

EXECUTIVE DIGEST

**REIMBURSEMENT PROGRAM**

**NEW CENTER COMMUNITY MENTAL HEALTH SERVICES**

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**INTRODUCTION**

This report contains the results of our performance audit of the Reimbursement Program at New Center Community Mental Health Services, Department of Mental Health (DMH), for the period October 1, 1990 through September 30, 1994.

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**AUDIT PURPOSE**

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness and efficiency.

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**BACKGROUND**

New Center Community Mental Health Services, established in 1974, is a Michigan nonprofit corporation organized and operated to ensure the provision and availability of mental health services to residents of Wayne County, Michigan. New Center is a 501(c)(3) nonprofit, independent service provider under contract with the Detroit-Wayne County Community Mental Health Board (board) and, therefore,

operates under the provisions of the Mental Health Code, being Sections 330.1001 - 330.2106 of the *Michigan Compiled Laws* (Act 258, P.A. 1974). Although, New Center is not a State or County agency, it is subject to oversight by DMH and the board. New Center delivers outpatient, partial day, case management, assertive community treatment, residential, consultation and education, and emergency telephone services for the mentally ill.

New Center's services are generally funded through the board by federal, State, local, and private funds. New Center is responsible for setting reimbursement rates and billing. New Center collects reimbursements from first parties (clients) and third parties (Medicaid, Medicare, and private insurers). Mental health service delivery costs not reimbursed by first and third parties are paid by the State and local funding.

For fiscal year 1992-93, New Center expended over \$9.9 million and Medicaid honored claims totaling approximately \$6.9 million of which New Center received approximately \$3.8 million and the board received approximately \$3.1 million.

As of June 30, 1994, New Center had the equivalent of 230.56 full-time employees and delivered services to 5,513 clients since the beginning of fiscal year 1993-94.

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**AUDIT  
OBJECTIVES  
AND  
CONCLUSIONS**

**Audit Objective:** To assess New Center's compliance with the *Michigan Administrative Code* regarding reimbursement rate setting methodologies.

**Conclusion:** New Center's rate setting practices resulted in reimbursement rates that did not accurately reflect the costs to deliver services in accordance with the *Michigan Administrative Code*. We found the following material deficiencies:

- New Center overbilled Medicaid approximately \$4.1 million, of which it received approximately \$2.3 million and the board received \$1.8 million, for the four fiscal years ended September 30, 1994 by understating service units when calculating the cost of services (Finding 1).

New Center agreed with the corresponding recommendations and indicated that it is utilizing its computer to identify service unit information. New Center also indicated that for fiscal year 1994-95 it is reviewing and documenting reimbursement rates on a quarterly basis. However, New Center disagreed with amounts reported as Medicaid overbillings and indicated that it will make settlements to Medicaid if deemed appropriate.

- New Center did not appropriately allocate program costs when calculating its reimbursement rates. We identified \$185,634 of Medicaid overbillings for partial

day services resulting from excessive costs, of which New Center received \$104,642 and the board received \$80,992 (Finding 2a(1)). We also questioned the reasonableness of New Center's methodology which allocated clinical direct service cost to the case management program. New Center increased the case management rate in fiscal year 1993-94 by \$42.46 per contact and resulted in Medicaid billings of \$365,981 through March 9, 1994, using this methodology (Finding 2a(2)). In addition, New Center did not calculate most of its reimbursement rates for fiscal years 1992-93 and 1991-92. As a result, rates billed to Medicaid did not reflect actual planned or expected costs (Finding 2b).

New Center agreed with the corresponding recommendations and indicated that it has developed a methodology to appropriately allocate program cost. However, New Center disagreed with the amounts reported as Medicaid overbillings and indicated that it will make settlements to Medicaid if deemed appropriate.

- New Center's rate setting methodology did not consider the differences in time required to perform various clinical services. New Center misstated 36 clinical reimbursement rates and overbilled Medicaid by \$33,763 using this methodology, of which New Center received \$18,935 and the board received \$14,828. (Finding 3)

New Center agreed with the corresponding recommendations. New Center indicated that it is

currently utilizing its computer system to document time used in each clinical activity. However, New Center indicated that it only bills for 24 clinical services. New Center also disagreed with the amounts reported as Medicaid overbillings and indicated that it will make settlements to Medicaid if deemed appropriate.

We also found other deficiencies related to reimbursement rates (Finding 4).

**Audit Objective:** To assess the propriety of New Center's Medicaid billing practices.

**Conclusion:** New Center generally billed Medicaid properly for various services. However, we found deficiencies related to documentation within client case files for services provided (Finding 5).

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**AUDIT SCOPE  
AND  
METHODOLOGY**

Our audit scope was to examine the reimbursement and other records of New Center Community Mental Health Services for the period October 1, 1990 through September 30, 1994. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We examined New Center's rate setting methodology and related rate calculation work sheets for compliance with applicable statutes, rules, policies, and procedures. We reviewed financial and other records to verify the estimated

units of service and actual planned and expected costs used in the reimbursement rate calculations.

Subsequent to our audit, New Center recalculated its reimbursement rates for fiscal years 1992-93, 1991-92, and 1990-91. New Center used a different rate setting methodology which included the use of actual service units provided and actual costs incurred in those years. Using this new rate setting methodology, New Center informed us that it overbilled Medicaid by approximately \$1.6 million, of which New Center received \$.9 million and the board received \$.7 million.

Subsequent to our audit conference, we evaluated New Center's revised rate setting methodology, related rate calculation work sheets, and financial and other records to verify the propriety of the methodology and the accuracy of the revised reimbursement rates and related calculation of Medicaid overbillings.

Again, we determined that New Center's rate setting practices resulted in reimbursement rates that did not accurately reflect the costs to deliver services. Consequently, we determined that Medicaid overbillings calculated by New Center were misstated because it used these reimbursement rates to calculate the overbillings. In addition, New Center reported revised Medicaid overbillings for only services noted in Finding 1 of the audit report. New Center determined that reimbursement rates for other services were misstated, some of which resulted in Medicaid overbillings. However, New Center did not calculate

overbillings for those services because findings related to those services were not included in our audit report.

To assess the propriety of New Center's billing practices, we reviewed service activity reports, progress notes documented in client files, and related Medicaid billings.

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**AGENCY  
RESPONSES**

Our audit report includes 5 findings and 10 corresponding recommendations. New Center's preliminary response indicated that it agreed with all of the recommendations but disagreed with amounts reported as Medicaid overbillings, our conclusions regarding the lack of documentation for allocating program cost, and the number of clinical services billed to Medicaid.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork.