS billed residential rehabilitation services at $210.02 per day. However, Medicaid increased the maximum daily rate it paid for these services from $210.02 to $292.50 effective July 2000. Division personnel were unaware of the increase in rates until we mentioned it in June 2003. Since the Division's costs for these services were higher than the old Medicaid rate billed, the Division could have billed higher amounts when Medicaid increased this rate.

NNCAS and SNCAS personnel indicated that several years ago State Medicaid personnel told them to bill for residential rehabilitation services at Medicaid reimbursement rates. Division personnel indicated they were not notified when the maximum reimbursement rate for these services increased to $292.50. Therefore, NNCAS and SNCAS continued to bill Medicaid at the old rate of $210.02 per day.

DHCFP was unable to locate any documents in which the rate increase was communicated to providers since these documents were archived and not easily retrievable. However, once the Division charges fees for children's behavioral services based on costs, this type of problem will not occur in the future.

Recommendations

1. Work with State Medicaid representatives to seek approval of fees for children's behavioral services based on cost.
2. Request reimbursement from the Medicaid Program for the cost of services provided in the last 2 years.
3. Develop written policies and procedures on setting fees at NNCAS and SNCAS, including the calculation of fees to reflect the cost of providing services.
4. Bill private insurers for the cost of services provided.

Billing for Outpatient Services Needs Improvement at SNCAS

Outpatient services provided at SNCAS were not always billed. In addition, billing errors often occurred for the services we tested for fiscal year 2003. These billing problems were the result of various factors, including limitations of SNCAS' billing system, confusion over which services could be billed, and mistakes regarding which therapists were billable. Division personnel expect that a new billing system being developed will reduce the number of billing problems. In addition, DCFS personnel plan to meet with State Medicaid personnel to review their billing practices and rates.

Although we identified billing problems at SNCAS, outpatient services provided at NNCAS were billed correctly based on our review of outpatient services. NNCAS has a different billing process with more effective controls to ensure all services are billed.

Billing Problems for Outpatient Services

Billing problems occurred in about 20% of the outpatient services[1] we tested for fiscal year 2003. These problems resulted in SNCAS not billing for thousands of dollars

[1] Outpatient services refers to two programs provided on an outpatient basis: (1) Early Childhood Mental Health and (2) Children's Clinical Services, also called the "Outpatient" Program.

in outpatient services. In addition, we identified errors such as billing for the wrong amount and over-collecting the amount due. Our testing included an analysis of 1 month's services for 60 clients, resulting in a review of 353 transactions.

Unbilled Services

SNCAS did not bill for 25 of the 353 (7%) outpatient services we tested. Based on the rate of unbilled services, we estimate SNCAS could have billed Medicaid an additional $100,000 in 2003.

Two main problems contributed to SNCAS not billing for all outpatient services. First, therapists occasionally turn in their service records late, after the bills have been prepared for the month. Second, the agency produces billings once a month, and the billing system does not have the capability to bill for a previous month's services. Therefore, if service logs are not submitted timely, services will not get billed. Although management indicated the new billing system will allow the agency to bill for services in prior months, controls should be strengthened to ensure therapists submit service records timely.

Billing Errors

For 50 of 353 (14%) outpatient services tested, SNCAS either billed the wrong amount or over-collected the amount due. For example, because of a programming error, SNCAS billed one type of service at the old rate after a new rate became effective. In other cases, two entities were billed for the same service, but adjustments were not made after both paid the amount due. According to staff, the over-billing errors were caused by a flaw in the billing system. However, a review of the billing process should be conducted periodically to help prevent or detect these types of errors.

Outpatient Services for Clients in Treatment Homes Not Billed

SNCAS did not bill for all services provided to clients living in residential treatment homes. Outpatient therapy services, such as individual and group therapy, have never been billed for these clients. In addition, some case management services provided by outpatient therapists were not billed. We estimate SNCAS could have billed Medicaid an additional $100,000 in the past 2 years for outpatient services

provided to clients in residential treatment homes. Although SNCAS did not bill for these services, our testing confirmed that NNCAS billed for both types of services.

