Audit Highlights

Highlights of Legislative Auditor report on the Department of Health and Human Services, Division of Mental Health and Developmental Services, issued on May 16, 2006. Report # LA06-17.

Background

The Division of Mental Health and Developmental Services (MHDS) is responsible for the development, administration, coordination, and evaluation of state treatment and training programs for persons with mental illness or developmental disabilities. This audit focused on the Division's developmental services, which are provided by three regional centers: Desert Regional Center (DRC) in Las Vegas, Sierra Regional Center (SRC) in Reno, and Rural Regional Center (RRC) to serve Carson City and rural areas in Northern Nevada.

The regional centers provide a full range of services, including service coordination, family support, jobs and day training, and residential support. In fiscal year 2005, the Division spent approximately $88.3 million to provide these services, with an average monthly caseload of almost 3,900 persons. Most of the people receiving services are covered by Medicaid. The Federal Government pays a little over half of the costs of services covered by Medicaid.

Purpose of Audit

This audit focused on procedures used at the Division's developmental services agencies to establish billing rates and eligibility for federal programs, and the new automated billing system developed in-house and piloted at Sierra Regional Center (SRC) during fiscal year 2005. The purpose of our audit was to determine whether the agencies maximized federal reimbursements for the cost of providing developmental services.

Audit Recommendations

This audit contains 11 recommendations to improve the Division's billing process for developmental services so that federal reimbursements are maximized. Three recommendations relate to establishing fees for case management services based on the actual cost. In addition, we made five recommendations to help ensure the new billing system for developmental services bills for all eligible services. Finally, we made three recommendations to help ensure the Division bills Medicaid for all eligible clients.

The Division accepted all 11 audit recommendations.

Status of Recommendations

The Division's 60-day plan for corrective action is due on August 10, 2006. In addition, the six-month report on the status of audit recommendations is due February 12, 2007.

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Division of Mental Health and Developmental Services

Department of Health and Human Services

Results in Brief

The Division can obtain additional federal funds by improving its rate-setting and billing procedures for developmental services. Specifically, the Division could have collected about $1.2 million in additional federal funds if case management services had been billed at actual cost for the past two fiscal years. At least half of this amount can be collected if the Division re-bills Medicaid promptly. In addition, the new billing system piloted at Sierra Regional Center (SRC) was effective since it billed Medicaid for almost all billable services. However, system modifications can increase SRC's collection of federal funds by more than $200,000 annually. Timely implementation is critical since the Division is in the process of implementing the new system at the other two regional centers. These two regional centers account for over 75 percent of the total clients served statewide. Finally, the Division can collect additional funds by ensuring it bills Medicaid for all eligible clients.

Principal Findings

The Division can collect additional federal funds by ensuring targeted case management (TCM) services are charged at actual cost. Although the regional centers charged $91 per hour, we determined the actual cost was a little over $103 per hour. Based on this variance, we estimate the Division could have collected additional federal funds totaling approximately $564,000 for fiscal year 2004 and $623,000 for fiscal year 2005. Until recently, the Division did not have the information needed to establish the actual cost. According to State Medicaid representatives, the Division can collect additional funds if it acts promptly since there is a 2-year limit on re-billing. Therefore, by re-billing Medicaid promptly, the Division can collect the additional federal funds for services provided in fiscal year 2005 and part of fiscal year 2004.

We noted errors on cost reports prepared by the Division to obtain reimbursement from Medicaid for services provided at their ICF/MR (Intermediate Care Facility for the Mentally Retarded) facilities. The reports overstated reimbursable costs in fiscal year 2004 by about $1.6 million at SRC and $230,000 at Desert Regional Center (DRC). Since Medicaid had not finalized its review and settlement of the reports at the time of the audit, the Division revised the reports and re-submitted them. Since these reports affect fees charged by the regional centers, additional controls are needed to ensure they are accurate.

A new billing system for developmental services piloted at SRC was effective. Our analysis indicates Medicaid was billed for almost 98 percent of the total amount that should have been billed for the first 10 months of fiscal year 2005. However, since SRC billed Medicaid about $16 million for this period, minor billing errors can have a significant impact on revenue. As a result, we determined SRC did not bill services totaling about $430,000. If these services had been billed, SRC would have received about $235,000 in additional federal funds.

The Division did not have sufficient documentation for its new billing system. In addition, the design, programming, and system administration was for the most part done by one person. These control weaknesses increase the risk of error or loss of state funds. Agency operations could be negatively impacted if these control weaknesses are not addressed.

DRC can increase the amount of federal funds received from Medicaid by revising its billing procedures when clients are eligible for more than one federal program. In fiscal year 2005, DRC billed two federal block grant programs about $114,000 for services to clients that were Medicaid eligible. Because the amounts reimbursable under the block grant programs are capped, but Medicaid is not, these programs should only be billed for expenses not reimbursable by Medicaid. Furthermore, services totaling $50,000 that were provided to some of these Medicaid clients after DRC received its allotment from the block grants, were not billed to Medicaid. In total, billing Medicaid for these services would have resulted in DRC receiving about $90,000 in additional federal funds in fiscal year 2005.

Although a significant percentage of clients were Medicaid eligible, additional controls will help ensure Medicaid eligibility is pursued for all clients. Since over half of the cost of Medicaid services is reimbursed by federal funds, pursuing eligibility reduces the amount of state funds needed to provide developmental services. Strong controls are critical because the cost of providing services to clients can be from several hundred to several thousand dollars per month.

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