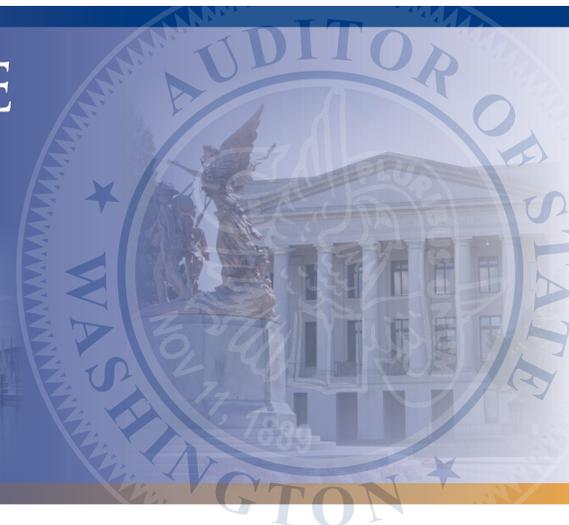


STATE AUDITOR'S OFFICE PERFORMANCE AUDIT



**Improving payment systems and monitoring
necessary to prevent errors and improve safety**

Developmental Disabilities Administration

July 31, 2013

Report No. 1009939



Washington State Auditor

Troy Kelley

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Executive Summary

Washington’s Developmental Disabilities Administration offers supported living services to about 3,700 developmentally disabled Washingtonians, helping them improve the social and adaptive skills they need to live in the community. The administration contracts with businesses that hire caregivers to assist clients with activities such as maintaining their homes, preparing meals, taking medications, and paying bills. Each year, the state spends more than \$280 million in federal and state money for these Medicaid services.

Improper payments and safety concerns: In our review, we found overpayments and questionable payments to care providers. We also identified two concerns about client safety regarding the background checks and training required for care providers.

Many of the issues identified in our audit are caused by limited, infrequent inspections of supported living services providers’ records, and by complex, paper-intensive processes within the administration. Improved monitoring and payment processes can address these issues, and in some instances, improvements already have been made.

AUDIT FINDINGS

 **\$500,000 in overpayments***

 **\$11.3 million in questionable payments***

 **\$5.5 million in unauthorized payments***

RECOMMENDATIONS

 **Update payment rates and close out old authorizations promptly; ensure staff follow new electronic rate review process.**

 **Reconcile paid service hours to business payroll records.**

 **Ensure staff follow new electronic rate review process.**

Note: Amount is the midpoint of a statistical estimate. See Appendix B for lower and upper limits of the estimate.

Improved payment systems and monitoring necessary to prevent errors

We estimate the administration paid as much as \$17 million (6 percent of all payments) in incorrect and questionable payments.

Overpayments: The administration paid an estimated \$500,000 in overpayments, due primarily to errors manually transferring rates into spreadsheets, and then manually transferring again into the payment system. The new electronic system the administration has implemented should eliminate many of these errors.

Questionable payments: Businesses’ poor documentation called into question an estimated \$11.3 million in payments. Businesses did not provide records, including caregiver time sheets and work schedules sufficient to support the payments they had received. While insufficient documentation may be the result of poor recordkeeping, it can also indicate a risk that clients did not receive the services for which businesses billed the supported living program. The administration does not have a sufficient mechanism in place to ensure that monthly payments are adequately supported with payroll records.

Weaknesses in the administration’s rate approval process resulted in an estimated \$5.5 million in unauthorized payments. A complex, inconsistent, paper-based process created gaps in the documentation process. The administration has implemented a new electronic rate review and approval process that should resolve some of these issues.

Better monitoring could improve client safety

Background checks: Contrary to administration policy, some businesses hired caregivers who failed their background checks and allowed them to work with vulnerable clients. We found 23 caregivers with disqualifying criminal background checks including assault, felony, theft, malicious mischief, drug charges, abuse, neglect, financial exploitation, and revoked contracts or licenses.

It is unknown whether, in violation of state law, these caregivers had unsupervised access to clients. Given findings from prior investigations, it is reasonable to conclude that they did in at least some cases. We informed administration officials about the caregivers we found. The administration is conducting its own investigations to determine if any of the caregivers had unsupervised access to clients.

AUDIT FINDINGS



23 criminally disqualified caregivers hired



12% of caregivers lack safety training certifications

RECOMMENDATIONS



Check employment records against report of failed background checks.



Administration will improve monitoring under requirements of Initiative 1163.

The administration does not have the staff to review and follow up on all background check results. The administration relies on DSHS's residential care service inspectors to review the most recent background check results for about 10 percent of a provider's employees. Because the review covers the most recent results only and selection is random, staff with disqualifying offenses may go undetected.

To improve client safety, inspectors could focus on caregivers with disqualifying results to determine whether they provided care to clients. In order to conduct the reviews, inspectors could request a report of disqualified caregivers from DSHS' Background Check Central Unit and compare provider employment records to the report as part of their two-year recertification inspection.

Caregiver training: Businesses providing supported living services could not document that all of their caregivers had completed important safety training. Businesses were not able to produce certifications for at least 12 percent of the caregivers in our sample. Initiative 1163 enacted new supported living caregiver training requirements, effective in 2016, which will likely increase caregiver's compliance with safety training.

Over 40,000 individuals work full or part-time providing supported living services.

Recommendations

To prevent overpayments, we recommend the Developmental Disabilities Administration:

1. Ensure that staff follow the improved procedures established for:
 - a. Electronic review and approval process for daily client payment rates.
 - b. Updating clients' payment rates and closing out old payment authorizations.
 - c. Reviewing the Administration's duplicate payment report and taking actions to stop and recover duplicate payments.

To protect the health and safety of people with developmental disabilities, we recommend the Administration:

2. Request that the Department of Social and Health Services' residential care service inspectors check businesses employment records against a report of caregivers with disqualifying background checks as part of their two-year recertification inspection.

To ensure payments to businesses are adequately supported, we recommend the Administration:

3. Strengthen monitoring of businesses' payroll records by creating a procedure for reconciling paid service hours to businesses' payroll records, to ensure they support invoices for payments.

We did not make a recommendation to address safety training because the Administration is improving its monitoring as a result of a voter initiative, Initiative 1163. Our related January 2013 performance audit, Initiative 1163: Long-Term Care Worker Certification Requirement, made recommendations to improve training completion.

Next Steps

Our performance audits of state programs and services are reviewed by the Joint Legislative Audit Review Committee (JLARC) and by other legislative committees whose members wish to consider findings and recommendations on specific topics.

Representatives of the State Auditor's Office will review this audit with JLARC's Initiative 900 Subcommittee in Olympia. The public will have the opportunity to comment at this hearing. Please check the JLARC website for the exact date, time, and location (www.leg.wa.gov/JLARC). The State Auditor's Office conducts periodic follow-up evaluations to assess the status of recommendations and may conduct follow-up audits at its discretion.

Introduction

Background

The Department of Social and Health Services' (DSHS) Developmental Disabilities Administration (Administration) oversees the Supported Living program. About 3,700 Washingtonians receive program services. They may live alone or with others. The Administration contracts with businesses who hire caregivers that assist clients with activities such as maintaining their homes, preparing meals, taking medications, and paying bills. The amount of support a client receives from a caregiver is based on their needs which can range from a few hours a month up to 24 hours a day of one-on-one support. In fiscal year 2012, the Administration paid about \$289 million in Medicaid funds, 50% of which are state funds, to 148 businesses.

Audit question

We designed the audit to answer the following question:

Did the Developmental Disabilities Service Administration make improper payments to businesses providing supported living services?

To answer our audit question, we designed testing strategies to identify incorrect payments and questionable payments with inadequate documentation. Incorrect payments are those made for an incorrect amount, for services not provided, or are inadvertent duplicate payments made on behalf of the same client. Questionable payments are those with inadequate documentation to show the services were actually delivered, the payment rate was authorized, or the businesses and caregivers were eligible to provide the services. While inadequate documentation may be the result of poor recordkeeping, it can also indicate a risk that businesses billed for services not provided to clients.

We selected a random sample of monthly payments made to businesses that provided supported living services in fiscal year 2012. For this sample of payments, we asked the businesses to give us two types of documentation: payroll and training records supporting that the business provided services to clients and that caregivers received certain safety training.

We also asked the Administration to give us documentation that showed the daily payment rate was properly authorized. With this data, we determined if the correct rate was used to calculate the payment.

In addition, we searched a computer database of all payments made in fiscal year 2012 for: duplicate payments made to businesses, payments made for services to clients that were deceased, and payments for services provided on days when clients were in hospitals or nursing homes. Finally, we searched databases with information relevant to the eligibility of the business and its caregivers to provide supported living services. These databases included information on business licenses, certifications, and disqualifying background checks.

Throughout the audit, we interviewed Administration staff to identify reasons for the incorrect and questionable payments and to find out about current actions the Administration was taking to address payment issues we identified. **Appendix B** has more information on the methods we used.