Therapy Services Not Billed

Although clients living in SNCAS' residential treatment homes receive therapy services at the agency's outpatient centers, these services have never been billed. SNCAS personnel believed that the daily rate paid by Medicaid for residential services also covered outpatient therapy and, therefore, could not be billed separately. After more recent discussions between Division personnel and State Medicaid representatives, SNCAS management agrees it can bill for these services.

We estimate SNCAS could have billed Medicaid another $40,000 for outpatient therapy services provided to residential clients during fiscal years 2002 and 2003. Our estimate is based on an analysis of fiscal year 2003 therapy hours provided to all 15 clients living in treatment homes in November 2002. Billing for these services will not require any additional work since the services are already recorded on service records and entered into the billing system. Currently, these services are not billed because of a billing system code that stops a bill from being generated. By removing this code, the outpatient services for residential clients can be billed.

Case Management Services Not Always Billed

Case management services provided to clients living in residential treatment homes were not always billed. Since November 2002, SNCAS billed Medicaid for case management services, but only for the last 180 days of the client's stay. However, billing staff were unaware that Medicaid rules changed a few years ago. Effective January 1, 2001, Medicaid rules no longer limited reimbursement of case management services to the last 180 days of a residential client's stay.

We estimate SNCAS could have billed Medicaid another $60,000 for case management services provided in fiscal years 2002 and 2003. Our estimate is based on an analysis of the billable case management hours provided to 15 clients during fiscal year 2003, excluding the months in which some case management services were billed. Similar to outpatient therapy services, a billing process is already in place for case management services. Bills for case management services are already generated, but billing personnel only sent them beginning in November 2002 and just

for the last 180 days of the client's stay. Therefore, billing personnel need to send out the bills for case management that are already generated.

Services Provided by Two Therapists Not Billed

SNCAS did not bill for any outpatient services provided by two therapists during fiscal year 2003. These therapists provided 720 hours of billable services during the year. Services were not billed because of inaccurate billing information in the agency's computer system. We estimate SNCAS could have billed Medicaid another $30,000 in fiscal year 2003 for services provided by the two therapists.

These services were not billed because the two therapists' names were mistakenly included on a list of non-billable staff. When non-billable staff provide a service, it is entered into the billing system to enable tracking of staff productivity. However, the billing system is programmed to not generate a bill for services provided by personnel on the list of non-billable staff.

Recommendations

5. Develop written procedures to ensure therapists submit all service records timely.
6. Bill for outpatient therapy and case management services provided to clients in residential treatment homes.
7. Review a sample of bills periodically to ensure the billing system is operating as intended.

Poor Controls Over Revenues at SNCAS

SNCAS has significant control weaknesses over revenues. For example, payments for services rendered have not been recorded in its accounts receivable system for years, resulting in inaccurate accounts receivable records. In addition, staff did not verify that all payments collected were deposited and properly accounted for. Furthermore, SNCAS does not have complete and up-to-date procedures on its process for billing children's behavioral services. These weaknesses increase the risk that losses could occur and go undetected, and that the agency will not bill for all of its services.

Internal controls over revenues are important because the agency processes millions of dollars in payments each year. Although SNCAS has control weaknesses, we did not identify significant control weaknesses at NNCAS related to recording payments received and reconciling collections to deposits. NNCAS used a different system for billing, tracking, and recording payments.

Accounts Receivable Not Tracked

SNCAS did not maintain accurate accounts receivable records for clients receiving services in 2003 and prior years. Although staff recorded amounts billed, most payments received were not recorded to individual client accounts. Therefore, client accounts showed the amounts billed, but not the amounts paid. Staff did record payments from some sources; however, these payments made up only a small percentage of the payments received. State accounting policies require agencies to maintain accounts receivable records for each customer and totals for the agency. Records must include a beginning balance, amounts billed, payments received, and the outstanding balance. Without complete payment records, SNCAS cannot easily identify which services have been paid and which ones need to be billed again.

