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State Auditor Ralph Campbell Releases Performance Audit on Adult Care Homes

RALEIGH _ More than 22,000 older and disabled residents of adult care homes in North Carolina receive financial aid from the state and counties, with an average monthly payment of \$506.14 each, an audit of the adult care home payment released Friday indicates.

Adult care homes provide help for older or disabled adults who need help with meals and other daily activities. But they do not provide the same level of medical services as nursing homes.

The audit, ordered by the General Assembly last year, examined the rate setting procedure for special assistance payments. Specifically, the State Auditor was to analyze the financial information on adult care homes collected by the Department of Health and Human Services and analyze the impact of occupancy rates on the cost reimbursement system.

The state and counties provided \$123 million (50/50 split) in special assistance payments to adult care homes residents during fiscal year 1999-2000. In that year, there were 36,878 beds available for adult care, with 22,429 residents receiving financial help.

The audit also indicated that 21,509 new adult care beds have been licensed since legislators enacted a moratorium on new adult care homes in August 1997. The moratorium included exemptions for projects that already had a financial commitment or were considered urgent by county officials.

The Department of Health and Human Services does not maintain records to show the status of those approved beds. It could not be determined how many of the new beds were included in the 36,878 available beds in 1999-2000.

(over)



The audit found that state officials are following a very complicated formula approved by the General Assembly to compute the special assistance rate. That formula takes into account vacant beds, as well as the direct and indirect costs of serving residents. The audit did not compare special assistance rates with reimbursement rates for other care facilities, nor did it consider other rate-setting methods.

“Documented evidence shows that North Carolina’s population is aging, and as our population ages, adult care homes and other care facilities will become increasingly important,” State Auditor Ralph Campbell said. “The adult care home industry is essential for many of our older and disabled citizens, and certainly is worthy of legislative attention to make sure they are fairly compensated for the critical services they provide.”

Campbell said he appreciated the input from both the Department of Health and Human Services and the adult care home industry during the audit process.

The audit recommended several changes in the Department of Health and Human Services to address problems that were identified. Those recommendations include:

- Requiring more detailed financial data from adult care homes to evaluate whether the special assistance rate considers all relevant factors.
- Developing adequate procedures to assure consistent enforcement of cost-reporting rules.
- Requiring adult care homes to disclose related party or conflict of interest relationships that could affect cost reporting.
- Improving record-keeping to track the status of licensed beds.
- Reviewing costs reports submitted by adult care homes to make sure the information is complete and accurate.

Copies of the report may be obtained by calling the Office of the State Auditor at 919-807-7500. It also will be available on the office’s web site at www.osa.state.nc.us. Printed copies of the report can be obtained by filing a request under the Audits section of the web site.

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OFFICE OF THE STATE AUDITOR
Performance Audit Of The
"ADULT CARE HOMES REIMBURSEMENT RATES"
As Administered By The NC Dept. Health And Human Services
EXECUTIVE SUMMARY

Program Description:

A number of different divisions within the North Carolina Department of Health and Human Services have some responsibility for oversight, monitoring, and reimbursement for adult care home services. The reimbursement rate has historically been set by the North Carolina General Assembly. Payments for adult care home services are made directly to residents of adult care homes on a monthly basis in compliance with federal Medicaid regulations. The resident is then responsible for paying the adult care home provider for services received. These payments are called State-County Special Assistance for Adults. To be eligible for special assistance, the person must be a resident of North Carolina and meet the income eligibility requirements governing the federal Supplemental Security Income Program. Funding for the special assistance program is 50/50 State and county, with county departments of social services responsible for the actual administration of the program.

Audit Scope and Methodology:

This study of the cost reimbursement system for adult care homes was mandated by the 2000 General Assembly in House Bill 1840, Subpart 4, Section 11.12(b). The scope of the audit **was restricted to the methodology, policies, and procedures in place within the Department of Health and Human Services surrounding the rate setting process for the Special Assistance Reimbursement Program**. The study included identifying the different kinds of homes providing adult services. The study did **not** include, however, any comparison of rates between other types of facilities offering long-term care to older citizens or identification of alternative rate setting methodologies. These issues were outside the scope as defined in the legislation.

Audit Objectives:

To comply with the provisions contained in House Bill 1840, we identified **four** objectives.

1. Identify the adult care homes population, determine the total amount of supplemental assistance provided by the State, and identify the entities with responsibility for providing adult care services;
2. Review the laws and regulations governing the cost reimbursement system for adult care homes, identify and examine the operating and administrative policies and procedures for the divisions within the Department of Health and Human Services (Department) which impact the cost reimbursement system;
3. Analyze the financial information for adult care homes collected by the Department Controller's Office; and
4. Analyze the impact of occupancy rates on the cost reimbursement system.

