A REPORT
TO THE
ARIZONA LEGISLATURE

Performance Audit Division

Performance Audit

Department of Economic Security–

Division of Developmental Disabilities

SEPTEMBER • 2005
REPORT NO. 05 – 07

STATE OF ARIZONA
OFFICE OF THE
AUDITOR
GENERAL

Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

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Melanie Chesney, Director

Shan Hays, Manager and Contact Person
Mark Haldane
Aaron Hollingshead

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

September 8, 2005

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Mr. David A. Berns, Director
Department of Economic Security

Transmitted herewith is a report of the Auditor General, a Performance Audit of the Department of Economic Security–Division of Developmental Disabilities. This report is in response to a November 20, 2002, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting with this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Department of Economic Security agrees with all of the findings and plans to implement all of the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on September 9, 2005.

Sincerely,

Debbie Davenport
Auditor General

Enclosure

DD:Acm

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

PROGRAM FACT SHEET

Arizona Department of Economic Security
Division of Developmental Disabilities

Services:

The Arizona Department of Economic Security, Division of Developmental Disabilities (Division) provides services and programs to individuals with developmental disabilities and their families. The Division provides services to help individuals attain and maintain maximum functioning. The Division also provides assistance with daily living, medical, and residential services. Most services are provided through contracts with independent and agency providers. Individuals are determined eligible for services by Arizona Health Care Cost Containment Services (AHCCCS), Arizona's designated Medicaid agency.

Facilities and equipment:

The Division owns or leases office space at 1 central office, 6 district offices, and 47 local offices throughout the State. The Division also operates one Immediate Care Facility for the Mentally Retarded (ICF/MR) in Coolidge, Arizona.

Mission:

The Division's mission is to "*support the choices of individuals with developmental disabilities and their families by promoting and providing, within communities, flexible, quality, consumer-driven services and supports.*"

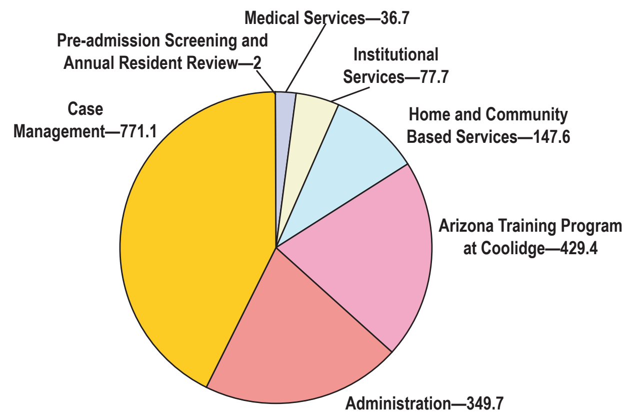
Division goals:

The Division has the following goals that apply to all division programs:

1. To increase communication with and provision of information for individuals, families, and communities

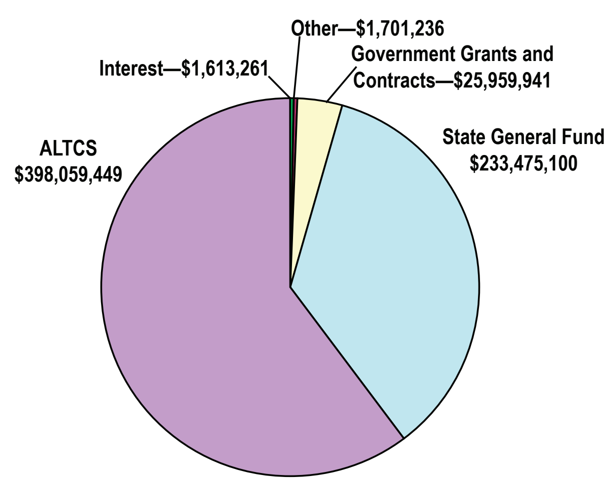
Program staffing:

1,814.2 FTEs for fiscal year 2005 (181.5 vacancies as of June 30, 2005)



Program revenue:

$661 million (fiscal year 2005, estimated)



by providing information through various means about Division of Developmental Disabilities programs and related systems and services.
2. To increase opportunities for individuals and their families to have control over decisions and resources.
3. To enhance the supports and services available to consumers.
4. To provide quality supports and services to families of children from birth to 3 years of age.
5. To effectively and efficiently manage Arizona Long-Term Care System fiscal resources.

Adequacy of performance measures:

The Division's goals and performance measures appear to be generally aligned with its mission. In addition to the five goals that apply to the entire Division, it has six additional goals that apply to the various division programs. The Division has all five types of performance measures—input, output, quality, efficiency, and outcome.

Source: Auditor General staff compilation of unaudited information obtained from the State of Arizona Master List of Government Programs; the Division's strategic plan; staffing information from the Division's business operations office; lease information from the Division of Business and Finance; equipment inventory, and other information provided by the Department and the Division of Developmental Disabilities.

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Economic Security, Division of Developmental Disabilities (Division) pursuant to a November 20, 2002, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq and is the fifth in a series of six reports on the Department of Economic Security (Department). This audit addresses services and programs for individuals with developmental disabilities and their families.

As of May 31, 2005, approximately 24,700 people with developmental disabilities were receiving services through the Division. Three-fourths of these individuals had a primary disability of mental retardation or were at risk of having a developmental disability if supports and services were not provided, and nearly 60 percent were under 18 years of age. Most receive care at home or in a group care setting. The services they receive depend on their particular needs, state and/or federal guidelines, and available funding. Services range from assistance with daily living to medical treatment and therapies for maximizing their abilities. The Division provides some services directly, but it also contracts with a network of more than 800 agencies and approximately 2,500 individuals. The number of people receiving services has risen by about one-third since 2000, which is more than double the rate of Arizona's population increase of about 15 percent during the same time. The program, which had revenues of $661 million in fiscal year 2005, is supported by a combination of state and federal funds. A substantial portion of its funding is administered through the Arizona Health Care Cost Containment System (AHCCCS), Arizona's designated Medicaid agency.

Division developed appropriate model for setting provider rates (see pages 13 through 17)

The Division appears to have developed an appropriate model to prepare a uniform rate schedule for several services, pursuant to 1994 legislation that added A.R.S. §36-557(K) requiring the Division to establish a system of equitable rates. Although the Division has developed rates for most types of services, the rates for therapy services discussed in Finding 1 are not yet a part of this system. In order to meet the statutory requirement, the Division hired an independent consulting firm in March 2000 to collect data and develop a model. The consultant developed a schedule for several division services, and the Division published the rates in July 2003. The Division adjusted the benchmark rates by 4.25 percent for fiscal year 2005 to allow for inflation. Because of funding constraints, each year the Division has adopted lower rates than the benchmark rates recommended by the model. However, legislative appropriations for fiscal year 2006 will allow it to pay 97.61 percent of the 2005 benchmark rates. As required by statute, the Division continues to monitor the rates to determine if changes are necessary. In addition, to comply with A.R.S. §36-2959, the Division must conduct a complete study of the rates at least every 5 years.

During 2004, the Division reviewed and adjusted a disputed rate. Providers had expressed concern about the rate for day treatment and training services because at the same time as it published the new rate, the Division stopped paying for client absences. Previously, the Division allowed providers to bill for scheduled services, even if the individual did not attend. The Division adjusted the disputed rate to include a 20 percent absence factor and a 15 percent transitional staff adjustment factor.

Division can improve availability of therapy services (see pages 19 through 28)

The Division should take steps to help ensure individuals with developmental disabilities can receive needed speech, occupational, and physical therapy services. Of all the services provided to the developmentally disabled, these services are the most difficult to obtain. Providers and division staff identified several issues that affect the Division's ability to provide these services. The Division can take steps to help address these issues:

- Payment rates for therapies were last studied in the mid-1990s. Division management, providers, and other stakeholders all agree the rates need to be updated. The Division needs to complete a payment rate study for therapies and take needed steps to ensure it can pay appropriate rates.

- In some areas of the State and some specialties, the problem may be a shortage of providers. To address this issue, the Division has hired a specialist to help update and carry out its plan for improving its network of available providers.

- Providers cited administrative requirements and the requirement, based on federal law, to provide services in the person's natural environment as impediments to offering services to individuals referred by the Division. The natural environment is most often considered the person's home. The Division can take steps to aid providers in complying with these requirements.

Division should improve billing practices (see pages 29 through 33)

The Division should adopt more systematic methods for identifying individuals who should be billed for services. Although more than 80 percent of individuals who receive division services do not have to pay for services, state and federal laws and regulations require certain individuals to pay for all or part of the cost of their services. For example, under federal rules, persons who live in institutions and receive Social Security or certain other benefits must contribute part of their benefits to pay for the cost of their services. Altogether, in fiscal year 2005, the Division had billings totaling nearly $15 million.

Auditors found that the Division did not always identify these individuals, or identified them late. To make more monies available to provide services, the Division should match its information on individuals and services with other information available from Department and AHCCCS records.

Other pertinent information (see pages 35 through 40)

During the audit, auditors developed information about the Division's fiscal intermediary program and the Arizona Training Program at Coolidge.

- **Fiscal Intermediary Program**—The Division has begun to implement a fiscal intermediary program in order to simplify the process of paying providers, facilitate individual choice, and ensure proper payment of employment taxes for individual service providers. Fiscal intermediaries act as agents for individuals receiving services who choose to employ individuals, rather than agencies, as service providers. The fiscal intermediary performs the accounting functions required of employers, including payroll, payroll taxes, workers' compensation, and unemployment insurance. The Division entered into an agreement with a vendor in June 2004, and is currently in the process of implementing the program state-wide. As of June 2005, four districts have implemented the fiscal intermediary program.

- **Arizona Training Program at Coolidge (ATP-C)**—The number of individuals residing at ATP-C has been decreasing for three decades, but the Division has no plans to close the institution. The State's other two institutions in Phoenix and Tucson were closed in the 1980s and 1990s, respectively. Although a 2002 cost-benefit study found that closure could save as much as $2.7 million annually in General Fund monies, families of ATP-C residents prefer to have the institution as a residential option, and A.R.S. §36-554 requires the Division to reduce the number of residents to those for whom the community lacks an appropriate setting or whose parents or guardians want them to stay there. Currently, 137 individuals reside at ATP-C at an average cost of about $108,500 per resident for fiscal year 2004.

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INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Economic Security, Division of Developmental Disabilities (Division) pursuant to a November 20, 2002, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq and is the fifth in a series of six reports on the Department of Economic Security (Department). This audit addresses services and programs for individuals with developmental disabilities and their families.

Division serves over 24,000 individuals with developmental disabilities

The Arizona Department of Economic Security, Division of Developmental Disabilities provides services and programs to individuals with developmental disabilities and their families. As of May 31, 2005, approximately 24,700 people with developmental disabilities were receiving division services.

To be eligible for division services, applicants over the age of 3 must meet the statutory definition of developmental disability through assessments of mental and physical impairments and functional limitations (see text box). In addition, applicants must apply to the Arizona Health Care Cost Containment System (AHCCCS), Arizona's designated Medicaid agency, for determination of eligibility for the Arizona Long Term Care System (ALTCS). If an applicant does not meet the requirements for ALTCS eligibility, he or she can still receive

Developmental Disability

- A strongly demonstrated potential that a child under the age of 6 years is developmentally disabled or will become developmentally disabled, as determined by a test prescribed by law, or

- A severe, chronic disability which:

  - Is attributable to mental retardation, cerebral palsy, epilepsy, or autism;
  - Is manifest before age 18;
  - Is likely to continue indefinitely;
  - Results in substantial functional limitations in three or more of the following major life areas: self-care, receptive and expressive language, learning, mobility, self-direction, capacity for independent living, and economic self-sufficiency; and
  - Reflects the need for services that are lifelong or extended in duration.

