



## **Nursing Facility Quality of Care Fund is Improving the Lives of District Residents but Additional Oversight is Necessary**

September 22, 2014

**Audit Team:**

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A Report by the Office of the District of Columbia Auditor  
Lawrence Perry, Acting District of Columbia Auditor



September 22, 2014

Included herein is the Office of the District of Columbia Auditor's report entitled "Nursing Facility Quality of Care Fund is Improving the Lives of District Residents but Additional Oversight is Necessary." This performance audit was conducted at the request of Ward 7 Councilmember Yvette Alexander. The objectives of this audit were to determine if the Nursing Facility Quality of Care Fund (the Fund) is being expended in accordance with §47-1261 of the District of Columbia Code (D.C. Code); to verify that the Fund is being audited as required by D.C. Code § 47-1262; and to assess the District's monitoring procedures over the external consultants it uses to process payments from the Fund.

We would like to thank the staff at the Department of Health Care Finance for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information was greatly appreciated.

Sincerely,

Lawrence Perry  
Acting District of Columbia Auditor



September 22, 2014

## **Nursing Facility Quality of Care Fund is Improving the Lives of District Residents but Additional Oversight is Necessary**

### **Why ODCA Did This Audit**

The audit was conducted per the request of Ward 7 Councilmember Yvette Alexander.

### **What ODCA Recommends**

1. DHCF was in compliance with spending requirements for the Nursing Facility Quality of Care Fund; therefore, we recommend that DHCF continue to appropriately monitor future spending.
2. We recommend that DHCF assess its nursing facility provider tax and establish an allowance for uncollectible amounts, if necessary.
3. We recommend that the Mayor or a designated representative comply with the requirements of D.C. Code § 47 - 1262(d) and perform an annual audit over the Fund, reporting on the results of the audit to the District of Columbia Council.

### **What ODCA Found**

The Department of Health Care Finance (DHCF) has been expending funds from the Nursing Facility Quality of Care Fund in accordance with District laws and regulations.

ODCA noted a minor area for operational improvement, but found consistent adherence to District laws governing the use of the Fund.

When the Fund was established, the District of Columbia Council required additional oversight of the Fund from the Mayor. This oversight, in the form of an annual audit, would result in improved stewardship of the Fund and provide additional information to the public on its use. However, we found no evidence that this audit has ever been performed.

**For more information regarding this report, please contact Anovia Daniels, Communications Analyst/ANC Outreach, at [Anovia.Daniels@dc.gov](mailto:Anovia.Daniels@dc.gov) or 202-727-3600.**

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## **Background**

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### **DHCF is the Agency Responsible for Administering Medicaid in the District**

The Department of Health Care Finance (DHCF) was created as a cabinet-level agency within the government of the District of Columbia (D.C.) on February 27, 2008. The mission of DHCF is to “improve health outcomes by providing access to comprehensive, cost-effective and quality health care services for residents of the District of Columbia.”

DHCF is the District’s State Medicaid agency, providing health care services to nearly one third of all District residents. In addition to the elderly and disabled, DHCF also provides Medicaid approved services to low-income children and other adults.

### **Nursing Facility Quality of Care Fund**

The Nursing Facility Quality of Care Fund (the Fund) was established December 7, 2004 to “promote and foster the improved care, safety, and health of residents in Medicaid–certified nursing facilities.” The Fund’s resources are derived from an annual assessment of up to 6 percent of the revenue earned by each District nursing facility.

After collecting assessments from each facility, DHCF is to expend the funds on:

1. Payments to nursing facilities for the service they provide to residents receiving Medicaid approved services;
2. Costs associated with the Mayor’s audit of all income and expenses of the Fund; and
3. To the extent that amounts in the Fund remain, other programs designed to promote and foster the improved care, safety, and health of residents in Medicaid-certified nursing facilities.

## **Objectives, Scope and Methodology**

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### **Objectives**

This performance audit was conducted per the request of Ward 7 Councilmember Yvette M. Alexander. The objectives of this audit were to determine:

1. The percentage of Nursing Facility Quality of Care Funds that have been expended on “Quality of Care Initiatives,” as defined at §47-1261 of the District of Columbia Code;
2. Whether each year, the Mayor of the District of Columbia audited all income and expenses of the Nursing Facility Quality of Care Fund (the Fund), reporting on the results of the audit to the District of Columbia Council, as specified at D.C. Code § 47-1262; and
3. Whether monitoring controls the Department of Health Care Finance (DHCF) had in place over the District’s Medicaid Management Information System (MMIS) were effective and sufficient.