We conducted this audit in accordance with generally accepted governmental auditing standards, prescribed by U.S. Government Accountability Office. Those standards require that we plan and obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Results

Issue 1. Improved payment processes and provider monitoring can reduce the risk of incorrect and questionable payments.

Weaknesses in the Administration's rate review, payment, and monitoring processes resulted in errors. The Administration made an estimated \$500,000 in overpayments in fiscal year 2012. That figure is part of at least \$11.3 million and up to \$17 million in incorrect and questionable payments (see **Exhibit 1**). These payments include payments for which:

- The daily rates authorized for clients did not match the daily rate used to calculate the payment.
- Incorrect amounts were paid due to rate adjustments for additional costs of care.
- The Administration's records were inadequate to validate clients' daily payment rates were authorized.
- Businesses' time records could not adequately show their caregivers served clients for the amount billed.

Exhibit 1

Estimated amount of questionable and improper payments for supported living services FY 2012

	Amount
Over-payments	
• Payments rates did not match authorized daily rates	\$498,993
• Other wrong amounts paid to businesses	\$164,131
Payments not supported with adequate documentation	
• Payments made to businesses	\$11.3 million
• Rates not authorized	\$5.5 million

Source: SAO analysis of supported living payments.

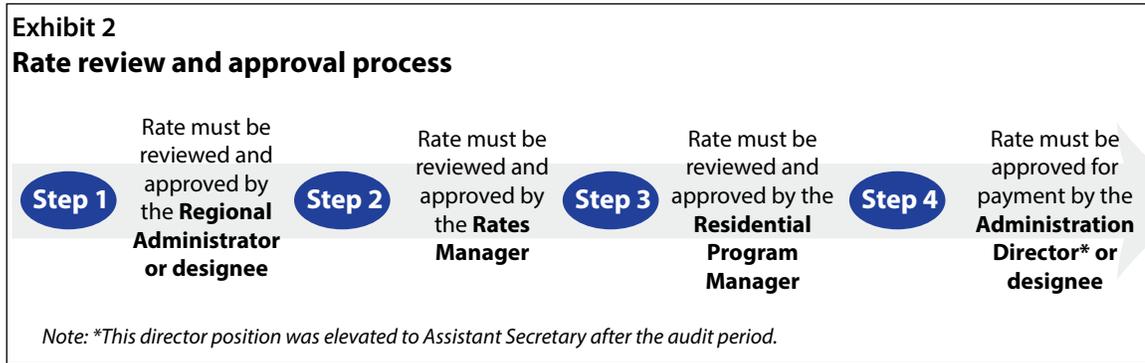
Notes: Results include estimates from a random sample and an analysis of all payments made in FY 2012 and are not additive. The Administration has recovered \$84,237 of the \$164,131 but has not completed reconciling 2012 transactions. See Appendix B for lower and upper limits of statistical estimates.

Based on our sample, we concluded businesses' poor documentation called into question an estimated \$11.3 million in payments. Businesses did not provide records, including caregiver time sheets and work schedules, sufficient to support the payments they had received. Medicaid rules require businesses to keep adequate records that fully disclose the amount of services provided to clients. In addition, the Administration's residential service contract requires businesses' records to sufficiently reflect all direct and indirect costs expended under the contract. Direct costs are those for paying caregivers to provide instruction and support services to clients. Indirect costs include such expenses as maintenance of client housing and client transportation.

The Administration has two mechanisms for reviewing payments but neither are designed to ensure that monthly payments are adequately supported with payroll records. Although the Department of Social and Health Services' residential care inspectors examine businesses payroll records during their two-year inspections, their review is done to verify that the aggregate amount of direct instruction and support service hours businesses claimed for the prior year accurately reflect the hours staff worked. For instance, inspectors do not reconcile caregivers' payroll records to hours worked to ensure that monthly payments are supported.

In addition to these two-year inspections, the Department of Social and Health Services' rate analysts review instruction and support service hours in their annual cost settlement process. During this process, analysts compare hours paid to businesses with hours they claimed in the cost report during the prior year. If the review reveals overpayments, analysts initiate recovery of funds.