According to agency management, payments have not been recorded to individual accounts for about 3 years because of computer system problems. These problems have made the accounts receivable function of the system inaccurate. However, the agency indicated it is implementing a new computer system that should address the problems of its current system. The expected completion date for the billing portion of the new system is August 2004.

Key Revenue Reconciliations Not Performed

SNCAS did not verify that all payments collected were deposited and properly recorded. Collections were not reconciled to deposits recorded in the state's accounting system. In addition, collections were not reconciled to payments recorded in the agency's accounts receivable system. Without performing these reconciliations, SNCAS would not know if payments were lost or missing.

Although staff prepared receipt forms for payments received, the total amount of payments received each day was not calculated and verified against deposits by someone independent of the receipt and deposit process. In addition, it was not

possible to reconcile payments received to the accounts receivable system because SNCAS did not always record payments to its receivables system in 2003.

Written Procedures Are Incomplete and Outdated

SNCAS does not have complete and up-to-date procedures on its process for billing children's behavioral services. Although SNCAS bills for several types of facilities such as a psychiatric hospital and five outpatient service centers, few procedures have been developed for billing. In addition, comprehensive written procedures are needed because Medicaid rules are extensive and complex, and the agency bills several sources to recover the costs of providing services.

The lack of written procedures contributed to numerous billing problems noted in this report. Additional problems could occur if there is employee turnover in key positions. Very few staff have a comprehensive understanding of the billing process and Medicaid rules. Therefore, if turnover occurs in key positions, SNCAS would have difficulty performing its billing functions.

NRS 353A.020 requires agencies establish a written system of financial and administrative controls. This includes procedures which effectively control the accounting of revenues, and a system of practices to be followed in the performance of each agency's duties. Furthermore, agencies are required to periodically review their system of internal control to ensure the system is working as intended.

Recommendations

8. Record payments received into the billing system to enable tracking of accounts receivable.
9. Reconcile collections to deposits and amounts recorded in the billing system to ensure monies received are deposited and recorded properly.
10. Develop comprehensive written procedures for the billing of children's behavioral services.

Appendices

Appendix A
Audit Methodology

To gain an understanding of the Division of Child and Family Services, we interviewed agency staff and reviewed statutes, regulations, and policies and procedures significant to the Division's operations. In addition, we reviewed the agency's financial information, prior audit reports, budgets, minutes of various legislative committees, and other information describing the activities of the Division.

To understand how the Division billed for children's behavioral services, we interviewed agency personnel and reviewed billing records. We traced payments from third parties through the accounts receivable system. We also evaluated controls over the billing and deposit process.

To determine whether fees charged for children's behavioral services were appropriate, we interviewed agency personnel and reviewed agency records at NNCAS and SNCAS to understand how fees were established. We also interviewed State Medicaid personnel and reviewed the Medicaid State Plan and Medicaid Services Manual related to children's behavioral services to understand how reimbursement rates are established. After learning that State Medicaid personnel proposed to reimburse the Division for children's behavioral services based on cost, we determined the actual cost of services in fiscal year 2003.

To determine the actual cost of services, we reviewed the agency's calculations of its costs for each service at NNCAS and SNCAS. We traced and agreed expenditures to underlying records, including state accounting records. We also determined whether the allocation of costs to services and the numbers of billable units of service were reasonable. In addition, we determined whether the expenditures attributable to "room and board" were reasonable, since these expenditures cannot be billed to Medicaid for inpatient services. Finally, we recomputed the costs for services based on the errors we noted.

To estimate the additional amounts the Division can bill Medicaid to be reimbursed for the cost of services, we compared the actual cost of each service to the amount received in fiscal year 2003. We multiplied the difference by the number of billable units provided to Medicaid eligible clients. We then computed the federal and state share for each service to determine the amount that the Division could receive from the State Medicaid agency.

