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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 9, 2003

Antonia C. Novello, M.D., M.P.H., Dr. P.H.
Commissioner
Department of Health
Corning Tower
Empire State Plaza
Albany, NY 12237

Re: Administration of Quality Incentive
Payment Funds
Report 2003-S-9

Dear Dr. Novello:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have audited the administration of Quality Incentive Payment (QUIP) funds by the Department of Health (Department). Our audit covered the period April 1, 2000 through June 10, 2003.

A. Background

The Department administers QUIP funds through its Division of Home and Community Based Care (Division), which is part of the Office of Health Systems Management. Within the Division, both the Bureau of Licensure and Certification (Certification Bureau) and the Bureau of Adult Care Facility Quality and Surveillance (Surveillance Bureau) have roles in administering QUIP. The former handles the application review and administrative aspects of distributing QUIP funding, while the latter performs surveys of adult care facilities (ACFs). The results of the surveys have a bearing on whether an ACF is eligible for QUIP funding. The Division has four regional offices, Western, Central, Capital District and Metropolitan Area, which oversee ACFs in those regions.

QUIP funding is intended to enhance the quality of care provided to residents of ACFs. The Department administers QUIP funding based on the guidelines established by the former New York State Department of Social Services, which previously had administered QUIP funding. These guidelines allow QUIP funds to be used for general, broad categories, including facility maintenance and repair, hiring additional staff, staff training, furnishings, equipment, or any other purpose that will directly improve the quality of care and services to ACF residents. Funding for QUIP fluctuates from year to year depending on how much is authorized during the State's annual budget process.

For the 2001-02 fiscal year, the most recent fiscal year for which QUIP funds had been distributed at the time of our audit, the Department disbursed \$3.37 million to 281 ACFs. For the 2000-01 fiscal year, \$5.89 million was disbursed to 321 ACFs. The Department distributes QUIP funds each year to those ACFs approved to receive funding based on the number of residents receiving Supplemental Security Income (SSI) benefits at those facilities.

Each year, ACFs must apply for QUIP funds, and the Certification Bureau determines an ACF's eligibility to receive funding. To be eligible, ACFs must not have notice of enforcement actions, which results from persistent violations cited in surveys of the ACFs by the Surveillance Bureau. In completing the application for QUIP funds, the ACFs must describe how they propose to spend the QUIP funds, as well as how they spent any funds received in the prior year. Further, as of the 2001-02 fiscal year, in an effort to foster resident participation and input as to how QUIP funds will be used, each ACF must also submit an attestation form that shows its resident council approved the proposed uses of funds. (Resident councils act as liaisons between residents and an ACF's administration to report problems, issues and suggestions.) The ACFs must also provide with the application, a list of all their SSI residents, as of a certain date specified by the Department.

B. Audit Scope, Objectives and Methodology

We audited the Department's administration of QUIP funds authorized for each of the fiscal years ended March 31, 2001 and March 31, 2002. We evaluated QUIP expenditures through June 10, 2003 made by the ACFs for funds authorized for these two fiscal years. The objectives of this performance audit were to determine whether the Department ensured only eligible ACFs received QUIP funds, and whether ACF expenditures of QUIP funds were adequately documented and used for intended purposes.

To accomplish our objectives, we selected a judgmental sample of 25 ACFs that received QUIP funds authorized for the 2000-01 or 2001-02 fiscal years. Based on the proportionate share of total QUIP funds dispensed to each region for the two years, we selected 16 ACFs from the Metropolitan Area Region, five ACFs from the Western Region, two ACFs from the Capital District Region and two ACFs from the Central Region. We reviewed the Certification Bureau's QUIP files for these ACFs including applications for QUIP for each year. We reviewed the applications for completeness and noted the explanations provided for the proposed use of the funds. Further, we reviewed each file to determine whether the required resident council approval was completed and present. We also performed an analysis of the residents' social security numbers reported on the applications by the ACFs to test their validity. We compared ACFs that the Department determined as eligible for QUIP funding and that received funds, with a list of enforcement actions that should prevent ACFs from receiving funds. We visited 10 of the 25 ACFs in our sample and evaluated expenditure documentation relating to QUIP funds, to determine if the expenditures were eligible under the guidelines and were consistent with the proposed uses listed on the applications. In addition, we interviewed Department officials as well as ACF officials during our visits.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those Department operations that are within our audit scope. Further, these standards require that we understand the Department's internal control structure and compliance with those laws, rules and

regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records, and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use our finite audit resources to identify where and how improvements can be made. Thus, we devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, we prepare our audit reports on an “exception basis.” This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

C. Results of Audit

Although we found no cases where QUIP funds were distributed by the Department to ineligible ACFs or were expended by ACFs for ineligible items, we found that the Department needs to formalize, clarify and expand its procedures for administering QUIP funds, to provide greater assurance that QUIP funds are expended for their intended purposes.