Weaknesses in the Administration’s rate approval process resulted in an estimated \$5.5 million in unauthorized payments. Exhibit 2 below shows the Administration’s four-step process for approving daily rates for clients. Each reviewer examines different components (e.g., Instruction and Support Services and Indirect Client Support Costs) of the rate to make sure the rate is correct. The Administration’s director approves the rate for payment. For an estimated \$5.5 million in payments, the Administration’s director or designee did not approve the rate (Step 4, **Exhibit 2**). In addition, 45% of sampled rates lacked approval signatures from people designated to ensure the rate was correct (Steps 1-3, **Exhibit 2**).

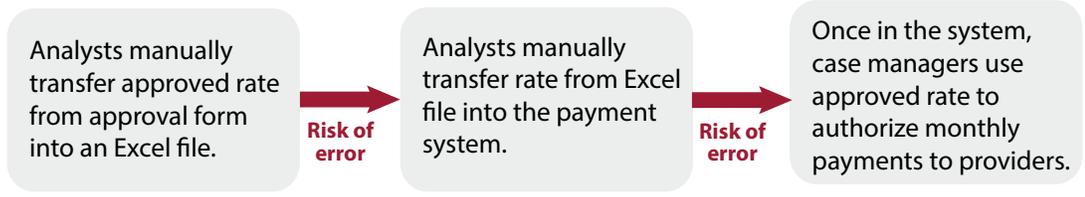


Gaps in documentation are a consequence of a complex, paper-based process. Obtaining all the approvals required coordinating between approvers in field and headquarters offices. A further cause of problems was the lack of a policy establishing this process, which over time, led to inconsistencies between local administrators. For example, some regional offices developed their own approval forms which did not call for the regional administrator’s approval. The Administration has implemented an electronic rate review and approval that should improve documentation and consistency. The rate request must be approved by each reviewer before they can forward it to the next reviewer. Approvals will be automatically saved with the date and time to ensure they are not misplaced.

The Administration paid an estimated \$500,000 in overpayments due to using the incorrect daily rate for a client. Most differences between the correct daily rate and the rate paid were small. However, the volume of overpayments is relatively large, resulting in an estimated \$500,000 in overpayments. Data reliability problems are compounded when information in this paper-based system must be manually transferred into spreadsheets, and then manually transferred again to the social services payment system (see **Exhibit 3**). The new electronic rate review and approval process the Administration has implemented should eliminate many of these errors.

Limitations of the social services payment system also contributed to these differences. Specifically, the payment system has space limitations that require staff to “split” daily rates that are more than \$300 into two payments. Staff round odd-numbered rates to an even number and split the rate to make two equal monthly payments. The rounding creates many differences we found.

Exhibit 3
Transfer of approved rate into payment system



With our check for duplicate payments made to businesses, we found about \$164,000 in overpayments due to payment errors, of which the Administration has recovered about \$84,000. With our analysis of payment data we searched for two types of duplicate payments.

- Payments made to different providers for the same client on the same day
- Businesses being paid multiple times for the same client on the same day

We asked the Administration to look at a few hundred payments we identified as potential duplicate payments. The Administration’s review found the large majority of these payments were not duplicate payments, but payment errors due to rate adjustments for additional costs of care. These errors result from the Administration’s complex processes for approving and updating payment authorizations and the volume of rate changes that are processed. In fiscal year 2012, staff made about 6,000 changes to the daily rates of the approximately 3,700 clients in supported living. This means that on average, Administration staff handle about 24 rate changes every working day.

A minority of the payments we identified were duplicate payments. Limitations of the social services payment system make duplicate payments difficult to detect. Specifically, the payment system has space limitations that require staff to “split” daily rates that are more than \$300. As **Example 1** shows, the split creates two payment authorizations that look like a duplicate payment. This issue should be resolved with the planned move to the ProviderOne payment system used for other payments for Medicaid services.

Example 1: Split payment for the month of January: daily rate of \$414 was split in half because it is over \$300

Payment 1: John Doe at 31 days/month x \$207 = \$6,417 monthly payment to provider

Payment 2: John Doe at 31 days/month x \$207 = \$6,417 monthly payment to provider

In February 2012, the Administration began producing a duplicate payment report for case resource managers. Supervisors are required to ensure overpayments are processed for collection and that payment authorizations are corrected or terminated to prevent continued duplicate payments to the same provider.

The Administration has recovered about \$84,000 of the payment errors we identified. Every year rate analysts review payment data for unusual patterns, such as, providers paid for more than 365 days in a year or payments at rates different from those in the rates database. When analysts find an overpayment, they fill in a vendor overpayment notice and give the information to DSHS’ Office of Financial Recovery for collection. The Administration will likely identify and recover additional overpayments during its annual review of 2012 payments.