To estimate the additional amounts from private insurance companies that could be collected by charging fees based on costs, we requested rate information from the Public Employees' Benefit Program for selected children's behavioral services. We compared the rate information provided to the cost of the services at NNCAS and SNCAS. Then we calculated the percentage difference between the amount billed in fiscal year 2003 and the lower of the cost or the maximum paid by the private insurer. This analysis indicated that reimbursements would increase by an average of 24% at NNCAS and 61% at SNCAS compared to the fees charged. We estimated the additional collections by multiplying the total amount received by NNCAS and SNCAS from private insurers in 2003 by 25%. We used 25% to be conservative because of the many variables involved with each individual's private insurance plan.

To confirm the reasonableness of our estimates of additional Medicaid billings and collections from private insurers contained in this report, we discussed all estimates with NNCAS and SNCAS billing personnel and management, and with Division management. We also provided them with detailed schedules showing how the estimates were calculated for their review and comments.

To determine whether clients receiving inpatient services (e.g., residential treatment homes and Desert Willow Treatment Center) in fiscal year 2003 were properly billed, we selected 50 clients in residential care during fiscal year 2003 (30 at SNCAS and 20 at NNCAS). SNCAS clients were systematically selected from 3 month's census. For NNCAS, we selected the first five clients on the census for 4 months. We reviewed financial information to determine each client's insurance status. We then verified that the Division correctly billed appropriate third parties for each service, including the correct procedure code, number of units, and fees. We also verified the Division was reimbursed the correct amount by reviewing the insurer's explanation of

benefit. Lastly, we confirmed the money was recorded into the correct account and deposited timely in accordance with state law.

To determine whether clients receiving outpatient services were properly billed, we selected services from therapist records. For NNCAS, we systematically selected 61 services. At SNCAS, our testing included an analysis of 1 month's services for 60 clients, resulting in a review of 353 transactions. The number of items tested at SNCAS was significantly higher because SNCAS' billing process had more control weaknesses than NNCAS' and more transactions. For each service, we reviewed financial information to determine each client's insurance status. We traced and agreed each of the services from service records to the bill sent out. We verified the number of units, type of service, procedure code, and billing rate were correct. To verify Medicaid reimbursements received were in accordance with approved rates, we compared the reimbursement to the amount per Medicaid's web site. Then we confirmed reimbursements were recorded into the correct account and deposited timely in accordance with state law. Lastly, we discussed discrepancies with agency staff, as necessary, to determine the cause(s) of unbilled services or billing errors.

To determine the amount of unbilled outpatient services at SNCAS, we used a variety of procedures. For unbilled services noted in our review of outpatient services at SNCAS, we determined the percentage of dollars not billed in our sample and multiplied it by the amount of Medicaid outpatient revenues received in fiscal year 2003. To determine the amount of unbilled outpatient services provided to clients in SNCAS' residential treatment homes, we reviewed agency records to calculate the average number of billable hours of service provided to all 15 clients living in treatment homes in November 2002. The average number of hours was then multiplied by the number of months that these services were not billed in fiscal years 2002 and 2003 and by the Medicaid rate. Finally, to determine the amount of unbilled services as a result of not billing for two therapists at SNCAS, we determined the number of billable hours provided by the therapists from agency management reports. Then we multiplied the number of billable hours by the Medicaid rate and the percentage of Medicaid eligible clients.

Our audit work was conducted from March 2003 to February 2004, in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Director of the Department of Human Resources and the Administrator of the Division of Child and Family Services. On April 26, 2004, we met with agency officials to discuss the results of our audit and requested a written response to the preliminary report. That response is contained in Appendix C which begins on page 25.

Contributors to this report include:

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Appendix B
Prior Audit Recommendations

As part of our audit, we requested the Division of Child and Family Services determine the status of the recommendations made in our 1999 audit. That audit contained 12 recommendations related to controls over foster care expenditures. The Division indicated that seven recommendations were fully implemented and five recommendations were partially implemented. The scope of our current audit did not include foster care expenditures. Therefore, we did not verify the Division's implementation of the prior audit recommendations.