The Department uses informal procedures for reviewing QUIP applications, whereas a more formal process is necessary to ensure consistent, adequate reviews so that only eligible ACFs receive funding. Further, the QUIP application does not capture enough detailed information to enable the Department to adequately evaluate the proposed uses of the funding and to later assess whether the funds were used as intended. In addition, the Department has not communicated guidance to the ACFs regarding proper accounting procedures for QUIP funds and the time period within which QUIP funds should be spent.

1. Eligibility and Application Issues

Department evaluations of applications should ensure that funds are distributed only to eligible ACFs. We found that the ACFs in our sample met the necessary eligibility requirements. However, we noted the Department did not have formalized procedures for reviewing QUIP applications. The Department reviews applications primarily to check for their completeness. The Department did not maintain documentation to support that the basic eligibility criteria had been reviewed. For example, there was no documentation that Department staff checked the enforcement action information, which could preclude an ACF from receiving QUIP funds. Having a set of formalized written steps for reviewing applications would help ensure that Department staff members perform consistent, adequate reviews.

In addition, the QUIP application should be designed to capture sufficient information to allow the Department to evaluate the proposed use of the funds and to later determine whether the funds were used for their stated purposes. The instructions provided to the ACFs should be clear regarding the level of detail expected in the application’s proposed use of funds section. The

Department's application instructions to the ACFs ask them to "provide an explanation on how QUIP will be used to improve the quality of care and services...to better meet resident needs and improve the physical environment of the facility and encourage the admission of new eligible residents." However, these very general instructions allow the ACFs wide latitude in completing the proposed use of funds section. As a result, we noted the Department approved applications containing varying levels of detail.

Eight of 24 ACFs in our sample that received funds for the 2000-01 fiscal year and seven of 22 ACFs in our sample that received funds for the 2001-02 fiscal year proposed only general uses of the funds. For instance, an ACF submitted an application that stated the QUIP funds would be used to "upgrade the facility," with no indication as to what type of upgrades were to be done. In another case, an ACF noted on its application that "funds will be used to improve the physical environment and enhance the quality and level of care to residents." There was no indication of what would actually be done to improve the physical environment or enhance the quality of care to residents. General descriptions of proposed fund use could allow ACFs the opportunity to use the funds to undertake routine projects or make routine purchases they would or should complete anyway. In contrast, some ACFs submitted detailed descriptions and cited specific projects such as "the purchase and placement of air conditioners in residents' rooms." Other detailed descriptions indicated the funds would be used for "staffing increase, replacement of windows and upgrading of dining room furniture." Instructions for additional information and detail to be included on the applications will allow the Department to better monitor the use of QUIP funds and ensure they are expended for the intended purposes.

2. Fund Accountability

Because QUIP represents a separate source of funding, ACFs should separately account for and track QUIP funds to ensure that they were spent in a manner that achieved the purpose of the funding. We found that the Department has not issued guidance to ACFs relating to the separate accounting of QUIP funds. As a result, we noted that at 7 of the 10 ACFs we visited, QUIP funds were not separately accounted for. The commingling of QUIP funds with ACF operating funds adds to the difficulty in determining which expenditures were made specifically as a result of receiving QUIP funding.

In addition, ACFs should have adequate guidance as to the time period within which QUIP funds are to be used. Such guidance is necessary due to the timing of distribution of QUIP funds. The Department distributes QUIP funds to ACFs approximately six months after the fiscal year for which they were appropriated. To illustrate, QUIP funds for the 2001-02 fiscal year were distributed to ACFs in August 2002. From our visits to ACFs, we determined that, because of this distribution process and the lack of guidance, ACFs used different time periods for spending QUIP funds. For example, some ACFs considered the QUIP funding to be retroactive to the fiscal year for which it was authorized. Therefore, these ACFs spent the money in anticipation of receiving it. Once they received the QUIP funds, they applied them retroactively to eligible expenditures. Another ACF considered the application date for funding as the starting point for spending QUIP funds, while still other ACFs considered the receipt date of the funds as the starting point for making eligible expenditures. In addition, through discussions with ACF officials, we learned that some officials had questions as to whether or not QUIP funds could be held over to a subsequent year to pay for

larger projects. Without criteria for when the funds can be spent, it is difficult to attribute specific expenditures to a specific year's funding authorization and confusion can exist with respect to the appropriateness and timing of QUIP expenditures.