Source: A.R.S. §36-551.

state-funded services from the Division. Children age birth through 36 months may be eligible for division services under the Arizona Early Intervention Program (AzEIP), which is funded by a combination of state and federal monies. (See text box below for additional information on eligibility requirements.) As shown in Figure 1 (see page 3), over half of the individuals receiving services from the Division are under 18 years old, and as shown in Figure 2 (see page 3), the most common primary areas of disability are mental retardation and at-risk, meaning the child is at risk of having a developmental disability if supports and services are not provided.

Eligibility Categories

- **Arizona Long Term Care System (ALTCS)**—Individual must be at risk of institutionalization, and meet income, asset, and medical qualifications in addition to meeting the statutory definition of developmental disability. Entitles individual to acute (medical) services in addition to medically necessary home- and community-based services.

- **Arizona Early Intervention Program (AzEIP)**—Child must be age birth to 36 months and developmentally delayed, or have an established condition that has a high probability of resulting in a developmental delay. Entitles child to services planned to support their growth, development, and learning, which can include vision and hearing services, home visits, nutrition services, therapies, and family counseling. AzEIP receives funding from AHCCCS for AHCCCS enrollees, including ALTCS members, with additional funding from state appropriations.

- **State-only**—Individual must meet the statutory definition of developmental disability. There are no income requirements for state-only services. Entitles individual to division services only to the extent that funding is available.

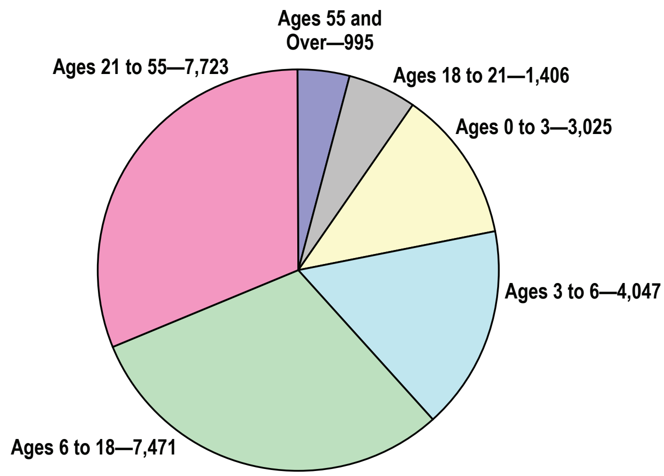
Source: Auditor analysis of Arizona Revised Statutes, Arizona Administrative Code, and division policy and procedures.

The Division is AHCCCS' contractor for ALTCS services.

The Division is AHCCCS' contractor for ALTCS services, and as such, the Division provides both acute (medical) and medically necessary home- and community-based services to ALTCS-eligible individuals. AHCCCS administers the ALTCS program with a combination of state and federal monies. As of May 31, 2005, approximately 16,800 (68 percent) of the 24,700 individuals receiving services from the Division were enrolled in ALTCS, and approximately 7,900 individuals received only state-funded services. The 3,025 children in AzEIP receive services through either ALTCS or the state-only program.

The number of individuals with developmental disabilities who are eligible for services is expanding. The Division receives between 1,500 and 2,400 applicants per year, of which 67 percent to 73 percent are determined to be eligible for services. Overall, the number of individuals served has increased by approximately one-third since 2000, when the Division served about 18,000 individuals with disabilities. This is about double the growth rate for the State's total population, which increased by approximately 15 percent between July 1, 2000 and July 1, 2004, according to estimates prepared by the Department's Research Administration.

Figure 1: Individuals with Disabilities by Age As of May 2005



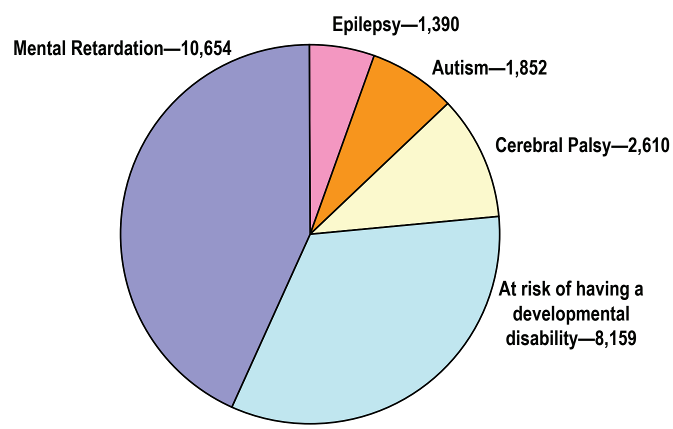
Source: Auditor General staff analysis of division management report for May 31, 2005.

Division provides diverse services to individuals in varied settings

To accomplish its mission, the Division provides case management, institutional care, and group home care. However, it provides most services through contracts with individual and agency service providers. As of January 2005, the Division reports that it had a network of service providers that included 827 agencies and approximately 2,500 individuals with contracts to provide services to people with developmental disabilities.

The Division's support coordinators work with individuals to develop an Individual Support Plan that reflects authorized services. Family members and service providers may also participate in developing the plan. Depending on the individual's needs, the plan may include such services as attendant care, day treatment and training, habilitation, respite, therapies, and transportation (see text box, page 4). Individuals receive these services in a variety of settings, including their own homes, group homes, day programs, and—for a small number of individuals—institutions and skilled nursing facilities. As of May 31, 2005, only about 1 percent of individuals receiving division services resided in institutions.

Figure 2: Individuals with Disabilities by Primary Area of Disability As of May 2005



Source: Auditor General staff analysis of division management report for May 31, 2005.

Division Services

Services to help individuals attain and maintain maximum functioning

- Day treatment and training—Promotes skill development in independent living, self-care, communication, and social relationships; typically offered in a day program setting.
- Habilitation—Services to maximize a person's abilities; typically provided in the person's home.
- Therapies—Occupational, physical, and speech.

Assistance with daily living

- Attendant care—Assists the person with activities of daily living, including maintaining safe and sanitary living conditions and personal cleanliness.
- Housekeeping.
- Respite—Provides a certified caregiver to supervise and care for a person to relieve caregivers.
- Transportation—Nonemergency transportation; for example, to therapy appointments or day programs.

Medical services

- Medical services—Including doctor visits, hospitalization, medications, and for children only, hearing aids and dental services.
- Respiratory therapy.
- Home health aide.
- Skilled nursing facility.

Residential

- Intermediate Care Facilities for the Mentally Retarded (ICF/MR)—Health and habilitative services provided in facilities in Maricopa County and at the Arizona Training Program at Coolidge.
- Group home and adult developmental home.
- Individually designed living arrangements—Regular support in individual's own home.
- Home modifications—Under certain circumstances, ALTCS individuals may receive modifications to existing structures to assist them to live as independently as possible.

Source: Department of Economic Security, Division of Developmental Disabilities *Navigating the System Division Guidebook*, Winter 2002.

Two major lawsuits affect the Division. First, the Division must comply with a 1999 United States Supreme Court decision that requires states to provide community-based services for individuals with disabilities, as opposed to services in an institution, when appropriate and reasonable.[1] Second, as the AHCCCS contractor for individuals with developmental disabilities, the Division must comply with a 2004 United States District Court decision that ordered AHCCCS to provide elderly and disabled persons with those services for which they qualify, without gaps in service.[2] Among other requirements, the court ordered AHCCCS to offer a sufficient pay rate

1 *Olmstead v. L.C.*, 119 S.Ct. 2176 (1999).

2 *Ball v. Biedess*, 2004 WL 2566262, (D.Ariz., 2004), No. CIV 00-0067-TUC-EHC. Not Reported in F.Supp.2d.

to healthcare workers, monitor its program for service gaps, and eliminate service gaps in less than 2 hours. The Division will need to work with AHCCCS to implement the court-ordered requirements.

Person-centered planning

The Division has been working toward giving individuals and their families more choices and more control over their services for at least 10 years, with a view to reducing costs as well as improving individuals' satisfaction with division services. In 1995, the Division formed a design team composed of individuals receiving services, families, division staff, providers, and other stakeholders, and developed a self-determination model including choice of support coordinator, ease of changing services and providers, and individual choice over spending and services. In late 2005, the Division plans to begin implementing a new member-directed supports program. The program will test the effects of providing a monthly budget for services and allowing the individual or family to decide which services to purchase.

The Division plans to begin the new member-directed supports trial program in late 2005.

According to the Division, it is working with AHCCCS to obtain approval to implement the trial program. The Division proposes to implement the program in two year-long phases and evaluate outcomes of each phase. The initial phase of the program will include 200 ALTCS-eligible adults with developmental disabilities who live independently and are willing to participate in the program. The individuals will be randomly assigned to either a participant group or a control group for 1 year. In the second phase, the control group from the first phase plus an additional group of 50 individuals who have a strong support network will be assigned to the participant group, with another 50 families serving as a control group. The second phase of the program will begin in 2006 and conclude in 2007. The Division intends to contract with an outside consultant to complete an evaluation of the program upon completion of each phase to determine whether the program saved money, promoted satisfaction for individuals receiving services, or increased their quality of life.

Budget

The Division is funded through state appropriations, federal Medicaid Title XIX monies from the ALTCS program, charges to individuals for services, and other revenues. The Division's total estimated revenues for fiscal year 2005 were approximately $661 million, as shown in Table 1 (see page 6). Of the total, about $233 million came from State General Fund appropriations, and another $398 million came from ALTCS, which provides federal funding through the Division's contract with AHCCCS. In addition, the Division received nearly $20 million from the Long-Term Care Fund, which includes monies collected from third-party payers and payments

Table 1: Schedule of Revenues and Expenditures, in Thousands
Years Ended June 30, 2003, 2004, and 2005
(Unaudited)

	2003 (Actual)	2004 (Actual)	2005 (Estimated)
Revenues:			
ALTCS Contract:			
Capitation[2]	$291,094,489	$348,917,697	$388,679,671
Enrollees	6,306,488	7,726,205	8,079,077
Ventilator dependent	1,532,016	1,026,177	1,300,701
Fee for service and reinsurance claims			
State General Fund Appropriations:			
Developmental disabilities	39,792,600	44,530,619	42,503,400
Long-term care state match	145,796,500	151,276,800	190,971,700
Long-Term Care System Fund [3]	17,542,108	15,701,239	19,718,531
Government grants and contracts	5,899,761	1,466,159	6,241,410
Interest	1,116,203	624,931	1,613,261
Other	346,010	427,941	1,701,236
Total revenues	509,426,175	571,697,768	660,808,987
Expenditures:			
Administration [4]	29,858,148	30,715,275	41,145,541
Case management	24,986,800	26,090,028	30,737,038
Home- and community-based services	349,166,423	383,209,275	438,033,286
Institutional care services	13,496,305	12,483,656	14,323,800
Medical services (acute care)	61,883,166	68,663,061	87,686,900
Arizona training program at Coolidge	15,625,162	15,281,234	16,795,026
State-funded, long-term care services [5]	19,537,927	18,214,061	20,138,174
Total expenditures	514,553,931	554,656,590	648,859,765
Reversions to the State General Fund	2,058,880	3,949,853 [6]	
Total expenditures and reversions	516,612,811	558,606,443	648,859,765
Excess (Deficiency) of revenues over expenditures and reversions	$ (7,186,636)	$ 13,091,325	$ 11,949,222

1 This schedule is presented on a budgetary basis in which expenditures are reported in the budget year incurred.
2 Capitation revenues consist of the contract payments from the Arizona Health Care Cost Containment System (AHCCCS) for providing healthcare services to eligible enrollees of the AHCCCS Arizona Long-Term Care System (ALTCS) program for the developmentally disabled. State matching monies are reported separately.
3 Consists of client billings and various other revenue sources from the Long-Term Care System Fund that are used to pay for services not reimbursable through AHCCCS.
4 Includes approximately $7.8 million each year of support service costs allocated to the Division.
5 The State pays for long-term care program client services that are not reimbursable through AHCCCS.
6 Includes division-estimated amounts because lapsing appropriations are not closed until 2 years after the end of the fiscal year.

