



Alcohol, Drug & Mental Health Department
Alcohol Drug Program 5 Year Look-Back

November 25, 2008



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Findings and Recommendations – Cost Report

ADMHS – Alcohol Drug Program

Introduction

The mission of Alcohol, Drug & Mental Health Services (hereafter “ADMHS”) is to promote the prevention of and recovery from addiction and mental illness among individuals, families and communities. The Alcohol Drug Program (hereafter “ADP”) is one of 6 divisions that comprise the ADMHS department. ADP provides and contracts for prevention, intervention and treatment services designed to overcome problems related to alcohol misuse and other drug abuse.

The ADP Division of ADMHS works to secure, administer, and monitor funding for several types of drug treatment programs.

The Drug Medi-Cal program is a State and Federally funded program that provides drug prevention and treatment services to low-income individuals and families. During the 5 year period that we analyzed, Drug Medi-Cal revenues totaled \$16,027,668 which represented roughly 22% of the total funding for ADP. The remaining revenues are made up of Substance Abuse and Crime Prevention revenues (20% of total funding), federal block grants (20% of total funding), service fees, fines, and local monies. The remaining revenues are used to pay for Drug Medi-Cal type services for non Drug Medi-Cal eligible clients; these services are referred to as Net Negotiated Amount (hereafter “NNA”) services. Since NNA services do not have a State Settlement component, the Drug Medi-Cal settlement process was the main focus area of our 5 year look back.

The California Department of Alcohol and Drug Programs, requires that the ADP division prepare an annual County-Wide cost report. The annual ADP cost report provides the expenditures incurred by County providers, the administrative expenditures incurred by the ADP division, reports on treatment levels (units of service), and lists the funding sources used to pay for the treatment levels. The County-Wide cost report has several steps that ultimately result in a one page settlement sheet that shows how much is due to/from the State. In turn, under the terms of their provider contract agreements, ADMHS has the authority to settle with each of their contract providers in order to collect monies due to the State or to pay their providers the cash settlement amounts received from the State.

ADP Cost Report Steps

1. The State prepares several schedules designed to capture expenditures, revenues, and units of service.
2. Based on the types of services provided, ADP staff mail the appropriate State schedule(s) to the service providers.
3. ADP staff compare the provider submitted cost report schedules to the internal units of service and payment records.
4. ADP staff determine which State, Federal, or local funding sources “covered” the service payments made to the ADP providers
5. ADP staff enter the units of service and the related funding sources for those units of service into the State’s Paradox reporting system.
6. Utilizing the State’s Paradox system, around November 1st, ADP submits the “V0 Cost Report” to the State.
7. Around December of the following year, the State provides ADP with the “V1 Cost Report.” The differences between the ADP submitted cost report and the State received

Findings and Recommendations – Cost Report

ADMHS – Alcohol Drug Program

cost report are a result of the State comparing the data submitted by ADP to their own internal service tracking system.

8. Unless audited or disputed, the settlement amounts reported on the V1 cost report become final 3-years from the V1 cost report date.

Purpose and Scope

Intent of the 5 year look back was to review the cost settlements for the prior 5 cost reports.

Our five year look back project of the ADP cost reports was limited in scope. The intent of the project was to analyze the settlement process for the cost reports from fiscal year 02-03 through fiscal year 06-07. Findings documented within this report were arrived at through discussions with ADMHS staff and upon analysis of the source documents relating the settlement process.

Our five year look back project included the analysis of:

- Vendor payments recorded in the County's financial system
- Units of service being tracked through ADP's tracking systems
- Provider prepared cost report schedules
- ADP prepared cost reports (V0 cost report)
- State prepared cost reports (V1 cost report).

We feel our five year look back included sufficient inquiries, observations, and analysis of transactions to provide a basis for our conclusions and to enable us, where appropriate, to recommend changes to procedures to assist management in achieving its objectives.

Findings and Recommendations – 5 Yr Look Back

ADMHS – Alcohol Drug Program

NO SETTLEMENT PROCESS WITH PROVIDERS

ADP has not collected monies due back from their providers. The cumulative amount owed for the 5 years is roughly \$512,000.

ADP has implemented several provider payment policies that highlight the need to have an annual settlement process with their Drug Medi-Cal providers. The lack of an actual settlement process has resulted in ADMHS absorbing costs that are the responsibility of their providers and/or the State. For the 5 years that we analyzed, the cumulative amount owed to ADMHS from the ADP providers is \$512,000. ADP's provider payment practice has three main components that each contributed to the balance owed to ADMHS and they each have their own argument for an annual settlement process.

1. No Review of the State's Denied Units Reports

ADP's Drug Medi-Cal providers submit billings to ADMHS. After a general analysis of the data, ADMHS then submits a billing to the State. If the State finds problems with the data, such as incorrect program codes or invalid names and tax identification numbers, the State will deny payment on those units. In order to provide ADMHS with an opportunity to correct obvious errors, the State provides ADMHS with a monthly Denied Units report.

Provider Payment Practice

ADMHS pays their providers up front for all units that will be billed to the State. ADMHS' practice is to not make any adjustments to provider payments for units that are ultimately denied by the State.

Argument For Settlement Process

ADP's Drug Medi-Cal providers are being paid for all of the units that are being denied by the State. This provides the incentive for their providers to maximize the number of billed units regardless of taking into account whether the State will end up denying payment on those units. An annual settlement process is required to ensure that their providers are not being overpaid.

Also, it was noted that some of the denied units found on the Denied Units report, could have been approved if a simple correction to a program code had been made. Due to the lack of a formal review of the Denied Units report, it is assumed that errors that have a relatively simple fix are still being performed by their providers; this ultimately results in less Drug Medi-Cal money to ADP.

2. Inconsistent Payment of Supplemental Units

Supplemental units refer to client services performed in the prior fiscal year but billed for in the current fiscal year. As a result of the annual County-Wide cost report due date, supplemental units account for one of the main differences between the ADP prepared cost report and the State's adjusted County-Wide cost report.

Findings and Recommendations – 5 Yr Look Back

ADMHS – Alcohol Drug Program

Provider Payment Practice

ADP pays their providers for only the supplemental units billings received during the first few months of the fiscal year. However, ADP files a claim with the State for all provider supplemental units even for those that ADP chose not to pay their providers for. We noted some inconsistency as far as what month ADP chose to stop paying their providers for supplemental units. In addition, we could not arrive at a dollar figure for the provider supplemental unit underpayments due to partial or complete lack of system tracking records.

Argument For Settlement Process

ADP is not paying their providers for all of the units for which they end up billing the State. This practice creates a scenario in which the providers are not being paid for units for which the State reimbursed ADP. The annual settlement process is required to ensure that their providers are not being under paid.

3. Not Utilizing the State’s Cost Report To Verify the Lower of Cost or SMA

The state requires that the Drug Medi-Cal providers be paid the lower of actual costs incurred or the State Maximum Allowance rate (hereafter “SMA”). As such, ADP’s provider contracts state that the provider will be paid the lower of cost or the SMA.

Provider Payment Practice

ADP does not base their Drug Medi-Cal provider payment rates on a calculated unit cost rate; instead, ADP has chosen to pay their providers the SMA. In turn, ADP bills the State for the provider units of service using the SMA.

Argument For Settlement Process

The State requires that providers be paid the lower of cost or the SMA. ADP does not review the final County-Wide cost report to verify that each provider merits being paid the SMA versus a lower rate. The annual settlement process is required to ensure that their providers are not being over paid.