Issue 2. Strengthened monitoring processes could prevent caregivers who fail background checks from working with vulnerable populations

Contrary to Administration policy, some businesses hired caregivers who failed their background checks and allowed them to work with vulnerable clients. We found 23 caregivers with disqualifying background checks out of about 1,500 caregivers serving clients from our sample of payments. Disqualifying offenses for these 23 caregivers included assault, felony, theft, malicious mischief, drug charges, abuse, neglect, financial exploitation, and revoked contracts or licenses. We informed Administration officials about the caregivers we found. The Administration is conducting its own investigations to determine if any of the caregivers had unsupervised access to clients.

The Administration's policy is more restrictive than state law. State law prohibits certain individuals with disqualifying offenses from having unsupervised access to children, elders, and developmentally disabled clients. It is unknown whether, in violation of state law, these caregivers had unsupervised access to clients. Given findings from prior investigations, it is reasonable to conclude that they did in at least some of the 23 cases. Investigations stemming from a 2011 DSHS internal audit revealed that 11 of the 55 caregivers identified in the report had unsupervised access to clients.

Better monitoring of background check results can reduce the risk of caregivers with disqualifying offenses working with clients. The Administration does not have the staff to review and follow up on all background check results. Over 40,000 individuals work full or part-time providing supported living services. The Administration relies on DSHS's residential care service inspectors to review the most recent background check results for about 10% of a provider's employees. Because the review covers the most recent results only and selection is random, staff with disqualifying offenses may go undetected. To improve the process, inspectors could focus on caregivers with disqualifying results to determine whether they have provided care to clients. In order to conduct the reviews, inspectors could request a report of disqualified caregivers from DSHS' Background Check Central Unit as part of their two-year recertification inspection.

Issue 3. New training and certification requirements for caregivers in 2016 will likely increase compliance with critical safety training

Businesses providing supported living services could not document that all of their caregivers had completed important safety training. The health and well-being of people receiving supported living services depends on their caregivers' skills and knowledge. Program rules require caregivers complete critical training courses within six months after starting work, such as, first aid and cardio-pulmonary resuscitation (CPR), and blood borne pathogens with AIDS/HIV, or before working alone with clients, such as, mandatory reporting requirements for abuse and neglect. Provider businesses were not able to produce certifications for at least 12% of the caregivers in our sample.

The Administration needs to improve the monitoring of training compliance. The Administration primarily relies on provider businesses to ensure caregivers are adequately trained. Residential care services inspectors do examine training records as part of their review to certify providers. However, the review only occurs every two years and includes just 10% of a provider's caregivers. As a result, some ineligible caregivers work with clients in violation of Administration rules.

New supported living caregiver training requirements in 2016 will likely increase caregivers' compliance with safety training. In November 2011, Washington voters passed Initiative 1163, which expanded background check, training, and certification requirements for caregivers who provide services in client's homes or other community settings. In 2016, supported living caregivers come under the Initiative's requirements. Caregivers will be required to complete 75 hours of training, including the critical courses noted above.

A State Auditor's Office performance audit issued in January 2013, Initiative 1163: Long-Term Care Worker Certification Requirements, made recommendations to improve training compliance and monitoring.

The Administration is developing a system to keep track of caregivers' compliance with training requirements. The Administration will also hold provider businesses accountable to have systems in place to monitor staff training and ensure only qualified caregivers provide client services. While transitioning to the new requirements, the Administration should be proactive, reminding businesses about the importance of safety training and their responsibility to ensure caregivers are trained.

Recommendations

To prevent overpayments, we recommend the Developmental Disabilities Administration:

1. Ensure that staff follow the improved procedures established for:
 - a. Electronic review and approval process for daily client payment rates.
 - b. Updating clients' payment rates and closing out old payment authorizations.
 - c. Reviewing the Administration's duplicate payment report and taking actions to stop and recover duplicate payments.

To protect the health and safety of people with developmental disabilities, we recommend the Administration:

2. Request that the Department of Social and Health Services' residential care service inspectors check businesses employment records against a report of caregivers with disqualifying background checks as part of their two-year recertification inspection.

To ensure payments to businesses are adequately supported, we recommend the Administration:

3. Strengthen monitoring of businesses' payroll records by creating a procedure for reconciling paid service hours to businesses' payroll records, to ensure they support invoices for payments.

We did not make a recommendation to address safety training because the Administration is improving its monitoring as a result of a voter initiative, I-1163. Our related January 2013 performance audit, Initiative 1163: Long-Term Care Worker Certification Requirement, made recommendations to improve training completion.