### **Scope**

This performance audit covered fiscal year (FY)s 2011 – 2012, which was October 1, 2010 through September 30, 2012.

### **Methodology**

To evaluate expenditures made from the Nursing Facility Quality of Care Fund, ODCA obtained detailed transaction listings from the District’s General Ledger, verifying their completeness before assessing how funds were used. This analysis included interviews with DHCF staff, including the Agency’s Fiscal Officer, inspections of DHCF journal entries, reviews of agreements between DHCF and other District agencies and examinations of invoices and contracts with outside consultants.

To examine compliance with the requirement to perform annual audits of the Fund, ODCA made inquires of District personnel working in other agencies, including the Chief Financial Officer and City Administrator.

ODCA also performed an assessment of the monitoring controls in place over the District’s MMIS. This assessment included controls

operated by third-parties acting on behalf of DHCF while performing administrative tasks, such as payment processing.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Audit Results

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Overall, we noted that the Department of Health Care Finance (DHCF) has managed and expended funds from the Nursing Facility Quality of Care Fund (the Fund) in accordance with District laws and regulations. However, additional oversight from the Mayor's office or a designated representative is necessary.

- 1. DHCF was in compliance with spending requirements for the Nursing Facility Quality of Care Fund; therefore, we recommend that DHCF continue to appropriately monitor future spending.**

## **Fund expenditures are compliant with applicable laws and regulations**

Per D.C. Code § 47-1262 (b), the Fund was established with the requirement that no less than 90 percent should be used "solely to fund quality of care initiatives." Quality of Care Initiatives, as defined at § 47-1261 (8), are programs with the intent of promoting and fostering the "improved care, safety, and health of residents in Medicaid-certified nursing facilities."

ODCA reviewed the expenditures from the Fund in fiscal year (FY)s 2011 and 2012, which can be classified as follows:

- Provider payments;
- Intra-District transfers to the D.C. Office on Aging; and
- Administrative expenses

DHCF was in compliance with spending requirements for the Nursing Facility Quality of Care Fund for FYs 2011 and 2012. We found that all expenditures met the definition of "Quality of Care Initiatives." The three types of expenditures made from the Nursing Quality of Care Fund are described in more detail below.

## **Nursing Facility reimbursements made up 94% of Fund Expenditures in FY 2011 and 96% of Fund Expenditures in FY 2012**

### **Provider Payments**

DHCF assessed a per diem rate of reimbursement specific to each Nursing Facility, which was designed to reimburse the Nursing Facility for all Medicaid approved services that the facility provides.

The vast majority of expenditures from the Fund were direct reimbursements to Medicaid-certified nursing facilities for services rendered. In FY 2011, 94 percent of expenditures were provider payments and in FY 2012, 96 percent of expenditures were provider

payments. Figure 1 summarizes revenue and expenditures for the Nursing Facility Quality of Care Fund for FYs 2011 and 2012.

**Figure 1**

**Nursing Facility Quality of Care Fund**  
Summary of Revenue and Expenditures

	<b>FY 2011</b>	<b>FY 2012</b>
<b>Revenue</b>	\$13,439,412	\$13,321,647
<b>Expenditures</b>		
<b>Provider Payments</b>	10,957,663	10,260,000
<b>Intra-District Transfers &amp; Administrative Costs</b>	677,138	400,724
<b>Total Expenditures</b>	11,634,801	10,660,724
<b>Carryover Revenue</b>	\$1,804,611	\$2,660,923

ODCA verified these payments by reviewing DHCF Journal Entries confirming payment dates and amounts.

**Intra-District Transfers to the D.C. Office on Aging**

DHCF entered into several agreements with the D.C. Office on Aging (DCOA) designed to improve Medicaid approved services for the District’s nursing home residents. Each agreement specified a maximum amount of funds that could be allocated to DCOA. For example, DCOA was tasked with:

- Collecting and analyzing data on the experiences of people who work and live in nursing homes enrolled in the District of Columbia’s Medicaid program;
- Monitoring of long-term care services and the quality of care for Medicaid beneficiaries, by managing the intake and resolution of complaints; and
- Providing screening, assessment and counseling services to individuals requiring access to any public long-term support program, such as nursing home care transitions or Medicaid eligibility.

**Administrative Expenses**

DHCF allocated some administrative costs to the Fund. On a quarterly basis, DHCF had an outside firm, Innovative Costing Solutions (ICS), conduct a random survey of DHCF staff to determine how much time employees spent working on DHCF’s various program areas. This information was used to determine how administrative costs should be allocated to the various funds administered by DHCF. At the conclusion of the study,

administrative costs were allocated to each of DHCF's various funds including The Nursing Facility Quality of Care Fund.