Source: Auditor General staff analysis of financial information provided by the Arizona Department of Economic Security for the years ended June 30, 2003, 2004, and 2005, from its Financial Management Control System as of July 6, 2005. (Actual 2005 amounts were not available at the time of this report.)

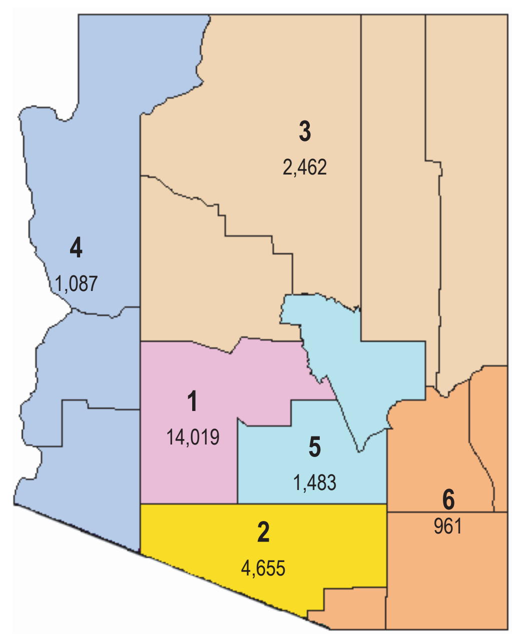
from individuals receiving services (see Finding 3, pages 29 through 33). Most of the remaining funding came from federal sources.

Most division monies go to providers to pay for services to individuals with developmental disabilities. In addition, the Division spent approximately $31 million in fiscal year 2005 on case management services it provides directly, and approximately $17 million on the Arizona Training Program at Coolidge.

Organization and staffing

The Division coordinates services and resources through the central administrative office, 6 district offices, and 47 local offices state-wide (see Figure 3). Each regional district has a district program administrator or manager, area program managers (except in District 2), support coordinators (case managers), and various other program and operations staff. The central office provides for administration, business operations, program functions, and managed care operations. For fiscal year 2005, the Department reports that the Division had 1,814.2 total FTE positions with 181.5 vacancies as of June 30, 2005, organized into six groups:

Figure 3: Six Regional Districts with Number of Individuals with Disabilities Served As of May 2005



Source: Auditor General staff analysis of division policies and procedures manual, management report for May 31, 2005, and other information provided by division officials.

- Administration (349.7 FTE)—Administration is responsible for overseeing the Division's programs, staff, and business operations, both at the central office and in the six regional districts. Administrative staff are responsible for contracts, budgets, information technology, accounts payable and receivable, personnel, quality management, and auditing. In addition, administrative staff are responsible for overseeing health and safety for individuals receiving division services. The central office has about half of the administrative positions, with the remainder distributed among the six districts.

- Case Management (771.1 FTE)—Support coordinators help individuals and their families assess their needs, develop an individual support plan, and obtain services and supports. Support coordinators are also responsible for placing individuals on the Division's waiting list for services. Nearly all support coordinators work in the districts, with over half allocated to District I, covering Maricopa County.

- Home and Community Based Services (147.6 FTE)—Home and Community Based Services staff help children and adults receive services that promote and enhance their ability to live alone, with their family, or with others. The Division provides these services directly in state-operated day programs and group homes. All of these employees work in the districts, with over half allocated to District 2, which serves Pima County and has a state-operated day program and higher staffing ratios for the individuals who live in its state-operated group homes.

- **Medical Services (36.7 FTE)**—Medical services are provided to ALTCS-eligible children and adults to help them maintain their health through contracted health plans. All of these employees work in the central office and are primarily nurses with duties such as overseeing health plan contracts, coordinating ventilator-dependent individual services, consulting with district personnel on assessments and service authorizations, and conducting nursing home evaluations for Medicaid.

- **Institutional Services (77.7 FTE)**—The Institutional Services program consists of state- and vendor-operated Intermediate Care Facilities for the Mentally Retarded (ICF/MR), large group-living facilities, nursing facilities, and residential treatment facilities. The program provides services to eligible individuals to maximize functional capabilities and to pursue home- and community-based placement where appropriate. All these employees work in District 1 (Maricopa County) where all of the State's ICF/MRs are located, except for those at the Arizona Training Program at Coolidge. The Division coordinates and monitors contractor services as well as providing direct services in state-operated facilities.

- **Arizona Training Program at Coolidge (429.4 FTE)**—The Arizona Training Program at Coolidge (ATP-C) is a state-operated facility that includes both ICF/MRs and group homes. It has 137 residents for whom it provides health and rehabilitative services. ATP-C is the State's only remaining institution for individuals with developmental disabilities, since its other institutions in Phoenix and Tucson were closed in the 1980s and 1990s, respectively. ATP-C is discussed in more detail in the Other Pertinent Information section (see pages 35 through 40).

In addition, the Division has 2 FTE for the Pre-Admission Screening/Annual Resident Review process that determines individuals' need for nursing facility and specialty services.

Scope and methodology

This audit of the Division focused on methods used to determine rates paid to providers for services, availability of services, practices related to billing individuals for services, the status of implementing a new fiscal intermediaries program, and issues related to the Arizona Training Program at Coolidge. It includes three findings and associated recommendations:

- The Division developed an appropriate model for establishing payment rates for providers and should continue its efforts to establish rates for therapies and employment-related services, which were not included in the original rate-setting efforts.

- To help ensure that individuals can obtain needed services for speech, physical, and occupational therapy, the Division should—in addition to determining if payment rates for these services need to be changed—take other steps to enhance their delivery.

- The Division should adopt more systematic methods of identifying individuals who should be billed for services.

In addition, the report contains Other Pertinent Information (see pages 35 through 40) regarding the new fiscal intermediaries program that began implementation in February 2005 and the Arizona Training Program at Coolidge.

Auditors used a variety of methods to review and study the issues addressed in this audit. Audit methods include interviews with division management and staff, review of literature regarding developmental disabilities and other states' practices in providing services to individuals with disabilities, and review of applicable state and federal laws and regulations. To perform more specific audit steps, auditors used the following methods:

- To review the Division's methods for establishing provider rates, auditors examined documents prepared by the Division's consultant in determining the rate for day treatment and training, interviewed a representative of the consulting firm that developed the rate, examined documents related to a rate protest including a second consultant's review of the rate, and interviewed a representative of the second consulting firm. In addition, auditors reviewed records of the Division's rate-setting panel, interviewed representatives of the provider association that protested the day treatment and training rate, analyzed the Division's comparison of its rates with those paid by the Department of Health Services and AHCCCS, and reviewed documentation regarding the process for procuring consulting services for establishing provider rates. Auditors also reviewed documents showing the Division's practices for negotiating capitation rates for Title XIX services, and interviewed AHCCCS representatives regarding rate-setting and capitation rate practices.

- To examine issues related to service availability, auditors developed an approach for a systematic assessment of whether services are available and, when the assessment showed the greatest problem to be with therapy services, followed up to ascertain the reasons. Auditors determined that the Department's waiting list was not reliable enough to be used for extensive analysis. Auditors used the waiting list to assess generally what services consumers were waiting for and to select a stratified random sample of 30 ALTCS-enrolled individuals representing all six districts for reliability testing of the waiting list and more in-depth analysis.[1] The size of this sample was not large enough to produce

1 The sample was limited to ALTCS-enrolled individuals waiting for therapy services because these individuals appeared in greater frequency on the Department's waiting list and are entitled to needed services. The ALTCS cases yield more information about service availability since the majority of non-ALTCS individuals waiting for services are waiting in large part because of funding availability.

statistical projections to all ALTCS recipients, but it was large enough to demonstrate generally which services were less available than others. The 30 cases auditors examined were managed by 27 support coordinators. Auditors interviewed these coordinators to determine whether these recipients were waiting for services, how long they had waited, and why they were waiting, and they also gathered additional information from these coordinators about the availability of services for the rest of the ALTCS-eligible individuals in the coordinators' caseloads.

To further assess the reasons why individuals were waiting for therapy services, auditors interviewed ten service providers, including five owners/operators of agencies from three districts (Maricopa County, Pima County, and Mohave/La Paz/Yuma County) that provide therapy services, including two of the State's largest providers of therapy services, and five individual therapists from Maricopa County and Mohave/La Paz/Yuma County. One of the agency owners was also a therapist. In addition, auditors interviewed representatives of the three Arizona agencies that license therapists and reviewed documents published by the U.S. Bureau of Labor Statistics to assess overall availability of therapists. Finally, auditors interviewed the Division's newly appointed Director of Program Development and Policy to ascertain her responsibilities and plans related to expanding the Division's provider network and improving availability of therapist services.

- To review the Division's practices for identifying individuals who should be billed for services, auditors matched division records with records maintained by the Department's Office of Accounts Receivable and Collections (OARC) for the period July 2004 through March 2005, selected unbilled individuals from each of three groups, and researched the individual cases to determine if they should have been billed.

    - First, to review division practices for billing individuals for room and board, auditors matched records of individuals in residential settings against OARC records, then matched unbilled individuals against division and AHCCCS records to identify those shown as having income subject to billing, and finally reviewed records and interviewed division staff regarding a random sample of 24 individuals from that group to determine whether they should have been billed.

    - Second, to review division practices for billing individuals in institutions for a share of their costs, auditors matched records of individuals in institutions against OARC records, identified 100 unbilled individuals, and looked them up in AHCCCS records, which is the official source for determining share of cost for such individuals, to determine whether they should have been billed.

- Third, to review division practices for billing individuals on a sliding fee basis, auditors evaluated the Division's overall practices for determining which individuals should be sent letters requesting information about their income, and then selected a random sample of 30 individuals who had been sent letters in 2004, and examined division records to determine whether the Division appropriately followed up to obtain responses and referred cases for billing when required.

  Additionally, to determine whether these individuals were billed for the correct amounts, auditors matched the division records of 41 individuals identified by the Division as having a sliding fee greater than zero percent against the OARC records, and then researched 5 unbilled individuals who received billable services during fiscal year 2005 to determine the amounts that should have been billed.

- To develop Other Pertinent Information regarding the fiscal intermediary program, auditors collected information from division administration regarding the process for contracting with an outside company to administer the program and information on program status. Auditors also interviewed administrators at the central office, as well as three district managers who had recently implemented the fiscal intermediary program, to determine the central office's role and the local administrators' experience.

- To develop Other Pertinent Information regarding the Arizona Training Program of Coolidge, auditors reviewed applicable state statutes and federal laws, reviewed previous studies regarding various aspects of the facility, interviewed division officials regarding previously closed facilities in Tucson and Phoenix, and interviewed four advocates, two of whom are also family members of individuals with developmental disabilities, regarding their views on the advantages and disadvantages of closing the facility.

