



***Performance Audit***

***Mental Health: Contract Monitoring***

***Durham County Internal Audit Department***

***September 20, 2011***



**EXECUTIVE SUMMARY**  
**March 4, 2011**  
**Durham County**  
**Internal Audit Department**  
**(919) 560-0042**

**Contract Administration:**  
**Provider Performance Monitoring**

**Why We Did This Audit**

The Durham Center, heavily guided by state administrators, is responsible for assuring safe and adequate services are provided to its mental health clients. This audit was conducted to determine if the Center manages its provider contracts in a manner to assure that services meet quality objectives as required by the State and best practices. Specifically, the audit answered the following questions:

1. Are performance measures/expectations clearly defined in provider contracts?
2. Are mechanisms in place to monitor the quality of provider services as stipulated by state requirements?
3. Is the LME conducting the required monitoring activities in a timely manner in accordance with state requirements?

**What Is Recommended**

We recommend that each weakness identified and reported during desk reviews be addressed and the resolution documented and reported in subsequent monitoring efforts. This action will mitigate the potential legal risk due to seemingly unresolved provider performance issues. The Director agrees with the recommendation and implementation will begin immediately.

**What We Found**

The Durham Center's provider contracts include clearly defined performance measures and expectations for performance monitoring. The Center also (1) has an organization in place to monitor the quality of provider services in accordance with state requirements, and (2) conducts monitoring activity timely on a schedule required by the State. Although monitoring activity is conducted as required, reported weaknesses identified during desk reviews are not always directly addressed in subsequent monitoring activity or documented and reported in a manner whereby reviewers can determine if the weaknesses were addressed. This condition occurs because state provided follow-up monitoring categories differ in content and purpose and are not intended to directly follow-up on the desk review monitoring activity. The LME Director concurred with the audit's conclusion and has agreed to remedy the situation beginning immediately.

For more information regarding this report,  
please contact Richard Edwards at 919.560.0042  
or [rcedwards@durhamcountync.gov](mailto:rcedwards@durhamcountync.gov).



**COUNTY OF DURHAM**

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September 20, 2011

Michael M. Ruffin, County Manager:

This audit of the Department of Mental Health's (the Durham Center) contract administration procedures was conducted in accordance with the fiscal year 2010 Audit Plan. The audit fieldwork was conducted between April 14 and July 28, 2011.

We found the Durham Center in compliance with state mandated monitoring requirements. We made one recommendation to reconcile desk review findings and on-site review reporting and documentation. The recommendation will reduce the risk of potential adverse legal actions resulting from undocumented resolution of monitoring assessment results. The recommendation does not indicate a weakness in conducting state required monitoring procedures. The recommendation was made to enhance control activity to reduce potential risks.

The Mental Health Director reviewed the report and agreed with the conclusions and recommendation. The Director's plan to implement the recommendation is included in Appendix 1, Management Response.

I appreciate the courtesy and cooperation provided by the Mental Health Director's staff.

Richard Edwards

Internal Audit Director

XC: Ellen Holliman,  
Director, Durham Center

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## *Introduction*

This performance audit of Durham County's Mental Health Department's Contract Administration processes was conducted pursuant to the September 12, 2005, Audit Department Charter which established the Audit Oversight Committee and Audit Department and outlines the internal auditor's primary duties. The Audit Committee authorized this audit in July 2010.

A performance audit is an engagement that provides assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.<sup>1</sup>

This performance audit was conducted in accordance with generally accepted government auditing standards except for conduct of a peer review. The peer review has been scheduled for November 14, 2011. The audit standards require I plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. I believe the evidence obtained provides a reasonable basis for the findings and conclusions based upon the audit objectives.

## *Background*

The Mental Health Department (Durham Center) is the Local Management Entity (LME) for mental health, developmental disabilities, and substance abuse for Durham County. The Center is governed by a 13 member board appointed by the Board of County Commissioners. Its mission is to help affected individuals and families achieve the full potential to live, work and grow in their community. It achieves its objects by managing approximately 200 direct providers, 87 of which are under the direct purview of Durham's LME. As of September 20, 2011, the encumbered amount of the 87 contracts was approximately \$22.2 million.

The department is responsible for assuring that citizens who seek help receive the services and support for which they are eligible. The Center's responsibilities include assuring that the eligible are provided quality services and that their individual rights are protected. As such, the Center is responsible for managing service authorizations and quality via its contracts as well as developing the array of services required. The LME does not provide direct services to its clients.

North Carolina's (the State) requirements for selecting and monitoring service providers are extensive. It requires the LME to follow instructions and guidelines designed to assure competent services for mental health clients. The guidelines are

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<sup>1</sup> Comptroller General of the United States, *Government Auditing Standards*, Washington D.C: U.S. Governmental Accountability Office, 2007, p. 17

communicated through the contract between the state and the LME. The LME passes down the requirements to the provider via its contracting process.

Providers undergo a rigorous review before they are selected to participate in providing services for the County. Those reviews are included in the process to endorse or determine the provider is qualified to provide specific services. After contracts are awarded, the process of administration begins which includes monitoring performance in accordance with the contract agreement. Both the endorsement and administration functions consider performance facets including financial viability, safety and security, appropriate training and qualifications, appropriate credentials, and reporting.

Upon entering into a service contract with a predetermined capable service provider, the department is expected to monitor contractor performance. The LME establishes its authority and responsibility in its standard contracts between itself and service providers. An excerpt from the standard contract states the following:

“The Area Authority/County Program shall be given full opportunity by Provider to review performance indicators on-site to evaluate compliance with the rules of the North Carolina Commission for Mental Health, Developmental Disability, and Substance Abuse Services (the "Commission"), the Secretary of the Department of Health and Human Services, and applicable law. The Area Authority/County Program has the authority to conduct local monitoring to evaluate compliance with Federal, DHHS, Medicaid, and other applicable rules and statutes (see Operations Manual) and Provider shall cooperate with Area Authority/County Program in such monitoring. The frequency and the intensity of the local monitoring will be in the discretion of the Area Authority/County Program.”

The LME has the authority to conduct local monitoring at its discretion however; the state mandates much of the monitoring. For example, the State has provided tools to determine the frequency and extent of monitoring as well as tools for use in conducting and reporting follow-up or routine monitoring activity.

### *Audit Objectives*

This audit was conducted to determine if the Durham Center has developed and executes systems to appropriately administer its provider service contract agreements. Specifically, the audit will answer the following objective questions:

1. Are performance measures/expectations clearly defined in provider contracts?
2. Are mechanisms in place to monitor the quality of provider services as stipulated by State requirements?
3. Is the LME conducting the required monitoring activities in a timely manner in accordance with state requirements?

## *Scope and Methodology*

The focus of this audit was contract administration or monitoring activity after award of a provider contract. Our audit covered the period from January 2010 to July 28, 2011. We selected the beginning date because it coincided with the State's revision of the monitoring program.

Specifically we:

1. Reviewed fourteen provider contracts to identify monitoring requirements,
2. Reviewed the State contract with the LME to identify requirements for provider monitoring,
3. Reviewed state administrative codes for LME operation,
4. Reviewed contract monitoring documents for twenty-one providers for which routine monitoring had been conducted,
5. Interviewed the Mental Health Compliance Officer,
6. Interviewed the State's Accountability Team Policy Unit Leader, and
7. Analyzed monitoring reports and other monitoring documents.

## *Findings and Conclusions*

The Durham Center's service provider contracts include clearly defined performance measures and expectations for performance monitoring. The Center, referred to as the LME, has an organization in place and monitors the quality of provider services timely in accordance with state requirements. Complying with state monitoring requirements assures quality of service as well as reduces the risk of adverse legal actions. Although not required by the State, the LME could further reduce the risk of legal actions by addressing and documenting the resolution of all provider weaknesses identified during desk reviews. Therefore, we recommend addressing and resolving all identified potential risk indicators no later than the first provider visit whether the visit is routine or precipitated by other events such as a complaint. The Director agrees with the recommendation and has directed the Compliance Officer to begin implementing the recommendation immediately.