Periodically, DHCF also recalculated the rate at which it reimbursed nursing homes for providing Medicaid approved services to District residents. Two consulting firms, Bert Smith and Company and Williams Adley & Company, were engaged to perform this task on behalf of DHCF.

**2. We recommend that DHCF assess its nursing facility provider tax and establish an allowance for uncollectible amounts, if necessary.**

The District's Comprehensive Annual Financial Report (CAFR) includes explanatory notes with its financial statements. These notes are essential to obtaining an understanding of how the District accounts for financial transactions. The Summary of Significant Accounting Policies, the first note accompanying the District's financial statements, states that taxes receivable should be recorded net of "the portion of the receivables estimated not to be collectible."

Therefore, all District agencies should monitor the extent to which they actually collect taxes that are owed, in order to establish an allowance for uncollected tax assessments if necessary. This allowance would then be subtracted from the agency's taxes receivable balance to arrive at an accurate representation of how much the District is owed and how much the District expects to collect.

DHCF did not establish an allowance for doubtful accounts in FYs 2011 or 2012, nor did DHCF perform an analysis to determine if an allowance was necessary. This is problematic because ODCA's review of financial transactions in FY 2011 indicated that assessments for the Fund in prior years were not always collected in full. Specifically, DHCF was forced to write-off significant receivables that had not been collected by the District Department of Health in the years before DHCF assumed responsibility for the District's Medicaid program.<sup>1</sup> These receivables were nursing home tax assessments, which were never paid to the District.

Financial Statement users want an accurate, up-to-date picture of the state of the District's finances. In reviewing the Financial Statements of the District, a user, examining any receivables resulting from the provider tax assessed on nursing facilities, must be able to determine the current value of those receivables. If the District does not subtract an estimate of how much will not be collected from the total amount of taxes billed to nursing facilities, the District will be overstating the amount it expects to collect.

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<sup>1</sup> Bad debt expense of \$1.7 Million was absorbed by DHCF on December 7, 2011.

**DHCF did not establish an allowance for doubtful accounts specific to the Fund in FYs 2011 or 2012**

**3. We recommend that the Mayor or a designated representative comply with the requirements of D.C. Code § 47 - 1262(d) and perform an annual audit over the Fund, reporting on the results of the audit to the District of Columbia Council.**

Per D.C. Code § 47-1262(d), the Mayor is to audit the Nursing Facility Quality of Care Fund on an annual basis and provide the annual report to the Council.

ODCA made inquiries of both the District's Office of the Chief Financial Officer (OCFO) and the City Administrator (CA) as to the status of the audit. The OCFO confirmed that they had not audited the Fund since its inception. The CA did not respond regarding this inquiry.

ODCA was not able to determine why the Mayor has not audited the Fund, but without an annual audit of the Fund, the Council of the District of Columbia cannot evaluate the Fund's expenditures to determine if they are reasonable and appropriate.

## Audit Results Summary

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Our audit identified three recommendations that will improve District stewardship of the Fund. In order to ensure compliance with legislative requirements and management authorizations:

Recommendation	Finding
<p>1. The Department of Health Care Finance (DHCF) was in compliance with spending requirements for the Nursing Facility Quality of Care Fund; therefore, we recommend that DHCF continue to appropriately monitor future spending.</p>	<ul style="list-style-type: none"> <li>Fund expenditures in FY 2011 and FY 2012 were in compliance with D.C. Code § 47-1261 (8), requiring expenditures to have the intent of promoting and fostering the "improved care, safety, and health of residents in Medicaid-certified nursing facilities."</li> </ul>
<p>2. We recommend that DHCF assess its nursing facility provider tax and establish an allowance for uncollectible amounts, if necessary.</p>	<ul style="list-style-type: none"> <li>DHCF did not establish an allowance for doubtful accounts in FY 2011 or 2012, nor did DHCF perform an analysis to determine if an allowance was necessary.</li> </ul>
<p>3. We recommend that the Mayor or a designated representative comply with the requirements of D.C. Code § 47 - 1262(d) and perform an annual audit over the Fund, reporting on the results of the audit to the District of Columbia Council.</p>	<ul style="list-style-type: none"> <li>The Nursing Facility Quality of Care Fund has not been audited since its inception, as required by D.C. Code § 47-1262(d).</li> </ul>

## Conclusion

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The Nursing Facility Quality of Care Fund is an important source of funding for the District's Medicaid beneficiaries. Expenditures from the Fund are used to reimburse Nursing Facilities for the care they provide to Nursing Home residents, pay for administrative costs, and fund various initiatives designed to improve Medicaid services for the District's elderly.

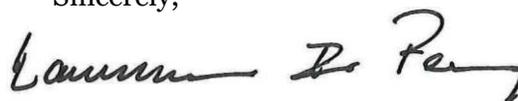
The Office of the District of Columbia Auditor (ODCA) reviewed fund expenditures made in fiscal year (FY)s 2011 and 2012. ODCA noted that a minimum of 94 percent of the expenditures made each year were reimbursements for Medicaid approved services provided to District residents. Although fund expenditures were compliant with applicable District laws and regulations, we did note some opportunities for minor operational improvement and improved oversight.

Specifically, we found that the Department of Health Care Finance (DHCF) did not establish an allowance for doubtful accounts specific to the Fund in FYs 2011 or 2012. This is problematic because ODCA's review of financial transactions in FY 2011 indicated that provider assessments for the Fund in prior years were not always collected in full.

We further found that the Nursing Facility Quality of Care Fund has not been audited since its inception, as required by D.C. Code § 47-1262(d). The Mayor, or a designated representative, must perform this audit to maintain accountability, transparency and oversight over the Fund. Otherwise, the Council of the District of Columbia cannot effectively evaluate the Fund's expenditures to determine if they are reasonable and appropriate.

We are pleased that DHCF agrees with our recommendations and is taking steps to address the minor issues noted in this report.

Sincerely,



Lawrence Perry,  
Acting District of Columbia Auditor

## Agency Comments

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On August 13, 2014, the Office of the District of Columbia Auditor (ODCA) submitted the draft report titled, “Nursing Facility Quality of Care Fund is Improving the Lives of District Residents but Additional Oversight is Necessary” for review and comment to the Department of Health Care Finance (DHCF).

ODCA received written comments from DHCF on August 27, 2014. The DHCF response is included with this report.

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Department of Health Care Finance



Office of the Director

Mr. Lawrence Perry  
Acting District of Columbia Auditor  
Office of the District of Columbia Auditor  
717 14<sup>th</sup> St. NW, Suite 900  
Washington, DC 20005

August 27, 2014

Dear Mr. Perry:

We are writing in response to your letters of August 13, 2014 to each of us. Each letter included the draft report of the District of Columbia Auditor's audit of the Nursing Facility Quality of Care Fund. In the letter, you asked the Department of Health Care Finance (DHCF) to comment on the draft report, and respond to each of the recommendations. The draft report recommendations are reproduced below followed by our responses.

**Recommendation 1:** DHCF was in compliance with spending requirements for the Nursing Facility Quality of Care Fund; therefore, we recommend that DHCF continue to appropriately monitor future spending.

**DHCF Response:** DHCF agrees with this recommendation, and will continue to properly administer the fund and monitor spending.

**Recommendation 2:** We recommend that DHCF assess its nursing facility provider tax and establish an allowance for uncollectible amounts, if necessary.

**DHCF Response:** DHCF agrees with this recommendation. The DHCF Agency Fiscal Officer will work with the Office of Financial Operations and Systems (OFOS) to determine whether such an allowance is necessary, and, if so, record it.

**Recommendation 3:** We recommend that the Mayor, or a designated representative, comply with the requirements of DC Code 47-1262(d) and perform an annual audit over the Fund, reporting on the results of the audit to the City Council.

**DHCF Response:** DHCF agrees with this recommendation. Beginning with fiscal year 2014, DHCF will ensure that an annual audit of the NFQCF is conducted, and the final report submitted to the Council.

In addition, on page 6 in the discussion of administrative costs, it says that "...Innovative Costing Solutions (ICS) conducts interviews of DHCF staff to determine how much time employees spent working on DHCF's various program areas." Please correct this statement to say that ICS conducts a random survey of employees, not interviews.

If you have any questions, please contact Darrin Shaffer at 202-442-9079.

Sincerely,

A handwritten signature in blue ink that reads "Wayne" followed by a stylized, cursive flourish.

Wayne Turnage  
Director

A handwritten signature in blue ink that reads "Darrin A. Shaffer" in a cursive style.

Darrin Shaffer  
Agency Fiscal Officer

## **Auditor's Response to Agency Comments**

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The Office of the District of Columbia Auditor (ODCA) appreciates the comments provided by the Department of Health Care Finance (DHCF). We are pleased to learn that the DHCF is taking positive steps towards implementing the recommendations presented in the report. ODCA noted that the DHCF was in agreement with each of our findings.