- To develop the Introduction and Background section, auditors compiled unaudited information from state and federal laws and regulations, court orders, division reports, and other information the Division provided.

The audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the director of the Department of Economic Security, the assistant director of the Division of Developmental Disabilities, and their staff for their cooperation and assistance throughout the audit.

FINDING 1

Division developed appropriate model for setting provider rates

The Division appears to have developed an appropriate model to prepare an equitable rate schedule for the division services that were included in the rate-setting study, pursuant to 1994 legislation requiring it to establish a system of equitable rates. In 2000, an Auditor General performance audit found that the Division was working to establish a rate schedule for services provided to the individuals with disabilities pursuant to statutory requirements. In order to meet the statutory requirement, the Division hired an independent consulting firm to collect data and develop an appropriate rate model. Also, the Division monitored the rates and received public comments to adjust the rates accordingly. However, because therapy and employment services were not included in the rate model, the Division should continue its current efforts to establish appropriate rates for those services.

Division's consultant developed a rate schedule

A 1994 law requires a uniform rate schedule.

In response to statute, the Division has developed an equitable rate schedule for many of its services. In 1994, Arizona's Legislature added A.R.S. §36-557(K), which required the Division to create an equitable rate schedule for paying the private nonprofit and for-profit agencies that provide its services. Though the legislation was passed in 1994, the Division was unable to develop an equitable rate schedule until July 2003.[1] To develop its rate schedule, the Division selected a consultant in March of 2000 that had experience in establishing rates for the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS), as well as in other states. According to division management, throughout the process of developing the rates, the Division worked closely with the consultant. In addition, the Division established a rate-setting panel composed of several individuals and groups with an interest in the provider rates. The rate panel exists to allow providers and the Division to openly discuss the published rate schedule. For example, it

1 Laws 2002, Chapter 329, §33, added a new time frame for implementing the rate schedule. The 2002 law requires the Department of Economic Security—subject to availability of funds—to implement a published rate system, phasing it in over a 3-year period, and fully implement the system by fiscal year 2005.

allows providers and others to discuss the methodology used to determine the rates, and gives them a forum to identify the need for an additional rate or a modifier to an existing rate.

In order to set an equitable rate schedule, the Division's contracted consultant developed a rate model for selected services. The rate model applies to home-based services such as habilitation and respite, residential services such as group home habilitation, professional services such as nursing, and day treatment and training, transportation, support coordination, and specialized habilitation with music. The consultant used a zero basis for building the model. In other words, the model built new rates from scratch, without considering previous rates. The model used direct care personnel costs, employee-related expenses, and other data obtained from the Division and other sources. The consultant also used results of a provider cost survey the Division conducted in 2001. The consultant applied various modifiers to some services to reflect specific circumstances where costs may be higher or lower. The model then produced rates to pay providers.

Once the rates were produced, the consultant tested components of the model. The consultant examined the model for differentials with national and local information. For example, the consultants assumed a 30 percent employee-related expense rate for agency providers, which is equivalent to the percentage used by AHCCCS and DHS' Division of Behavioral Health Services, according to the consultant, although the Division's providers had reported in the survey that their employee-related expenses were on average less than 20 percent. The Division decided to use the 30 percent rate in the model, and the consultant suggested educating division providers on the value of providing higher benefits to employees.

The rate model does not yet include therapies or employment services.

The rate model does not apply to speech, physical, or occupational therapy or employment-related services. Division management explained that therapy rates were excluded because the Division was already paying uniform published rates for those services, and the Division wanted to use its resources to address rates that had not yet been established. According to the Division, the consultant who developed the other rates is currently working to build a rate model for therapy services. The Division also contracted with a second consultant to develop and adjust the rates for employment services. Like the first consultant, the second consultant also has extensive experience in developing rate-setting models in Arizona and other states. According to the Division, rates for employment services should be published by November 2005 and therapy rates by January 2006.

Division adopted lower rates based on funding

Once the consultant established benchmark rates using the rate-setting model, the Division determined actual payment rates. Because the Division did not have sufficient funding to pay the benchmark rate for all services, it adopted lower rates based upon the funding available. In fiscal year 2004, the Division paid approximately 93 percent of the published rates. The Division adjusted the benchmark rates for fiscal year 2005 by 4.25 percent to allow for inflation. In addition, the Legislature provided a funding increase in fiscal year 2005 that allowed the Division to pay 95.75 percent of the benchmark rate. As shown in Table 2, in fiscal year 2005, most services were funded at close to the benchmark rate. In the case of the day treatment

Table 2: Benchmark and Actual Rates[1,2] for Fiscal Year 2005

Type of service	Benchmark Rate	Adopted Rate
Day treatment services		
Adults	$ 8.20	$ 8.60
Children	8.39	8.30
Rural	9.11	9.60
Home-based services		
Attendant care	14.75	14.12
Habilitation—community protection	19.78	18.94
Habilitation—individually designed living	19.03	18.22
Habilitation—support	18.83	18.03
Housekeeping	13.59	13.01
Respite—short-term	14.46	13.84
Other services		
Specialized habilitation with music	36.78	35.28
Professional services		
Home health aide	17.43	16.69
Nursing—short-term	37.21	35.63
Residential services		
Habilitation—group home	17.79	17.73
Habilitation—developmental home	98.89	109.75
Room and board[3] (daily)		
Support coordination services		
Support coordination/case management (monthly)	87.30	87.30
Transportation services[4]		

1 Except as noted in the table, all services are billed at an hourly rate.

2 Rates shown are examples for each service type. For example, the Division publishes different rates for home-based services provided to multiple clients, and the rates for day treatment and training vary based on staff-to-client ratio and whether a children's program is after school or summer.

3 The room-and-board rate is based upon the group home's contracted capacity, actual capacity, and district location.

4 The transportation rate is based upon the rural or urban environment, the distance traveled, the type of vehicle used, and whether the travel is for regularly scheduled daily transportation.

Source: Division of Developmental Disabilities, Independent Rate Models—Agency Providers and Schedule 5.2, January 2005.

for adults service, the Division was paying approximately 105 percent of the benchmark to transition providers to the published rate schedule. In the 2005 session, the Legislature appropriated additional monies for fiscal year 2006 to bring the adopted rate to 97.61 percent of the fiscal year 2005 benchmark rate. The Division is working with AHCCCS and the Joint Legislative Budget Committee to develop rates for fiscal year 2006.[1]

Division reviewed and adjusted disputed rate

When rates were published, providers expressed concerns for the day treatment and training rate. In response, the Division and the consultant examined and adjusted the rate model. To gain assurance that the rate model was appropriate, the Division contracted with a second consulting firm to assess the model's soundness. After reviewing the rate model, the second consultant confirmed in November 2004 that it was appropriate. The Division continues to review the provider rates as required by statute.

The Division published modified rates that adjust for absences.

Providers had expressed concern over the treatment of client absences in the new rates. Prior to fiscal year 2004, if an individual did not attend a scheduled day treatment program, providers could still bill the Division for the service. In May 2003, the Division issued an amendment to its qualified vendor agreement that eliminated compensation for absences. According to division officials, the Division had paid for absences in the past using state monies because Medicaid monies cannot be used to pay for them, and as part of its new system of published rates the Division decided to make adjustments to allow it to maximize its use of federal Medicaid funding through AHCCCS. After meeting with providers regarding service rates, the Division and its consultant examined the day treatment and training rate. Based on a review of the rate model, the Division developed new rates with modifications, including a 20 percent absence rate and a 15 percent transitional staff adjustment factor. The Division planned to eliminate the transitional staff adjustment factor after 2 years. According to division documents, an increase in available funding in fiscal year 2005 allowed the Division to include these additions to its rates.

To gain assurance that its rate model was appropriate, the Division also contracted with a second consulting firm to assess the technical soundness of the model. This consultant concluded that the model was a viable system for developing rates, and that shortfalls in the model were compensated by more generous factors in other areas, such as the base wage, the 30 percent employee-related expense, and the transitional staff adjustment factor. The consultant also compared the Division's rates with those in three other states and concluded that Arizona's rates were reasonable.

1 The 2005 budget bill (Laws 2005, Ch. 286, §29) requires the Division to implement the fiscal year 2006 adjusted rates beginning with payments for services performed in August 2005, and to pay retroactive reimbursement for July services no later than September 15, 2005.

The consultant recommended maintaining the published rates, including the transitional staff adjustment factor, and working to validate quality and outcomes resulting from the rate system.

Statute requires the Division to conduct an annual study of the provider rate schedule to ensure adequacy and appropriateness. A more extensive and complete study must be conducted every 5 years. Both studies must be conducted by an independent consultant, and study results are to be submitted to the Joint Legislative Budget Committee (JLBC) on October 1 of each year. Both the 2003 and 2004 consultant reports to JLBC state that the provider rate schedule is adequate and appropriate. The Division plans to continue to review all of the rates annually to fulfill the statutory requirements and to determine if changes in demographics or rising economic costs need to be reflected in a rate adjustment.

Recommendation:

1. The Division should continue its efforts to establish benchmark rates for therapy and employment-related services.

FINDING 2

Division can improve availability of therapy services

The Division should take steps to help ensure individuals with developmental disabilities can receive needed speech, occupational, and physical therapy services. Reviews of individual cases and discussions with their support coordinators indicate that, of all the services provided to individuals with developmental disabilities, these services are the most difficult to obtain. Providers and division staff identified low payment rates and therapist shortages as primary reasons individuals may not receive these services. Although the Division has begun to take steps to address unmet needs for therapy services, including contracting for a therapy rate study, it should take additional steps to both help individuals schedule services and to help providers resolve administrative obstacles to providing services.

Division provides therapy services

Together with other services, the Division offers three types of therapy services to individuals with developmental disabilities: speech, physical, and occupational. The individual's treatment team, including the division support coordinator, service providers, the individual, and family members, develops an individual support plan that sets out the nature and amount of services needed, which may include any or all of these therapies. The Division has contracts with individual therapists and agencies that provide therapy services. The needs for division-provided therapies vary by age and are particularly important for infants and children:

Speech therapy is evaluation and treatment in receptive and expressive language, voice, articulation, fluency, and aural habilitation and rehabilitation.

Physical therapy is the treatment of a bodily or mental condition through necessary physical measures, activities, and devices.

Occupational therapy is treatment to improve development of fine motor and adaptive skills, achieve optimal functional performance, and maximize independence.

Individual Support Plan (ISP) shows needed services and goals for a person with developmental disabilities to achieve full social inclusion, independence, and personal and economic well-being.

Individual Education Plan (IEP) describes detailed educational goals and shows supports and services the school district will provide to help achieve the goals.

- Infants and toddlers (age birth to 3 years)—Any child from birth to 36 months who is developmentally delayed or who has a physical or mental condition that has a high probability of resulting in a developmental delay is eligible for division services through the Arizona Early Intervention Program (AzEIP), which is funded with a combination of federal and state monies. Research indicates that the first 3 years of a child's life are critical for learning and have a long-lasting effect on how children develop.

- School-age children (3 to 21 years)—Because federal law guarantees a free, appropriate, public education to all children with disabilities, school-age children receive services identified in their individual education plans though their school districts.[1] The Division provides other necessary services identified in the child's individual support plan. For example, one support coordinator reported that schools may only provide limited speech therapy in a group setting and a child may also need one-on-one articulation therapy.

- **Adults (21 years and older)**—According to some professionals, therapy services to adults over 21 are less likely to improve the individual's functionality, but may be important to maintain existing functionality and avoid regression.

Therapy services greatest unmet need

Many people who have developmental disabilities and are eligible for services are waiting for therapy services. Auditors were unable to quantify the extent of service gaps because the Division does not have reliable waiting list data. However, auditors interviewed support coordinators, providers, and division management to determine the services for which there is the greatest unmet need. These interviews consistently identified therapies as the most common services that individuals are waiting for.

Division cannot measure unmet need—To keep track of services individuals need but have not received, the Division directs its support coordinators to enter information into a waiting list contained in its main client tracking and bill payment system, called ASSISTS. In a 2000 performance audit (Auditor General Report No. 00-19), auditors found that the waiting list was incomplete and unreliable, and recommended that division management should instruct support coordinators to promptly enter unmet service needs into the waiting list, work with stakeholders and others to define waiting list priorities, and update its policies.

Although the Division has updated its policies related to managing and maintaining the waiting list, the current audit found the waiting list remains incomplete and unreliable. The waiting list still does not capture all individuals waiting for services and does not always reflect individuals' unmet service needs. Auditors interviewed

1 20 U.S.C. §1400, et seq. Individuals with Disabilities Education Act.

support coordinators regarding 30 individuals on the waiting list to determine whether the list could be used to measure unmet needs for services. Most support coordinators said they did not use the waiting list information to conduct their daily business and therefore did not keep it up to date. Several support coordinators indicated that they irregularly manage the waiting list but that information is often not entered into the system or removed from it in a timely manner.

The Division uses the waiting list for both internal purposes, such as ensuring that people receive services in a timely manner, and external purposes, such as developing its budget requests. Division management regards the list primarily as a queuing list for ALTCS-enrolled individuals, who are entitled to receive services within defined time frames based on urgency of the need. According to division management, information from the list is combined with other information from the districts in preparing budget requests. However, raw data regarding the list is also provided to the Joint Legislative Budget Committee. To ensure the waiting list can be used to determine how much money would be required to meet service needs, the Division should regularly audit the list for accuracy and take appropriate steps to ensure support coordinators add and remove individuals from the list in a timely manner.

Nineteen out of 30 individuals in the sample were waiting for therapy services.

Most individuals in auditors' sample were waiting to receive therapy services—

Auditors selected a random sample of 30 ALTCS-enrolled individuals on the Division's waiting list, and interviewed their support coordinators.[1] In 19 of the 30 cases, the individual was waiting to receive one or more therapy services. As Table 3 shows, these therapies were by far the most prevalent need among individuals in the auditors' sample. Only 5 of the 30 individuals were waiting for some other type of service.

Table 3: Sample of Individuals on Waiting List As of April 2005

Individuals in sample	30
Waiting for services[1]	
Speech therapy	12
Occupational therapy	11
Physical therapy	3
Other (not therapy)	5
Not waiting for services	6

1 Some individuals are waiting for multiple services.

Source: Auditor General staff interviews of 27 support coordinators responsible for 30 ALTCS-enrolled individuals listed on the Division's waiting list as of April 1, 2005, and selected in a stratified sample.

Some of the individuals in the sample had been waiting for therapy services for longer than 6 months. For example, a support coordinator in north Phoenix reported that a school-age boy had been waiting 228 days for physical therapy services. According to the support coordinator, it is difficult to get therapists to agree to travel to north Maricopa County. Similarly, a support coordinator in Tucson had a school-age boy who had been waiting 182 days for a University of Arizona speech therapy program. As shown in Table 3, speech therapy is the most prevalent need among individuals in the auditors' sample.

In addition to the individuals in the sample, others were also waiting for therapy services.

1 This review was limited to ALTCS-enrolled individuals because, according to division management, ALTCS individuals most often wait for services because a provider is not available. In contrast to ALTCS, which entitles individuals to the services they need regardless of funding, state-only services are available only to the extent that the Legislature has appropriated funds. In all, auditors interviewed 27 support coordinators, at least 3 of whom were from each of the six state districts.

- Support coordinators reported that other individuals in their caseload besides those in the auditors' sample were also waiting for therapy services. Over three-fourths (21 of 27) of the support coordinators reported that they had ALTCS-enrolled individuals waiting for therapy services. They also reported that individuals were waiting for such other services as summer programs and transportation.

- Division management confirmed the problems with availability of therapy services. The Division's Statewide Network Development and Management Plan for 2005 shows that management identified speech, occupational, and physical therapies as unmet needs common to most districts.

Rates and other issues affect ability to obtain services

Providers and division staff identified several factors that contribute to difficulty obtaining therapy services. Although low payment rates was one of the main reasons they identified, they also cited a shortage of therapists, difficulties associated with providing services in the individual's home rather than in a clinic, and administrative issues, such as difficulties with third-party reimbursement paperwork. Additionally, they cited reasons associated with coordinating services with parents. Specifically:

- **Low payment rates**—The Division has not completed a therapy rate assessment since approximately 1996. Providers and division officials report that the current rates are inadequate. According to providers interviewed during the audit, the Division's rates for therapy services are lower than the rates they receive from other payers. For example, the Division pays $57.20 for a 1-hour, in-home session with fewer than 30 travel miles (see text box). In contrast, providers told auditors that they may receive between $70 and $120 per hour from private payers for similar services. Some providers stated that the low rates contributed to their decision to limit the number of division individuals with disabilities they will accept or even refuse to contract with the Division. Others reported that they are committed to providing services to division consumers, but they said it was not profitable for them to do so.

  Division officials also identified below-market rates as an important factor affecting its ability to obtain therapy services for consumers. These rates were not part of recent efforts to develop an equitable rate system.[1] The Division needs to complete a study of therapy rates and determine appropriate rates for these services. If the study determines higher rates would be appropriate, the Division will need to identify funding for the increased rates. In 2003, when the Division determined benchmark rates for other services, it did not have sufficient funding to pay the benchmark rates, and as a result, adopted actual payment rates at approximately 93

Speech, Physical, and Occupational Therapy Rates As of June 2005

In therapist's office	$52.80
Other location within 30 miles	57.20
At ATP-Coolidge	71.50
Other locations	Variable [a]

[a] The Division pays a higher rate for the first hour of service at other locations, based on the distance traveled. The maximum rate for the first hour is $143 for locations more than 150 miles, round-trip, from the therapist's office. Second and third hours range from $26.40 to $89.38, depending on the distance the therapist travels.

Source: Auditor General staff analysis of the Division's 2005 rate schedule.

1 According to division management, therapy rates were left out of recent efforts because the Division had established rates for therapies, but not other rates. Therefore, the Division focused its resources on the other rates before reviewing therapy rates.

percent of the benchmark rates for fiscal year 2004 (see Finding 1, pages 13 through 17). The Division subsequently obtained additional funding from legislative appropriations for fiscal years 2005 and 2006 to bring the rates for those services closer to the benchmark rates. The Division should determine if it can accommodate any increase in therapy rates within the same appropriation or what actions, if any, to take to pay the increased rates. In addition, it should examine the capitation rate it receives from AHCCCS and determine if it needs to request an adjustment to accommodate the new therapy rates.

- **Insufficient providers**—In some areas of the State and in some specialties, the problem is even more basic: there is a shortage of service providers. Shortages in therapy services were reported by support coordinators across the State, especially in speech therapy. For example, four support coordinators and one provider reported that there are no speech therapists in Yuma. Although in June 2005 a provider in Tempe began traveling to Yuma once a month to offer speech therapy evaluations, support coordinators report that speech therapy services are still unavailable. An official at the Department of Health Services, which licenses speech therapists, stated that there is a shortage of speech therapists in Arizona and across the country. In addition, an official at the Arizona Board of Physical Therapists stated that there appears to be a shortage of physical therapists in the State, particularly in rural areas, based on comments from employers and requests for the Board's directories.

  Additionally, according to support coordinators who provide services to Spanish-speaking individuals with disabilities and their families, those individuals have more difficulty procuring services than their English-speaking counterparts. Two support coordinators reported that they accompany therapists to individuals' sessions to act as a translator.

Spanish-speaking individuals have more difficulty obtaining services.

- **Travel and safety**—In part because of a federal law, therapists must often provide services in an individual's home instead of in their own offices. The federal Individuals with Disabilities Improvement Act of 2004 requires early intervention services to be provided in the child's natural environment.[1] Division officials explained that providing services in the home or a community center instead of in a clinic, where the individual may be taken to a separate room for treatment while family members stay in a waiting room, enables family members to learn to carry out the therapies between visits. However, some support coordinators reported that individuals who live outside urban areas or on the outskirts of Tucson and Phoenix have a more difficult time obtaining services because providers are unwilling to travel distances to the person's home. Some providers confirmed that travel was an issue that inhibited the ability of some individuals to obtain therapy services. For example, one provider reported that therapists could see only about five individuals in a day if they had to travel to the person's home, as opposed to seeing eight or more individuals in her clinic.

By federal law, early intervention services must be provided in the child's natural environment.

1 The Education for All Handicapped Children Act, which is now known as the Individuals with Disabilities Education Act (IDEA), was first enacted in 1975 (Public Law 94–142). The Individuals with Disabilities Education Improvement Act of 2004 reauthorizes and amends IDEA, 20 U.S.C. §1400 et seq.

An owner of a therapist provider agency, an independent therapist, and one support coordinator reported that another reason for rejecting offers of in-home service is personal safety. One provider stated that in-home services can be unpredictable and potentially dangerous. That provider reported that she has been in homes that she has asked not to return to because of safety concerns. Conversely, some families may be reluctant to allow therapists to provide in-home services. One support coordinator reported that a child was on the waiting list for several services in part because his mother was uncomfortable having someone in her home. Division officials stated that therapists could also provide services in community centers, which could alleviate these concerns.

Providers must submit a claim to the insurance company first.

- **Administrative requirements**—Some providers cited third-party liability requirements as a barrier to adding individuals receiving division services to their caseload. Under these requirements, providers must first submit a payment claim to the individual's insurance company, if any, before they may submit a payment claim to the Department. Because Medicaid is the payer of last resort, the Division's contract with Arizona's Medicaid agency, AHCCCS, requires that providers agree to identify third-party coverage and seek third-party liability payment before submitting claims to the Division. According to some providers, this process delays payments for services rendered by them for 60 to 90 days or longer. Further, some complained about the requirement to submit a third-party claim for every service, even if previous claims for the same individual had been rejected by the insurance company. Division officials explained that providers can obtain a 1-year waiver in these circumstances.

  Some service providers stated that the Division requires more paperwork than other payers and sometimes provides inaccurate information, such as which payment codes a provider should use or what information he or she must submit to receive payments. One provider reported that his agency no longer contracts with the Division because of the combination of low rates, payment delays, and difficulties in receiving accurate information from division billing staff about how to file payment claims. Another provider reported having to call multiple division offices in different communities to receive information related to her reimbursement claim. A large agency provider estimated that the third-party liability paperwork for individuals whose services are paid for by the Division is many times more than for the agency's other clients.

- **Service scheduling**—Some therapists and support coordinators reported that services may be difficult to obtain because of scheduling problems. For example, school-aged children often require after-school services. Some support coordinators explained that providing services between 4 p.m. and 8 p.m. is sometimes required to coordinate the schedules of the therapist, the individual receiving services, and the family. They stated that some therapists will not accept evening appointments. For example, one support coordinator reported that a therapist in her area was no longer serving school-aged children because she could serve younger children, birth to 3 years old, during day hours. Additionally, some families are waiting for a specific provider because of location, expertise, or scheduling convenience. Two providers stated that they limit the number of individuals they accept from the Division to after-school hours because they work for a school district. Another reported that she limits the number of division clients she accepts and that she rarely has openings for these individuals.

Division can do more to ensure viable provider network

The Division can take some action to help address most if not all of these factors—and in several instances, it is already doing so. For example, it is examining current rates and taking several steps to enhance the network of available providers. Additional steps it can take include ensuring that providers receive accurate information about administrative requirements and using the Division's automated vendor agreement system to help overcome scheduling problems.

Actions already under way to address payments and find more providers

—To address its outdated payment rates, the Division recently hired a consultant to conduct a therapy rate study as part of a process to establish new therapist rates by January 2006. As part of this process, the Division should ensure that the study considers factors, such as travel and administrative requirements, that were cited as contributing to service availability problems.

The Division is also taking steps toward addressing the insufficient number of available therapy providers. In its 2005 Network Development and Management Plan—a report it provides annually to AHCCCS to show how it will ensure it can provide adequate services to ALTCS-enrolled individuals—the Division reported plans to:

- Implement new service specifications based on a consultative model. Under this model, therapists train family members to work with individuals between therapy appointments, reducing the need for frequent visits to the therapist.
- Continue using a procurement code exemption and the Division's automated system for adding new service providers in order to more quickly add newly recruited therapists to the network of available providers.
- Hire or contract with at least one therapist per discipline (speech, occupational, and physical) to provide increased oversight and education of therapy providers.

The Division plans to hold focus groups with therapy providers.

- Hold focus groups with therapy providers to identify items that can be addressed to reduce barriers to working for the Division.

Outside the management plan itself, the Division has taken other actions. For example, its quarterly update to AHCCCS in April 2005 indicated that in District 2 (Pima County), the Division was working with local education agencies to develop a joint recruitment plan for therapists, share therapists, and work with colleges and universities to increase the number of students in their programs. In May 2005, the Division also hired a Director of Program Development and Policy to spearhead the Division's network development efforts, particularly as they relate to therapy services. The director has over 30 years' experience as an occupational therapist, 19 in the developmental disabilities field.

Additional steps could help address administrative and related problems—The Division should also take additional steps that could alleviate issues contributing to availability problems. Specifically:

- To resolve administrative issues, the Division should examine its own practices and also consider developing ways to better explain its requirements to providers. Because several providers indicated they received conflicting information from division staff, the Division should review its practices for responding to provider questions and take steps to help ensure that providers receive accurate information. For example, the Division could review its training materials, policies, and procedures to ensure that staff in district offices as well as in the central office understand the provider payment process. Alternatively, the Division could designate specified individuals to answer such questions and take steps to ensure that questions are referred to them.

  Because some providers appear to have incorrect information about some division requirements, the Division should assess ways to provide them with better information. For example, some providers appear to be unaware of waivers available for services previously denied by insurers. The Division could prepare written guidance for providers to assist with administrative issues. For example, stakeholders have praised the Division's publication, *Navigating the System*, as a useful tool that helps individuals with developmental disabilities, their families, and others understand how various developmental disability systems and processes work. The Division should consider providing a similar type of publication that would help providers understand the systems and processes that affect them. In addition, the Division should consider assessing provider interest in a training program, and if appropriate, develop a program to train providers in the most efficient and effective ways to comply with third-party liability requirements.

The Division could prepare written guidance for providers to help with administrative issues.

- To alleviate service scheduling problems, the Division could use its Web site and its qualified vendor agreement system, which was designed to expedite the Division's provider contract process. Currently, individuals and families must wait for support coordinators to identify a therapist and provide a referral. To enable families to resolve their own scheduling problems, the Division's Web site could have a provider directory showing providers' name and address, services provided, and days or times during which they provide services. In addition, the Division's qualified vendor agreement system was designed to automatically assign a provider if an individual does not select one within a certain time frame.

Finally, to address some providers' and family members' concerns about in-home services, the Division may wish to consider assisting therapists with making arrangements to provide services in community centers. If it develops an informational publication and/or a training program for providers, it should include information about how therapists can meet the IDEA requirement that services must be provided in a person's natural environment.

Recommendations:

1. To ensure its waiting list accurately measures service needs, the Division should:
   a. Regularly audit the list for accuracy; and
   b. Take appropriate steps to ensure support coordinators add and remove individuals from the list in a timely manner.

2. To address outdated rates paid to therapists, the Division should:
   a. Include in its study of therapy rates the costs of providing services, including administrative costs associated with complying with third-party liability and other requirements;
   b. Adopt appropriate rates based on its study; and
   c. If necessary, identify funding to pay increased rates.

3. To help alleviate problems related to administrative requirements, the Division should:
   a. Assess provider interest in a training program related to complying with administrative requirements, such as third-party liability;
   b. Based on the results of that assessment, determine whether to develop and provide a training program for providers;
   c. Consider publishing a document for providers with information on division requirements, systems, and processes, and where they can obtain additional information. This might include administrative information such as billing requirements, third-party liability issues, and service-related issues such as the availability of community centers or other venues outside the home where services might be provided.

4. To reduce confusion and the possible dissemination of misinformation, the Division should examine its practices for responding to provider questions, and consider providing additional training and guidance to staff regarding common provider issues such as third-party billing, or designating specific, knowledgeable staff members to respond to providers' questions.

5. To help alleviate service scheduling problems, the Division should complete system improvements to the qualified vendor system that would allow individuals with disabilities, their families, and support coordinators to more readily access available providers and providers to indicate through the Internet the days and times when they provide services.

FINDING 3

Division should improve billing practices

The Division should adopt more systematic ways to identify individuals who should be billed for some or all of the services they receive. Although state and federal laws require certain individuals to pay all or part of the cost of their services, auditors found that some individuals were not identified for billing, or were discovered and billed late, which reduced monies available to pay for other services. The Division should match its information on individuals and their services with other information possessed by the Department and AHCCCS to help identify individuals who should be billed.

Statutes mandate billing some individuals for services

Some individuals must pay for all or part of the services they receive.

Although over 80 percent of individuals who receive division services do not have to pay for services, Arizona statutes, regulations, and federal law identify four situations in which the Division bills individuals for services they receive. For example, the Division bills individuals in residential service who receive social security and other benefits for a portion of their benefits toward their room and board (see the text box on page 31 for more information). The Division does not bill or collect these monies directly, but prepares referrals to the Department's Office of Accounts Receivable and Collections (OARC). Altogether, for fiscal year 2005, the Division had billings totaling nearly $15 million.[1]

The Division had billings totaling nearly $15 million for fiscal year 2005.

1 Billing for one group is much lower than previously estimated. In fiscal year 1997, the Division expanded implementation of the sliding fee schedule beyond room and board charges, according to the Appropriations Report for that year, and the Division's budget was reduced accordingly. At the time, collections for services provided to individuals less than 18 years of age were estimated at approximately $1.5 million annually. The estimate used state-wide family income data to calculate a weighted average billing percentage based on the proposed sliding scale. According to division officials, actual collections are much lower, mainly because most individuals receiving its services—or their parents if they are minors—do not have sufficient income to require payment, or are exempt from billing because the person receiving services is a child up to 3 years old or does not receive any services other than case management.

Division should more systematically identify individuals needing referral to OARC for billing

The Division should improve its billing practices to better ensure it identifies appropriate billings. Most cases auditors reviewed were treated appropriately by the Division, but in some cases individuals were not billed, which reduces monies that could be available to provide other services and can create hardship for the individual when the error is discovered. To help avoid errors, the Division should match its data against data maintained by OARC and AHCCCS.

Division's practices result in missing some billings

—Auditors reviewed samples of cases related to three of the four billing categories (residential services, ALTCS cost-sharing, and fee-for-service billings) and found instances in which individuals either should have been billed but were not, or were billed for less than the amount they should have paid.

Sixteen individuals should have been billed a total of over $26,000.

- **Residential services**—The group receiving residential services had the largest percentage of individuals not being billed. Auditors sampled 24 individuals who were not being billed for services and found 16 of them should have been billed. These individuals should have been billed a total of over $26,000, and several owed more than $2,000 each. Although the Division requires support coordinators to determine if individuals entering residential services are required to pay and then prepare a billing referral if required, this did not occur or another error occurred for these 16 individuals.

- **Share of ALTCS costs**—Auditors identified only 1 individual who should have been billed in a review of all 100 unbilled individuals in institutions. This person owed a total of nearly $6,500 for the period December 2003 through May 2005. The Division relies on support coordinators to identify individuals entering institutions who should be billed for a share of ALTCS costs, and it appears that this generally occurs.

- **Fee-for-service**—Auditors did not identify any unbilled individuals who should have received fee-for-service billings in a random sample of 30 individuals. However, in examining the accuracy of the billing amounts, auditors determined that of the 41 individuals the Division had identified as potentially subject to billing for fiscal year 2005 based on their income, 4 who should have been billed a total of approximately $1,900 had not been billed. The Division was successful in identifying most individuals who should be billed because it uses a systematic approach. Specifically, each year it sends letters requesting financial information for all individuals who meet other criteria for fee-for-service billing. The under-billing occurs because the Division's process for determining billing amounts

Division Billing Requirements

Residential services

- Purpose: Contribute to room and board costs.
- Applies to: All individuals in residential services who receive Social Security or certain other benefits, including individuals enrolled in Title XIX or ALTCS, because Medicaid does not pay for room and board, except in a hospital or skilled nursing facility.
- Amount: Total benefit received from Social Security or other payer minus amount retained by the individual who keeps the greater of $50 per month or 30 percent of the benefit.
- Fiscal year 2005 billings:
  - $13,377,183.
  - 2,673 individuals.
- Established by: A.R.S. §36-562(M) and Arizona Administrative Code (A.A.C.) R6-6-1204.

Share of ALTCS cost

- Purpose: Pay a portion of cost of care.
- Applies to: Individuals enrolled in ALTCS who are in skilled nursing facilities and ICF/MRs.
- Amount: Depends on individual's income and monetary needs. AHCCCS determines the amount to be billed.
- Fiscal year 2005 billings through March 2005:
  - $1,008,590.
  - 175 individuals.
- Established by: Federal law (CFR 435.725).

Estate, trust, and annuity billing

- Purpose: Pay entire cost of care.
- Applies to: All individuals who have an estate, trust, or annuity valued at more than $2,000. Division may issue waiver to enable individual to save for an expense such as a medical or dental service.
- Amount: 100 percent of the cost of division services.
- Fiscal year 2005 billings:
  - $503,939.
  - 174 individuals.
- Established by: A.R.S. §36-562(D).

Fee for service (sliding fee scale)

- Purpose: Pay a portion of cost of care.
- Applies to: Non-ALTCS individuals over 3 years of age who have income—or parents' income for minors—over 200 percent of the federal poverty level.
- Amount: Depends on individual's income. The Division determines the amount by applying a sliding scale to individual's income from an estate or trust or to the parents' taxable income if the individual is a minor.
- Fiscal year 2005 billings:
  - $13,651.
  - 24 individuals.
- Established by: A.R.S. §36-562(G) and A.A.C. R6-6-1201.

does not account for service providers who are late in reporting services to the Division.

The sum of $26,000 could pay for more than a year of room and board for four individuals.