STATE OF WASHINGTON

July 9, 2013

The Honorable Troy Kelley
Washington State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Dear Auditor Kelley:

Thank you for the opportunity to respond to the State Auditor's Office (SAO) performance audit report on improving payment systems and monitoring necessary to prevent errors and improve safety. The Department of Social and Health Services and the Office of Financial Management have reviewed the report and provide our joint response below.

The Department of Social and Health Services Developmental Disabilities Administration (DDA) appreciates the analysis and findings made by SAO. A number of policy and program changes had already been implemented by the DDA prior to the release of this report.

Overpayments and Unauthorized Payments

DDA concurs with the SAO findings that its supported living payment process is insufficient and has resulted in inaccurate and unauthorized provider payments.

In the past, DDA has used a manual, paper-based rate authorization and approval system. This process was very complex to administer and reconcile, resulting in errors and duplicate payments. Prior to this SAO audit, DDA was successfully piloting an automated, paperless system. DDA implemented this new system in June 2013. The new process requires all rate and payment approvals to be endorsed by each approver to ensure accuracy before they advance to the next stage of review. Each review is recorded by person, date and time.

Additionally, the system required payments greater than \$300 to be split into two payments, which doubled the complexity and probability of error.

In 2014, the payment system will be fully modernized once Phase 2 of ProviderOne, the state's provider payment system, is implemented. Phase 2 will incorporate both rate and payment information in a single system, mitigating the error risks that may occur when reconciling between the rate and payment systems under the current process. Payments greater than \$300 no longer need to be broken into two payments, ensuring greater system reliability and traceability.

The Honorable Troy Kelley
July 9, 2013
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Unsupported Payments

The SAO report correctly points out that DDA providers struggle to collect, preserve and reconcile billings to payroll. While DDA requires documentation for payment, it must also be cautious not to disqualify providers, leaving vulnerable clients without care. This balance requires careful process scrutiny and documentation reconciliation. DDA has not had the audit staff needed to reconcile provider payroll to billings as recommended.

SAO estimates that six percent of all provider payments do not have adequate documentation for services that were provided or that the rate used to calculate these charges was authorized. Of \$280 million paid annually to these providers, \$17 million lacks adequate documentation.

Recognizing these challenges, the DDA audit process is under review. The administration has engaged Navigant Consulting, Inc. to evaluate the payment process and provide information on other state strategies to improve provider compliance and system efficiencies.

Background Checks

DDA concurs with the SAO estimate that 23 of 1,400 caregivers working with DDA providers were found to have failed background checks. It is unknown but possible that some of those individuals may have had unsupervised access to clients. One hundred percent compliance is the only acceptable result for this process. DDA has already taken steps to improve timely and accurate background checks. This includes ongoing background check training for all residential providers, reviewing background check compliance of residential agencies, and updating policy requiring additional background check information.

We appreciate the collaboration and thank the audit team for its work.

Sincerely,



Kevin Quigley, Secretary
Department of Social and Health Services



David Schumacher, Director
Office of Financial Management

Enclosure

cc: Mary Alice Heuschel, Chief of Staff, Office of the Governor
Kelly Wicker, Executive Director for Internal Affairs, Office of the Governor
Ted Sturdevant, Director of Legislative Affairs and Policy Office, Office of the Governor
Wendy Korthuis-Smith, Director, Results Washington, Office of the Governor
Tammy Firkins, Performance Audit Liaison, Results Washington, Office of the Governor
Alan Siegel, External Audit Compliance Manager, Department of Social and Health Services

OFFICIAL STATE CABINET AGENCY RESPONSE TO THE PERFORMANCE AUDIT ON IMPROVING PAYMENT SYSTEMS AND MONITORING NECESSARY TO PREVENT ERRORS AND IMPROVE SAFETY – DEVELOPMENTAL DISABILITIES ADMINISTRATION

JULY 9, 2013

This coordinated management response to the audit report received June 10, 2013, is provided by the Department of Social and Health Services (DSHS) and the Office of Financial Management.

RECOMMENDATION 1: Ensure that staff follow the improved procedures established for:

- a. Electronic review and approval process for daily client payment rates
- b. Updating client payment rates and closing out old payment authorizations
- c. Reviewing the Developmental Disabilities Administration's duplicate payment report and taking actions to stop and recover duplicate payments

RESPONSE

We agree that the supported living payment process must be improved to prevent overpayments.