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Conclusions in Brief:

**OBJECTIVE 1:
PROGRAM
STATISTICS**

Adult care home services are provided in five different provider settings. The Department of Health and Human Services is responsible for the oversight and licensing programs for these facilities. For fiscal year 1999-00, there were 3,142 facilities in North Carolina with 36,878 available adult care beds serving 22,429 total residents receiving special assistance payments. Special assistance payments, made directly to the adult care resident, average \$506.14 a month and range from \$5 to the maximum of \$1,098. Each individual special assistance payment is determined based on the recipient's total monthly income. For fiscal year 1999-00, the total expenditure for special assistance payments was \$123 million, with the State and local county governments sharing this cost equally. In August 1997, the General Assembly enacted a moratorium on new adult care homes in part to try to contain costs. Since that time, a total of 21,509 new adult care beds have been approved under the exemptions contained in that legislation. The Department does not maintain records to show the status of these approved beds. Therefore, we cannot determine if any of the 21,509 beds are included in the 36,878 available beds for fiscal year 1999-00.

**OBJECTIVE 2:
LAWS,
POLICIES,
PROCEDURES**

North Carolina implemented the State-County Special Assistance Payments program in 1974 as a result of the enactment of the federal Supplemental Security Income (SSI) Program. Its purpose was to assure that persons who had been receiving supplemental payments under prior federal programs received no less in total monthly payments under SSI. North Carolina's Special Assistance program, covering all adult care home residents eligible for Medicaid, is authorized under GS 108A-40, but there are a number of other statutes that affect adult care homes. The special assistance rate is calculated each year by the Department of Health and Human Services based on the methodology approved by the General Assembly. The General Assembly sets the rate. In 1995, the General Assembly passed legislation requiring adult care home providers to submit audited cost data to the Department for use in calculating the special assistance rates. The Department also is charged with enforcement of sanctions against providers that do not submit the required cost reports. At the time of the audit, the Department did not have all the necessary procedures in place to consistently enforce these laws.

**OBJECTIVE 3:
FINANCIAL
INFORMATION**

The site visits conducted at a sample of North Carolina adult care homes revealed a wide range of opinions on the adequacy of North Carolina's current special assistance rates and their impact on facility operations. The rate setting methodology approved by the General Assembly uses cost data only from the 631 adult care facilities classified as "homes for the aged." For fiscal year 1998-99, there were 467 cost reports submitted by these facilities. Our analysis showed that the information in the database is an accurate reflection of the information submitted by the adult care homes. However, the Department is not reviewing the cost report audit procedures to assure that each cost report contains complete and accurate information. The facilities currently are not required to disclose related party or conflict of interest relationships, nor is there an audit procedure assessing costs incurred at a corporate office that are passed along to a facility.

**OBJECTIVE 4:
OCCUPANCY
RATES IMPACT**

The current methodology used to compute the special assistance rate for adult care homes is computed based on the actual number of residents in the facilities as reported on the annual cost reports. Therefore, the rate gives consideration to the actual occupancy/vacancy rates within the industry, but may not reimburse the provider 100% of costs. However, under this methodology, as the occupancy rate increases, the calculated special assistance rate decreases. Conversely, as the occupancy rate decreases, the calculated rate would increase. Currently, the State does not require all the detailed financial data needed to evaluate the percentiles used in the rate calculation. Analysis shows that the Department has consistently applied the methodology approved by the General Assembly in the rate calculation process.

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Specific Findings

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Objective 1: Program Statistics

- The number of adult care beds has continued to increase since the 1997 statewide moratorium. 11**
- The Department is not maintaining records on the status of exempted beds..... 12**
- The State is developing a comprehensive plan for long-term care that includes the provision of adult care home services. 12**

Objective 2: Laws, Policies, And Procedures

- The Department is inconsistently enforcing the law governing adult care homes cost reporting..... 17**
- The Department has limited means for assuring quality of care in adult care homes. 18**

Objective 3: Financial Information

- The Department is not reviewing the cost report audit procedures..... 23**
- The Department does not allow electronic submission of cost reports. 24**
- Cost reports do not require disclosure of related party or conflict of interest relationships or transactions..... 24**
- Adult care homes audit procedures need to be strengthened. 25**

Objective 4: Occupancy Rates Impact

- The current rate methodology recognizes occupancy rates..... 28**
- Detailed financial data needed to evaluate the percentiles used in rate-setting is not required by the State. 29**
- The Department has consistently applied the methodology approved by the General Assembly..... 29**