Uncollected amounts reduce funds available to others—Division collections are deposited in the Long Term Care Program Fund, which the Division can then use for providing services. Although the amounts auditors discovered as unbilled are not large in comparison to total division funding, these monies could help to provide additional services. For example, the $26,000 in unbilled residential services could pay for more than a year of room and board for four individuals based on the 2005 rate of $16.68 per person per day for a six-person group home in District 1 (Maricopa County). An additional effect of unbilled services is the hardship it can create for individuals later when the error is discovered. For example, the Division initiated a billing in April 2004 that covered services that started in January 2001. The unbilled total in this case was over $24,000. Similarly, in April 2003 the Division began billing an individual for services that had started in June 2001. The total in this case was over $7,000. Because paying this large amount would be a hardship for the individual's parent, the Division waived half the amount and agreed to accept payments of $25 per month over a period of 149 months.

Division should use a more systematic method of identifying individuals who should be billed—To better ensure it identifies people who should be billed, the Division should develop a process that uses its information system in conjunction with information from OARC to identify individuals whose cases should be reviewed for possible billing. Similar to the process auditors followed to identify missed billings, the Division could match individuals receiving residential, institutional, or skilled nursing facilities with OARC records to determine those not currently being billed, and research the cases with support coordinators' assistance. In addition, the Division should work with AHCCCS to develop a method for obtaining complete information about individuals who should be billed under the share of the ALTCS cost requirement, instead of relying on the list of individuals billed in the previous month. For example, the Division could participate in a process followed by AHCCCS and the Department's Division of Benefits and Medical Eligibility that allows them to request and receive benefit information regarding clients from the Social Security Administration. Following this process would allow the Division to standardize the way benefits are identified.

Recommendations:

1. To better ensure it identifies in a timely manner individuals who must pay for all or part of the cost of their services, the Division should:

   a. Develop a process for first matching records of individuals receiving services that could be subject to billing—specifically, residential, institutional, and skilled nursing facility—with records maintained by the Department's Office of Accounts Receivable and Collections (OARC) to identify unbilled individuals, and then researching individual cases to determine whether they should be billed.

   b. Develop a process to systematically obtain information regarding Social Security benefits for its individuals receiving services. To do this, the Division should consider working with the Division of Benefits and Medical Eligibility as well as OARC to standardize its process with other department processes for obtaining benefits information from the Social Security Administration.

2. To better ensure its billing amounts are accurate, the Division should correct its procedures for determining the total amount due in the fee-for-service category to capture services provided in a previous month but reported later by providers.

OTHER PERTINENT INFORMATION

During the audit, auditors reviewed information about the recent implementation of the fiscal intermediary program and the Arizona Training Program at Coolidge.

Fiscal intermediary program

The Division has begun to implement a fiscal intermediary program in order to simplify the process of paying providers, facilitate individual choice, and ensure proper payment of employment taxes for individual service providers. The Division entered into an agreement with a vendor in June 2004, and is currently in the process of implementing the program state-wide. As of June 2005, four of the Division's six districts have implemented the fiscal intermediary program. According to division administrators in districts where the program has already been implemented, the responses from individual service providers as well as from individuals receiving services have been relatively positive regarding the program.

Fiscal intermediary program operation and goals—Fiscal intermediaries act as agents for individuals receiving services who choose to employ individuals, rather than agencies, as service providers. The fiscal intermediary performs the accounting functions required of employers, including payroll, payroll taxes, workers' compensation, and unemployment insurance. Prior to the fiscal intermediary program, the Division treated the individual provider as a contractor, paying the provider directly and making the provider responsible for paying appropriate taxes. However, Internal Revenue Service guidelines indicate that individual providers are not contractors but are employees of the individuals or families. Under the fiscal intermediary program, the fiscal intermediary registers with the federal Internal Revenue Service as the agent on behalf of the individual or family receiving services. The Division pays the fiscal intermediary a fixed monthly fee for each individual receiving services from an individual provider.

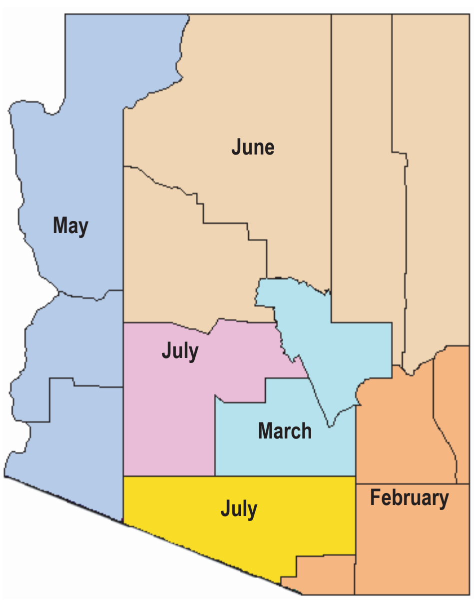
The program is intended to allow the Division to continue offering families the option of choosing an individual service provider while ensuring that taxes and other employer obligations are properly administered for the individual providers. In addition, the Division established contract provisions requiring the fiscal intermediary to ensure payment for only authorized services and rates. Eventually, the Division

The program is intended to allow families to choose individual service providers and ensure taxes are properly administered.

believes use of a fiscal intermediary will allow families and individuals to manage their own personal budget for services and control the amount and types of services. The Division reports it is working with AHCCCS to obtain approval to implement a pilot program for consumer-directed services, which will give the individual and the individual's family a budget for purchasing services. The pilot consumer-directed services program requires a fiscal intermediary and will begin in late 2005 and conclude in 2007. A few states have adopted similar programs and found that this form of service delivery gives the individual more choice and power in decision-making over providers.

Implementation in progress—The Division began planning for fiscal intermediaries several years ago and began enrolling individuals with a vendor in February 2005. In its July 2001 final report, the Division's Design Team—a work group charged with recommending changes in response to 1999 legislation regarding equitable rates, self-determination, and public input—recommended that the Division consider using a fiscal accounting service to establish a consumer-directed services program. In 2002, as reported in an Auditor General letter report on the Division's electronic benefit transfer pilot program, the Division had identified fiscal intermediaries as a solution to administering employer obligations related to individual service providers, but the program was on hold because of the State's budget position. Finally, the Division issued a Request for Qualified Vendor Agreement on February 1, 2004, and awarded an agreement to the selected vendor on June 15, 2004. The Division and the vendor held several meetings with staff and individuals to educate providers and individuals with disabilities about the fiscal intermediary program. These meetings occurred between August and December 2004. In addition, the Division included information about the program in its newsletter and published questions and answers on its Web site.

Figure 4: Implementation of Fiscal Intermediary Program by District in 2005



Source: Auditor General staff analysis of division independent provider rate change sequence by district report dated June 10, 2005.

The Division began executing new contracts with individual providers, that require them to use the fiscal intermediary program, between August 2004 and February 2005.

District administrators report few problems—Despite a few technical challenges to the implementation of the fiscal intermediary program, the district administrators reported that the program is a benefit to all invested parties. Auditors interviewed district program administrators in all six districts. The administrators offered insight into the positive and negative aspects of implementing the fiscal intermediary program. In Districts 1 and 2 (Maricopa and Pima Counties), which had not implemented the program at the time of the audit, administrators reported that they and the fiscal intermediary had held several meetings to educate providers and individuals on the program's operation. These districts have the State's largest population of individuals with disabilities, so the district administrators said they had reviewed the other, smaller districts' experiences in order to prevent any problems that may have occurred in those districts.

Administrators in the four districts that had implemented the program during the audit reported some minor problems and concerns, most of which they had resolved. Two of the administrators reported some issues related to the billing process and payment procedures. For example, in a few cases, providers were confused about the processing time for submitting timesheets to the district office. In addition, one administrator reported there was a miscommunication between the district administrators and providers over the timeline of shifting from billing monthly to billing bi-monthly for services. Some providers also reported concerns regarding the tax aspects of being considered employees instead of self-employed contractors. Overall, the district administrators reported that the program seems to be a positive experience for the Division, the providers, the individual with the disability, and the individual's family. They stated that they had received positive comments about the fiscal intermediary program from several providers and individuals receiving services. The vendor has a customer service telephone number, and many families report that this is very helpful. In addition, two district administrators reported that the Division's central office has been helpful in answering questions and providing support in the early stages of implementation.

Arizona Training Program at Coolidge

The Division has been adjusting to issues related to the deinstitutionalization of individuals with developmental disabilities for nearly 30 years. In 1977, it developed a 5-year plan that called for creating community-based alternatives to institutionalization. At the time, the Division operated three institutional facilities, located in Phoenix, Tucson, and Coolidge. Currently, Arizona operates only one institution, the Arizona Training Program at Coolidge (ATP-C), which includes several homes licensed as Intermediate Care Facilities for the Mentally Retarded (ICF/MR).

Institutional population decreasing—ATP-C was established in 1952 as the Arizona Children's Colony, and is now the only state-run large institution for individuals with developmental disabilities in Arizona. According to a 1984 legislative committee report, state and federal laws support deinstitutionalization, based on the premise that each individual with a developmental disability should be provided for in the least-restrictive environment available.[1] The residential population at ATP-C has been decreasing for at least three decades, and new residents are not accepted. The facility had 1,108 residents in fiscal year 1970. By fiscal year 1977, that number had fallen to 630. As of June 2005, only 137 individuals with disabilities were residing at ATP-C.

1 Joint Legislative Committee on Arizona Training Program Facilities, Final Report, November 26, 1984.

As the number of residents has declined, the cost per resident has risen. The State Appropriations Report for fiscal year 1996 shows ATP-C had an estimated $14.9 million in funding and 190 residents, or approximately $78,250 per resident ($214 per day). The Division's strategic plan shows that in fiscal year 2004, ATP-C had approximately $15.4 million in funding and 141 residents, or about $108,500 per resident ($297 per day). The Division's experience is comparable to other states'. According to a national study, daily costs per resident in public institutions nationwide increased by 165 percent, from $115 to $321 per day in inflation-adjusted terms, from 1977 to 2000.[1] By contrast, daily costs at Arizona's only contracted ICF/MR range from $392.63 to $560.37, depending on the individual's level of severity. To partly mitigate ATP-C's costs, the Division has encouraged residents to apply for ALTCS, resulting in $2 million savings to the State, according to division officials. As of June 2005, all residents at ATP-C are enrolled in ALTCS. Further, according to the Division's strategic plan, the Division reduced administrative costs including costs of staff, travel, and supplies in fiscal year 2003. The plan shows the Division held per-resident costs relatively steady between fiscal years 2002 and 2004, and projects reductions in the costs for fiscal years 2005 through 2007.

The Division does not plan to close ATP-C.

State has reduced number of institutions but has no plans to close ATP-C—The State closed institutional facilities in Phoenix and Tucson during the 1980s and 1990s, respectively, and the Legislature has considered legislation related to the future of the remaining institution at Coolidge. However, although per-resident costs are increasing with the declining population, the Division has no plans for closing ATP-C. Officials point out that the Legislature made a promise to families in statute to keep the facility open. A.R.S. §36-554(A)(8), enacted in 1985, requires the Division to:

> ". . .reduce the clientele at Arizona training program facilities to those developmentally disabled persons who are required to be in Arizona training program facilities because the community lacks an appropriate community residential setting that meets their individual needs or *whose parents or legal guardians want them in an Arizona training program facility."* (emphasis added)

The Legislature considered establishing a study committee in 2004 to recommend a long-range plan for the institution. However, the bill was held in a senate committee and died.[2]

1 Braddock, David, ed. *Disability at the Dawn of the 21st Century and the State of the States*. Washington, D.C.: American Association on Mental Retardation, 2002.