### **Contracts Include Monitoring Provisions**

LME programs are primarily funded and directed by the State therefore, the monitoring framework is heavily influenced by the State. Monitoring provisions are included in state instructions to LMEs and included in the contract between the State and the LME. Those provisions are passed on to providers via their contracts with the LME.

We reviewed fourteen randomly selected provider contracts and found the language addressing quality and monitoring requirements closely, if not exactly, matched language in contracts between the State and the LME. Each provided clear language regarding expected performance and how performance would be monitored. In addition to language in the contracts, operational handbooks, instructions, forms, statutes, and regulations are included and available to providers and administrators on the State's DHHS website.

### **Monitoring Requirements Are Established By the State**

The State requires LMEs to monitor service providers periodically and more often if needed due to complaints or other information suggesting a need to monitor. Monitoring includes routine and target monitoring activity. Routine monitoring is conducted as a result of planned efforts to provide oversight coverage to all service providers within prescribed timeframes. Target monitoring includes placing a greater intensity and focus on more acute incidents or circumstances that surface as a result of routine monitoring activity or complaints, inquiries, or other indications that focused attention is needed.

To conduct the required monitoring, the State developed provider monitoring tools. The primary tools are the Frequency and Extent of Monitoring (FEM) and the Provider Monitoring Tool (PMT). The FEM, a scored annual desk review of the service provider, is used in determinations of how frequently and intensely a provider will be monitored. The FEM considers critical areas such as provider performance, status with other agencies that have oversight, incident reporting, as well as other qualitative factors. The PMT is used to conduct on-site monitoring in accordance with results of the FEM desk review. These tools, citing state



administrative codes as reference, provide an organized process to compare and measure the provider's operation and performance against the State's criteria for acceptable performance.

In accordance with state mandates, LMEs are directed to conduct a routine provider monitoring visit at least every three years. As previously stated, the FEM score dictates the specific frequency of the monitoring visit. Currently, monitoring visits are required in accordance with the following scores.

<b>Score</b>	<b>Schedule</b>
High (80–100 points)	Minimum of once every three years
Moderate (40-79 points)	Once every 12-18 months
Low (0-39 points)	Minimum of two times per year

Source: FEM document

Of the twenty-one cases we reviewed twenty were given a moderate score while one was scored high. The LME is on schedule to complete monitoring visits as required by state administrators.

**Durham County's LME has mechanisms in place to comply with monitoring requirements.** In 2010 the State revised its monitoring requirements to increase FEM reviews to one per year as opposed to once every three years. To satisfy the new requirements the LME made organizational changes in late 2010 and began its required monitoring activity in February 2011. The LME appointed a compliance officer and two staff persons who are dedicated to routine provider monitoring activity. A third staff person joined the team in August 2011.

The monitoring team is responsible for routine monitoring of fifty-four provider contracts, forty-six of which should be monitored within an eighteen month period beginning September 1, 2010 and ending February 29, 2012. The remaining eight have a three-year window by which they should be monitored unless information or events dictate expedited monitoring activity.

The LME is on schedule to complete its monitoring activity timely. As of July 28, 2011, the department had conducted routine monitoring of twenty-one of the forty-six service providers required to be completed by the end of February 2012. Our analysis projects that all of the routine monitoring will be completed timely if the schedule is maintained at its current pace.

Monitoring visits often generate additional monitoring activity. For example, 14 of the 21 routine monitoring visits resulted in a finding of non-compliance with quality and performance provisions established in the provider handbook. A non-compliance determination requires Plans of Correction (POC) and additional monitoring activity to determine if deficiencies are corrected. According to information provided by the LME, it has conducted 45 focused monitoring, investigations, and POC follow-ups in addition to routine monitoring visits. If trends hold true for the remaining 25 providers, multiple monitoring visits will be required beyond the routine visit.