Appendix C

Response From the Division of Child and Family Services

KENNY C. GUINN
Governor

STATE OF NEVADA

MICHAEL J. WILLDEN
Director

JONE M. BOSWORTH
Administrator

DEPARTMENT OF HUMAN RESOURCES
DIVISION OF CHILD AND FAMILY SERVICES
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Carson City, Nevada 89701-5092
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May 6, 2004

Mr. Paul V. Townsend, CPA
Legislative Auditor
Legislative Building
Carson City, NV 89701

Dear Mr. Townsend:

I appreciate the opportunity to respond to your recently completed legislative audit on the Division of Child and Family Services' Northern and Southern Nevada Child and Adolescent Services.

Before I address your recommendations individually, I believe it is important to provide a brief history of the conditions that existed prior to the audit and the attempts, by the Division, to remedy the situation.

Mental health services are delivered to children and families by DCFS in two regions

Northern Region – NNCAS

In the Washoe County area, NNCAS uses two data systems. The Synergistic Office Solutions [SOS] package is used for billing purposes, and an obsolete Dbase III system is used to collect and report on client demographics, service data, and staff workload. These systems operate as stand-alone desktop systems and do not share data. Clinicians at NNCAS are not able to input data directly into the Dbase III system. A single staff member enters data from paper forms submitted by clinicians.

Southern Region – SNCAS

In the Clark County area, SNCAS uses the AIMS product for client billing and reporting. AIMS uses two separate AS/400 midrange computers with separate non-standard and non-integrated databases. DoIT does not support the RPG programming language, nor do they recommend it as a State system. The coding is 20-30 years old and does not provide a user-friendly interface.

Clinicians in this area use a "home-grown" Microsoft Access database application for recording and reporting on client demographics, service information and staff work load. The database, created out of necessity by one of the clinicians, serves as the source for local clinical reporting and data collection. It does not interface with AIMS or other databases used to create reports.

Because of the different systems north and south, there are no established standards for data collection, storage, or reporting. This lack of standardization prevents DCFS from developing clear trend and other statistical analyses. Staff accountability and client needs assessments are difficult to perform. Reporting statistics is often labor-intensive and results are unreliable due to the different data requirements of the various systems.

During the 2003 Legislative Session, the Division requested, and was approved, funding to replace the current billing and data collection systems at both NNCAS and SNCAS.

The new AVATAR system will help DCFS in the following areas:

- Standardize business processes between the regions, allowing for greater data reliability and staff accountability.
- Cost analyses will be possible with the implementation of an integrated system; billing and clinical records will become part of the same database.
- Quality assurance activities can be performed from any office connected to the central database, reducing travel expenses.
- A standard electronic medical record will be available for audit purposes.
- The automatic electronic billing capacity of AVATAR will provide HIPAA compliant billing rules and transaction format. Billing staff can preview the status of billings at any time, and can process bills "on-demand", not just monthly or bi-monthly.
- Allow for accurate accounts receivable.

The Division of Child and Family Services accepts all recommendations made by your auditors. A Division-wide project team has been established to address the audit findings and recommendations Following is a brief update of the Division's efforts in implementing each recommendation:

RECOMMENDATION 1 - Work with State Medicaid Representatives to seek approval of fees for children's behavioral services based on cost.

On May 3, 2004, the Division requested approval from the Division of Health Care Financing & Policy (HCF&P) to adjust rate changes for services provided at NNCAS and SNCAS to reflect actual costs. Additionally, a stale claim waiver was requested to allow the Division to re-bill retroactively for two years (eight quarters). Once approval is received, the Division will work with the HCF&P Rates Unit to establish the appropriate rates and begin submitting the retroactive claims.

RECOMMENDATION 2 - Request reimbursement from the Medicaid Program for the cost of services provided in the last 2 years.

As indicated in Recommendation 1, above, on May 3, 2004, the Division requested approval from HCFP to bill retroactively for two years (eight quarters). Once approval is received, the

Division will begin working with the Rates Unit to establish the appropriate rates and to submit the retroactive claims.

RECOMMENDATION 3 - Develop written policies and procedures on setting fees at NNCAS and SNCAS, including the calculation of fees to reflect the cost of providing services.

Once the system conversion on the billing system is complete, (estimated for July 1, 2004) new policies and procedures will be developed. This opportunity will allow the Division to standardize business process statewide. The Project Team estimates the new policies and procedures will be completed no later than December 31, 2004.

RECOMMENDATION 4 - Bill private insurers for the cost of services provided.

Both SNCAS and NNCAS have increased the rates billed to private insurers effective May 2004. Additionally, the new policies and procedures developed will ensure that all funding sources, including private insurers, be billed at the rates approved by HCFP's Rates Unit.

Please note: Recommendations five through 10 relate to SNCAS only.

RECOMMENDATION 5 - Develop written procedures to ensure therapists submit all service records timely.

The Deputy Administrator for the Southern Region is currently in the process of developing a policy to address the timely submittal of all service records, which will be distributed immediately upon completion and approval.

RECOMMENDATION 6 - Bill for outpatient therapy and case management services provided to clients in residential treatment homes.

The Division will implement this recommendation immediately.

RECOMMENDATION 7 - Review sample of bills periodically to ensure the billing system is operating as intended.

Periodic reviews of the billing process will be included in the new policies and procedures. An internal review will be conducted monthly by the ASO. It will consist of a representative sample of each type of billing. The samples will be tested for completeness, accuracy, rates and prices. The results of each month's review will be sent to the Division Auditor for review. Additionally, on a quarterly basis, the Division's Internal Auditor will conduct an independent review of billings and other procedures as may be necessary.

RECOMMENDATION 8 - Record payments received into the billing system to enable tracking of accounts receivable.

The billing function in the AIMS system did not allow for accurate accounts receivable. SNCAS staff were manually tracking accounts receivable for insurance billings and all Desert Willow

services. This manual process was extremely labor intensive with redundant entry. When implemented, accounts receivable will be maintained in the AVATAR system.

RECOMMENDATION 9 - Reconcile collections to deposits and amounts recorded in the billing system to ensure monies received are deposited and recorded properly.

The Division will implement this recommendation immediately.

RECOMMENDATION 10 - Develop comprehensive written procedures for the billing of children's behavioral services.

Comprehensive written procedures for the billing of children's behavioral services will be developed and monitored for compliance.

The Division of Child and Family Services would like to thank you and your staff for your recommendations and for the time and effort spent by your staff reviewing our operations.

Sincerely,

Teresa M. Anderson for J. Bosworth

Jone M. Bosworth, Administrator
Division of Child and Family Services

cc: Mike Willden, Director
Department of Human Resources

Division of Child and Family Services
Response to Audit Recommendations

Recommendation Number		Accepted	Rejected
1	Work with State Medicaid representatives to seek approval of fees for children's behavioral services based on cost	X	
2	Request reimbursement from the Medicaid Program for the cost of services provided in the last 2 years	X	
3	Develop written policies and procedures on setting fees at NNCAS and SNCAS, including the calculation of fees to reflect the cost of providing services	X	
4	Bill private insurers for the cost of services provided	X	
5	Develop written procedures to ensure therapists submit all service records timely	X	
6	Bill for outpatient therapy and case management services provided to clients in residential treatment homes	X	
7	Review sample of bills periodically to ensure the billing system is operating as intended	X	
8	Record payments received into the billing system to enable tracking of accounts receivable	X	
9	Reconcile collections to deposits and amounts recorded in the billing system to ensure monies received are deposited and recorded properly	X	
10	Develop comprehensive written procedures for the billing of children's behavioral services	X	
	TOTALS	10	0