The Developmental Disabilities Administration (DDA) in DSHS has already developed, successfully piloted and implemented an automated, paperless system. DDA put this new electronic rate approval system into operation in June 2013. The new process requires all rate and payment approvals to be endorsed by each approver to ensure accuracy before the next stage of review. Each review is recorded by person, date and time.

Both rate and payment information will be incorporated into a single system when Phase 2 of the state's modern provider payment system — ProviderOne — is launched. The automated system will mitigate the error risks that occur when reconciling between the rate and payment systems under the current process. Payments greater than \$300 will no longer need to be broken into two payments, ensuring greater system reliability and traceability. Rate changes processed through the electronic rate approval system described above will be sent electronically to ProviderOne.

Duplicate payment reports will be reviewed as part of the annual cost report review. Resource managers will be notified of any overpayments that have not already been processed through the Office of Financial Recovery and an overpayment package will be sent to the Office of Financial Recovery for processing. Providers will receive information and training at the quarterly regional residential providers meeting on accuracy of billing, including duplicate payment avoidance.

Action Steps and Time Frame

- Implement electronic rate approval system. Complete. *June 2013*
 - Incorporate rate and payments into a single electronic system. *In 2014 (dependent on ProviderOne Phase 2 launch).*
 - Establish process for regular review of duplicate payments and training for billing providers on duplicate payment avoidance. *By October 2013.*
-

RECOMMENDATION 2: Request that the Department of Social and Health Services' residential care service inspectors check businesses employment records against a report of caregivers with disqualifying background checks as part of its two-year recertification inspection.

RESPONSE

We agree the department can improve the health and safety of people with developmental disabilities through timely background checks. DDA believes this can be best accomplished through the following actions.

Provider training on accuracy and timeliness of background checks

DDA has provided training and technical assistance to all its residential providers. This initial training was completed in December 2012. DDA will continue to discuss accuracy and timeliness of background checks at its quarterly provider meeting held in all three regions.

Review agency compliance of background check requirements

This year, DSHS/Operations Review and Consultation (ORC) has conducted a review of one residential agency per month for compliance with the background check requirements for 12 months. ORC findings are sent to DDA and residential care services. DDA follows up with corrective actions with the residential agency.

Updated policy on background checks and training for providers

DDA has updated its policy that provides additional background check information to its contracted residential providers.

Action Steps and Time Frame

- Establish ongoing training plan for all residential providers on accuracy and timeliness of background checks. *Complete. Ongoing during quarterly meetings.*
- Establish process for auditing residential agencies on background check requirements. *Complete. Ongoing monthly.*
- Train all residential providers on the updated policy for additional background checks. *By October 2013.*

RECOMMENDATION 3: Strengthen monitoring of businesses' payroll records by creating a procedure for reconciling paid service hours to businesses' payroll records to ensure they support invoices for payments.

RESPONSE

We agree that monitoring businesses' payroll records should be strengthened. DDA and the Management Services Division are working on a plan to conduct additional audits of contracted agencies to review agency payroll records and reconcile paid instruction and support service hours to agency payroll records.

Action Steps and Time Frame

Develop a plan to conduct additional and ongoing audits of contracted agencies' payroll records. *By early 2014.*

Appendix A: Initiative 900

Initiative 900, approved by Washington voters in 2005 and enacted into state law in 2006, authorized the State Auditor’s Office to conduct independent, comprehensive performance audits of state and local governments.

Specifically, the law directs the Auditor’s Office to “review and analyze the economy, efficiency, and effectiveness of the policies, management, fiscal affairs, and operations of state and local governments, agencies, programs, and accounts.” Performance audits are to be conducted according to U.S. General Accountability Office government auditing standards.

In addition, the law identifies nine elements that are to be considered within the scope of each performance audit. The State Auditor’s Office evaluates the relevance of all nine elements to each audit. The table below indicates which elements are addressed in this audit. Specific issues are discussed in detail in the Audit Results and Recommendations sections of this report.