### **Opportunity exists to reduce risks**

Weaknesses identified in desk audits are not always directly addressed during routine monitoring visits. The effect is that the County's financial risk of adverse legal action is greater because documented resolutions of weaknesses are not apparent in reporting mechanisms. The weaknesses are not addressed because the PMT or routine monitoring tool does not parallel the FEM tool in regards to the specific categories and areas of monitoring it focuses upon.

Eighteen of twenty-one providers monitored at the time of our review contained at least one low score or weakness identified during the desk review that was not directly addressed during the routine monitoring visit. For example, a FME desk review stated that the provider did not provide complaint policies and procedures. The PMT monitoring report said "no complaints were reported," however, the lack of complaint policies and procedures was not specifically addressed. The LME Compliance Officer informed me that the issue was addressed under a section that deals with clients' rights; however, it was not clearly documented that the provider made available or turned in complaint policies and procedures. In another example, the FEM desk review indicates that the provider "...reported 0 incidents in 3 consecutive quarters. This is unjustifiably lower than other similar providers servicing similar consumers..." The monitoring report stated that complaints were reported timely, however, it was not apparent from the reports how this conclusion was arrived at and the FEM was not revised to indicate the provider was in compliance. We believe it is important to clearly address all indicators of risk in monitoring reports. This includes providing information regarding how the issue was resolved and clearly stating the results. We believe the potential financial risk of legal action is increased because provider weaknesses are not directly addressed and the resolution clearly communicated.

LME did not violate state requirements by not specifically addressing every item in the FEM. Both the FME and PMT is important program monitoring tools according to program administrators but they are used for different purposes although they are connected in that the FEM dictates the extent and frequency of monitoring while the PMT is the tool designed to conduct the monitoring. The State does not intend for the FEM and the PMT to duplicate each other therefore, completing the PMT may not address all issues raised by the FEM unless doing so becomes a monitoring objective. The LME Director agreed that all weaknesses identified in the FEM should be addressed and documented so it will be clear what actions were taken. The Director agreed to begin this practice immediately.

## *Conclusions and Recommendations*

Based upon the evidence we reviewed, the LME is in compliance with requirements to monitor its provider contracts. Management has assembled a staff to conduct monitoring requirements that changed in 2010; requiring more frequent desk reviews and subsequent on-site monitoring visits.

The weakness identified during the audit was not an issue of non-compliance. The LME uses the tools or forms provided by the State to conduct its reviews and monitoring inspections but the tools do not duplicate each other. Therefore some areas covered in the desk reviews are not specifically covered in subsequent review activity. We do not believe the LME does not have information by which to resolve the issues identified in desk reviews, however, the reporting mechanism do not document resolution. We believe the lack of documentation increases the legal risk and that that risk could be reduced by documenting how each weakness is addressed and resolved. Therefore, we made the following recommendation:

Each weakness identified and given a low score in the FEM provider desk review should be addressed no later than in the first scheduled monitoring visit whether routine or precipitated by a complaint. The monitoring tool should include clear documentation of how the weakness was resolved.

## Appendix I: Departmental Response



September 15, 2011

Richard Edwards  
Internal Audit Department  
Durham County Government  
200 East Main Street  
Durham, NC 27701

RE: Mental Health Contract Monitoring Audit Report

Dear Mr. Edwards:

The purpose of this letter is to acknowledge the receipt of the audit report. I have reviewed the report with the Corporate Compliance Officer and we concur with the following recommendation made:

*"...we recommend that for each low score on the FEM a correcting entry be made on the monitoring tool clarifying how the issue was resolved, including data collected or reviewed."*

Management is in full agreement with the recommendation.

Monica Portugal, Corporate Compliance Officer at The Durham Center, oversees monitoring activities and will be responsible to ensure implementation of the recommendation effective immediately.

Sincerely,

Ellen S. Holliman, LME Director



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