2 Forty-sixth Legislature, Second Regular Session, House Bill 2036.

Although the Division has no plans to close the facility, it has examined the costs and benefits associated with closure. The National Association of State Directors of Developmental Disabilities Services issued a report to the Division in May 2002, entitled *Assessment of the Costs and Benefits of Closing the Arizona Training Program at Coolidge*. That report concluded that the needs of ATP-C residents are not substantively different from those receiving state-funded services in the community. The report estimated that closing ATP-C could result in annual State General Fund savings of as much as $2.7 million. The report stated that Arizona could effectively serve ATP-C residents in the community with the State's array of flexible community- and family-based supports. Division management agrees with the report's conclusion.

Previous institution closures required several years to complete. In 1984, the Joint Legislative Committee on Arizona Training Program Facilities recommended closing the Phoenix facility, which had 110 residents at the time. In 1985, the Legislature directed the Division to close the facility, and it closed in 1988.[1] The Phoenix buildings were torn down and the property was sold. According to a division official, the Tucson facility, which at one time housed 250 individuals, was phased out over a 4-year period and finally closed in February 1997. The Tucson facility was converted to other uses, such as a video teleconferencing center and Meals on Wheels kitchen.

According to division management, there has been opposition to closing its institutions. Reasons include concerns about moving individuals from the institution where they may have lived most of their lives and concerns that the closure will adversely affect the local economy. According to a division report, most families of residents at ATP-C choose the institution as the preferred residential option. The division official who oversaw closure of the Tucson facility stated that there was opposition to that closure. The district spent 10 years working with families and guardians of that facility's residents to identify acceptable alternative living arrangements, and the Division set up new state-funded group homes to accommodate some individuals who moved out of the facility.

Families prefer ATP-C as a residential option.

Division continues to invest in ATP-C—Although the Division has examined the possible savings from closing the facility, it has continued to invest in the facility and grounds. It has also looked into alternatives for unused parts of the site to help offset the costs of operating the facility.

The Division has continued to take actions necessary to continue facility operations. For example, in 1999, the Division obtained a remedial action plan for containing petroleum hydrocarbons on the site. The recommended excavation and disposal of contaminated soil was estimated to cost $11,400. That work was completed in May 2000. In February 2004, an internal report by the superintendent indicated that since 2002, approximately $400,000 in infrastructure improvements had been completed

1 Laws 1985, Ch. 313, Section 12.

and work valued at approximately $200,000 was in progress. The improvements included roof replacement, HVAC replacement, fire alarm upgrades, and security lighting.

The Division considered converting parts of the facility to other uses.

To help offset the costs of operating the facility, the Division has considered using parts of the ATP-C site for other uses, similar to its conversion of the closed Tucson institution's facilities to different uses. The Department reviewed the existing condition of ATP-C buildings in January 2005 to determine the costs of bringing six buildings into compliance with office occupancy standards. As the ATP-C residential population decreases, several dormitories and cottages that once housed staff or residents are vacant. The Division suggested that these buildings might be used as office space for the Department. The study estimated that the renovations would cost more than $1.8 million, but did not identify a source of funding to pay for the renovations. Additionally, the Department noted that it did not receive funding it requested in fiscal year 2005 for a sewage treatment plant that cost nearly $600,000. Increasing use of the facility by adding office staff would exacerbate health and groundwater risks resulting from the lack of a sewage treatment plant. A preliminary analysis estimated that the benefit of the capital improvements would take about 8 years to realize from saving lease payments the Department would otherwise make for current office space in Coolidge.

AGENCY RESPONSE

ARIZONA DEPARTMENT OF ECONOMIC SECURITY

1717 West Jefferson • P.O. Box 6123 • Phoenix, Arizona 85005

Janet Napolitano
Governor

David A. Berns
Director

Debra K. Davenport, CPA
Auditor General
Office of Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The purpose of this letter is to forward the Arizona Department of Economic Security's written response to the preliminary draft report of the performance audit of the Division of Developmental Disabilities.

Thank you for the opportunity to review the preliminary draft report. We appreciate the cooperation of your staff throughout the audit process.

If you have any questions regarding this response, please contact me at (602) 542-5678 or Ric Zaharia, Assistant Director for the Division of Developmental Disabilities, at (602) 542-6857.

Sincerely,

David A. Berns

Enclosures

DEPARTMENT OF ECONOMIC SECURITY
PERFORMANCE AUDIT OF THE DIVISION OF DEVELOPMENTAL DISABILITIES
RESPONSE TO AUDITOR GENERAL RECOMMENDATIONS
AUGUST 30, 2005

Finding 1: Division developed appropriate model for setting provider rates

The Department concurs with this finding.

Auditor General Recommendation:

1. The Division should continue its efforts to establish benchmark rates for therapy and employment-related services.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

DES Response:

Employment-related rates should be published by December 2005. Interim and new therapy rates should be published by June 2006.

Finding 2: Division can improve availability of therapy services

The Department concurs with this finding.

Auditor General Recommendation:

1. To ensure its waiting list accurately measures service needs, the Division should:
   - **a. Regularly audit the list for accuracy; and**
   - **b. Take appropriate steps to ensure support coordinators add and remove individuals from the list in a timely manner.**

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

DES Response:

The Division of Developmental Disabilities will monitor the waiting list as follows:
1. *The Division will establish a quarterly audit of the waiting list through a representative sampling methodology. District quality control plans will be included in these audits.*

2. New support coordinators will be trained in the function of the waiting list during their first months on the job (CORE training). Existing support coordinators and their supervisors will receive an updated training session on the waiting list policy, the database and expectations regarding keeping the waiting list current.

3. The Division's new web-based, HIPAA compliant automation system (FOCUS) will, when introduced this fall, provide Support Coordinators a more user-friendly, Windows based environment to enter waiting list data.

2. To address outdated rates paid to therapists, the Division should:

- **a. Include in its study of therapy rates the costs of providing services, including administrative costs associated with complying with division third-party liability and other requirements;**
- **b. Adopt appropriate rates based on its study; and**
- **c. If necessary, identify funding to pay increased rates.**

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

DES Response:

A zero based rate model has been under development since spring 2005 with attention to productivity assumptions, mileage, equipment, and administrative overhead (including third party liability). Interim rates will be published by October 1, 2005 to bring rates closer to market rates. The final proposed rates to accommodate the Early Intervention re-design will be published in January 2006. Funding issues are part of the rate setting, which determines how much of benchmark rates can be funded. Consequently, additional increases in appropriation may be necessary to fund competitive market rates for therapists.

3. To help alleviate problems related to administrative requirements, the Division should:

- **a. Assess provider interest in a training program related to complying with administrative requirements, such as third-party liability;**
- **b. Based on the results of that assessment, determine whether to develop and provide a training program for providers;**
- **c. Consider publishing a document for providers with information on division requirements, systems, and processes, and where they can obtain additional information. This might include administrative information such as billing requirements, third-party liability issues, and service-related issues such as the availability of community centers or other venues outside the home where services might be provided.**

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

DES Response:

The Department has already determined that providers are interested in and can benefit from third party liability training. Trainings have been held and more are being planned around the state to discuss third party liability, billing, and other issues for therapists. During the trainings, therapists will be reminded of its availability. A published document, available on the Internet as well as hardcopy, is being reviewed and will be updated. This document explains the systems, processes, eligibility etc.

4. To reduce confusion and the possible dissemination of misinformation, the Division should examine its practices for responding to provider questions, and consider providing additional training and guidance to staff regarding common provider issues such as third-party billing, or designating specific, knowledgeable staff members to respond to providers' questions.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

DES Response:

The Division of Developmental Disabilities will realign resources to establish a Third Party Liability Coordinator position in the Program Development section to support therapy recruitment and retention by facilitating third party liability collections.

5. To help alleviate service scheduling problems, the Division should complete system improvements to the qualified vendor system that would allow individuals with disabilities, their families, and support coordinators to more readily access available providers and providers to indicate through the Internet the days and times when they provide services.

The finding of the Auditor General is agreed to and the audit recommendations will be implemented.

DES Response:

The Division continues to update and complete system improvements to the qualified vendor system. System improvements will increase consumer and provider access to services by moving towards a consumer friendly directory, including provider availability.

<u>Finding 3: Division should improve billing practices</u>

The Department concurs with this finding.

<u>Auditor General Recommendation:</u>

1. To better ensure it identifies in a timely manner individuals who must pay for all or part of the cost of their services, the Division should:

a. **Develop a process for first matching records of individuals receiving services that could be subject to billing-specifically, residential, institutional, and skilled nursing facility- with records maintained by the Department's Office of Accounts Receivable and Collections (OARC) to identify unbilled individuals, and then researching individual cases to determine whether they should be billed.**
b. **Develop a process to systematically obtain information regarding Social Security benefits for its individuals receiving services. To do this, the Division should consider working with the Division of Benefits and Medical Eligibility as well as OARC to standardize its process with other department processes for obtaining benefits information from the Social Security Administration.**

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

DES Response:

To ensure that the Division bills all eligible individuals, a report will be generated on a monthly schedule. Lists will be matched with the names of individuals being billed by OARC. Those not being billed will be flagged and appropriate residential billing procedures undertaken. When appropriate a referral will be made to AHCCCS to determine the share of cost amount to be billed, which will be forwarded to OARC to initiate billing procedures. The Division will pursue process improvements with the Department and the Division of Benefits and Medical Eligibility to ensure the Division bills all other eligible individuals.

2. To better ensure its billing amounts are accurate, the Division should correct its procedures for determining the total amount due in the fee-for-service category to capture services provided in a previous month but reported later by providers

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

DES Response:

The current billing program developed by the Division almost 10 years ago on an older Paradox program will only bill services that have been a) delivered, b) billed by the service provider, + and c) paid for within two months of delivery of service. Any services that are billed or paid more than two months after the month of service are not included on any billing. The Division is planning on transferring the current Cost of Care billing system from the Paradox program to a more efficient Windows program. The advantages for this conversion are that it will be able to determine late payments and incorporate them into billing adjustments.

Performance Audit Division reports issued within the last 24 months

03-08	Arizona Department of Commerce
03-09	Department of Economic Security—Division of Children, Youth and Families, Child Protective Services—Caseloads and Training
04-L1	Letter Report—Arizona Medical Board
04-L2	Letter Report—Gila County Transportation Excise Tax
04-L3	Letter Report—Department of Economic Security—Population Estimates
04-01	Arizona Tourism and Sports Authority
04-02	Department of Economic Security—Welfare Programs
04-03	Behavioral Health Services' HB2003 Funding for Adults with Serious Mental Illness
04-04	Department of Emergency and Military Affairs and State Emergency Council
04-05	Department of Environmental Quality—Water Quality Division
04-06	Department of Environmental Quality—Waste Programs Division
04-07	Department of Environmental Quality—Air Quality Division
04-08	Department of Environmental Quality—Sunset Factors
04-09	Arizona Department of Transportation, Motor Vehicle Division— State Revenue Collection Functions
04-10	Arizona Department of Transportation, Motor Vehicle Division—Information Security and E-government Services
04-11	Arizona Department of Transportation, Motor Vehicle Division—Sunset Factors
04-12	Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers
05-L1	Letter Report—Department of Health Services—Ultrasound Reviews
05-01	Department of Economic Security—Division of Employment and Rehabilitation Services—Unemployment Insurance Program
05-02	Department of Administration—Financial Services Division
05-03	Government Information Technology Agency (GITA) & Information Technology Authorization Committee (ITAC)
05-04	Department of Economic Security—Information Security
05-05	Department of Economic Security—Service Integration Initiative
05-06	Department of Revenue—Audit Division

Future Performance Audit Division reports

Department of Economic Security—Sunset Factors

Arizona State Retirement System

Foster Care Review Board