I-900 Element	Addressed in the audit
1. Identification of cost savings	Yes. The audit identified improper payments and recommended actions to reduce them which could yield cost savings.
2. Identification of services that can be reduced or eliminated	No. The audit did not include identifying services that can be reduced or eliminated.
3. Identification of programs or services that can be transferred to the private sector	No. The audit did not include identifying services that can be transferred to the private sector.
4. An alysis of gaps or overlaps in programs or services and recommendations to correct gaps or overlaps	Yes. The audit recommends actions to correct gaps and weaknesses in payment and background check processes, and enhance monitoring of caregiver qualifications to protect client safety.
5. Feasibility of pooling information technology systems within the department	No. The actions we recommended to reduce improper payments and protect client safety do not require pooling information technology systems.
6. Analysis of the roles and functions of the department, and recommendations to change or eliminate departmental roles or functions	No. The improvements we identified do not include changes in department roles and functions.
7. Recommendations for statutory or regulatory changes that may be necessary for the department to properly carry out its functions	No. The improvements we identified can be made within the current statutory and regulatory framework.
8. Analysis of departmental performance, data performance measures, and self-assessment systems	No. The audit scope did not include analysis of performance measures or data.
9. Identification of best practices	Yes. The audit recommends actions to reduce improper payments and enhance background checks monitoring processes to protect client safety.

Appendix B: Scope and Methodology

To answer our audit question, we designed testing strategies to identify questionable and improper payments.

- Payments made without adequate documentation to support that:
 - The services were actually delivered
 - The daily payment rate authorized
- Payments for services delivered by unqualified caregivers
 - Wrong amounts
 - Duplicate payments
 - Payments for services not provided

The definition of improper payments can be found in the Code of Federal Regulations 431.958 and in the White House Office of Management and Budget (OMB) Circular A-123, Appendix C, Memorandum M-06-23.

We selected a random sample of monthly payments made to businesses that provided supported living services in fiscal year 2012. For this sample of payments, we asked the businesses to give us two types of documentation: payroll and training records supporting that the business provided the service to the client and that caregivers received certain safety training. We also asked the Administration to give us documentation that showed the daily payment rate was properly authorized. Further, we determined if the correct rate was used to calculate the payment. We used the U.S. Department of Health and Human Services, Office of Inspector General RAT-STATS software to project sample results to all supported living payments in fiscal year 2012.

In addition, we used computer assisted audit techniques to search all payments made in fiscal year 2012 for duplicate payments made to businesses, payments made for services to clients that were deceased, and payments for services provided on days when clients were in hospitals or nursing homes. Finally, we searched databases with information relevant to the eligibility of the business and its caregivers to provide supported living services. These databases included information on business licenses and certifications, as well as, disqualifying background checks.

Throughout the audit we interviewed Administration staff and supported living providers to identify reasons for the questionable and improper payments and to find out about current actions the program was taking to address payment issues we identified. We sent all preliminary results to the Administration for review and feedback and revised results accordingly.

Sample Design and Statistical Projections

The population consisted of all monthly payments the Administration made for supported living services for the period of July 1, 2011 to June 30, 2012. The sampling unit was a client month which included all payments made for that client in that month. We selected a simple random sample of 150 client months to estimate the following:

- payments not supported by providers' documentation,
- payments made with unauthorized daily rates,
- percentage of daily rates that were improperly authorized, and
- payments made where the paid daily rate did not match the authorized rate.

Because daily rates could change during the month, our sample of 150 client months resulted in a sample of 154 daily rates. The total estimated amounts of improper payments in Tables 1, 2, and 3 should not be added. Because the payments in a client month could both be not supported and have unauthorized or improperly authorized daily rates, summing the amounts in Tables 1, 2, and 3 would double count some improper and questioned payments.

Table 1: Sample results for payments not supported by businesses’ documentation

Sample Results			Projection (90% confidence level)		
Sample size	Number of unsupported payments	Amount of unsupported payments	Midpoint	Lower limit	Upper limit
150	9	\$40,751	\$11,257,938	\$4,795,724	\$17,720,151

Table 2: Sample results for unauthorized daily rates

Sample Results			Projection (90% confidence level)		
Sample size	Number of unauthorized rates	Amount of payments with unauthorized rates	Midpoint	Lower limit	Upper limit
154	3	\$19,474	\$5,480,911	\$809,281	\$10,152,541

Table 3: Sample results for the paid daily rate not matching the authorized rate

Sample Results			Projection (90% confidence level)		
Sample size	Number of incorrect rates	Amount of incorrect payments	Midpoint	Lower limit	Upper limit
154	64	\$1,773	\$498,993	\$93,810	\$904,176

Table 4: Sample results for the percentage of rates improperly authorized

Sample Results		Projection (90% confidence level)		
Sample size	Number of improperly authorized rates	Midpoint	Lower limit	Upper limit
154	69	44.8%	38.0%	51.7%



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The State Auditor's Office Mission

The State Auditor's Office independently serves the citizens of Washington by promoting accountability, fiscal integrity and openness in state and local government. Working with these governments and with citizens, we strive to ensure the efficient and effective use of public resources.



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