Recommendations

1. *Formalize procedures for reviewing QUIP applications to ensure consistent, adequate reviews.*
2. *Modify the instructions for the QUIP application to require ACFs to provide detailed identification of specific projects to be funded by QUIP.*
3. *Establish policies and procedures for consistent ACF accounting for QUIP funds including but not limited to the separate accounting of QUIP funds and the timing of expenditure of QUIP funds.*

We provided draft copies of this report to Department officials for their review and comment. We considered their comments in preparing this report. Department officials stated that they are fully supportive of the audit recommendations and will implement the necessary changes. A complete copy of the Department's response is included as Appendix A.

Within 90 days after the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Health shall report to the Governor, the State Comptroller and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Major contributors to this report were Stuart Dolgon, Brian Krawiecki, Mary Roylance, Shawn Smith and Paul Bachman.

We wish to thank the management and staff of the Department of Health for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Kevin M. McClune
Audit Director

cc: Deirdre A. Taylor, Division of the Budget

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DEPARTMENT OF HEALTH

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Antonia C. Novello, M.D., M.P.H., Dr.P.H.
Commissioner

Dennis P. Whalen
Executive Deputy Commissioner

November 10, 2003

Kevin M. McClune
Audit Director
Office of the State Comptroller
110 State Street
Albany, New York 12236

Dear Mr. McClune:

Enclosed are the Department of Health's comments on the Office of the State Comptroller's (OSC) draft audit report (2003-S-9) entitled "Quality Incentive Payment Program."

Thank you for the opportunity to comment.

Sincerely,



Dennis P. Whalen
Executive Deputy Commissioner

Enclosure

cc: Dr. Barhydt
Mr. Dougherty
Mr. Howe
Mr. Osten
Mr. Reed
Mr. Van Slyke

Appendix A

**Department of Health
Comments on the
Office of the State Comptroller's
Draft Audit Report
2003-S-9 Entitled
"Quality Incentive Payment Program"**

The following are the Department of Health's (DOH) comments in response to the Office of the State Comptroller's (OSC) draft audit report (2003-S-9) entitled "Quality Incentive Payment Program."

General Comments:

Although the Department did not recommend continued funding of this program for 2003-2004, a legislative budget action, subsequently followed by an override of the Governor's veto, reauthorized funding to the detriment of more innovative proposals for improvement of quality of life for residents in adult care facilities (ACF). In addition to this specific action, several statutory amendments will limit the Department's actions in a manner that does not reflect the best interests of residents, as follows:

- ◆ It bans the Department from mandating resident council endorsement of fund usage by making the interaction consultative rather than the current policy of concurrence.
- ◆ It broadens the general purposes for which these funds can be used.
- ◆ It limits the scope of the Department's judgment on facility compliance to the most recent inspection of a facility.

In this context, the Department is fully supportive of the audit recommendations made and will implement necessary changes in the process as outlined in the attached response. In addition, the Department believes that changes to the application review process, inclusion of multi-agency review involving the Office of Mental Health and the Commission of Quality Care for the Mentally Disabled, will strengthen the program.

The Department objects to the language in the Eligibility and Application Issues section of the report which indicates that there was a lack of documentation that Department staff checked the facility enforcement action information in making QUIP decisions. This statement is inaccurate. The enforcement action database is fully reviewed as part of the process for determining eligibility for QUIP funding. It is the primary resource utilized in supporting individual facility denials for QUIP funding.

* Note

The following are the Department's comments to OSC's specific recommendations.

Recommendation #1:

Formalize procedures for reviewing QUIP applications to ensure consistent, adequate reviews.

Response #1:

Although the Department has had informal procedures in place for this review process, a formalized set of procedures will be created for use in the 2003-2004 award process.

Recommendation #2:

Modify the instructions for the QUIP application to require ACFs to provide detailed identification of specific projects to be funded by QUIP.

Response #2:

The 2003-2004 application will be modified to require a line item budget that will provide a greater level of specificity on how these funds will be used.

Recommendation #3:

Establish policies and procedures for consistent ACF accounting of QUIP funds including but not limited to the separate accounting of QUIP funds and the timing of expenditure of QUIP funds.

Response #3:

Programs receiving funding will be advised to establish a separate cost center for tracking expenditures in the QUIP categories approved for funding, and will be given a period of time in which such expenditures can be encumbered. This process will also be established as part of the 2003-2004 funding cycle.

State Comptroller's Note:

As stated in our report, to be eligible for QUIP funding, ACFs must not have notice of enforcement actions, which results from persistent violations cited in surveys by the Department's Surveillance Bureau. Based on our tests of the records, we found no cases where the Department distributed QUIP funds to ineligible ACFs. However, we also found that the Department did not maintain documentation in the files to support that staff checked available enforcement action information. We attribute this absence of documentation to the Department's lack of formalized procedures for reviewing QUIP applications.