

COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING - FY 05-06 BUDGET REQUEST

Schedule 6											
Change Request for FY 05-06											
Department:	Health Care Policy and Financing			Dept. Approval by:	Lisa Esgar			Date:	November 1, 2004		
Priority Number:	DI - 11			OSPB Approval:				Date:			
Program:	Rates Section			Statutory Citation:	26-4-404 (1) (a), C.R.S. (2004); 26-4-405, C.R.S. (2004); and 26-4-119 (1) (d), C.R.S. (2004)						
Request Title:	Funding for Hospital and Federally Qualified Health Clinic Audits to Increase Recoveries										
		1	2	3	4	5	6	7	8	9	10
		Prior-Year		Supplemental	Total	Base	Decision/	November 1	Budget	Total	Change
		Actual	Appropriation	Request	Revised	Request	Base	Request	Amendment	Revised	from Base
	Fund	FY 03-04	FY 04-05	FY 04-05	FY 04-05	FY 05-06	Reduction	FY 05-06	FY 05-06	FY 05-06	in Out Year
							FY 05-06	FY 05-06	FY 05-06	FY 05-06	FY 06-07
Total of All Line Items	Total	1,868,908,515	1,934,894,559	0	1,934,894,559	1,934,584,218	0	1,934,584,218	0	1,934,584,218	0
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	855,127,797	936,766,159	0	936,766,159	936,297,614	0	936,297,614	0	936,297,614	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	72,180	0	72,180	72,180	0	72,180	0	72,180	0
	CFE	27,852,232	30,181,738	0	30,181,738	30,495,113	0	30,495,113	0	30,495,113	0
	FF	985,928,486	967,874,482	0	967,874,482	967,719,311	0	967,719,311	0	967,719,311	0
(1) Executive Director's Office	Total	250,000	250,000	0	250,000	250,000	100,000	350,000	0	350,000	100,000
Hospital and Federally Qualified Health Clinic Audits	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	125,000	125,000	0	125,000	125,000	50,000	175,000	0	175,000	50,000
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	0	0	0	0	0	0	0	0	0	0
	FF	125,000	125,000	0	125,000	125,000	50,000	175,000	0	175,000	50,000
(2) Medical Services Premiums	Total	1,868,658,515	1,934,644,559	0	1,934,644,559	1,934,334,218	(100,000)	1,934,234,218	0	1,934,234,218	(100,000)
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	855,002,797	936,641,159	0	936,641,159	936,172,614	(50,000)	936,122,614	0	936,122,614	(50,000)
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	72,180	0	72,180	72,180	0	72,180	0	72,180	0
	CFE	27,852,232	30,181,738	0	30,181,738	30,495,113	0	30,495,113	0	30,495,113	0
	FF	985,803,486	967,749,482	0	967,749,482	967,594,311	(50,000)	967,544,311	0	967,544,311	(50,000)
Letter Notation:											
Cash Fund name/number: <input type="checkbox"/> Federal Fund Grant name: <input checked="" type="checkbox"/> FF: Title XIX											
IT Request: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No (If yes, and request includes more than 500 programming hours, attach IT Project Plan)											
Request Affects Other Departments: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No (If Yes, List Other Departments Here:)											

CHANGE REQUEST for FY 05-06
EFFICIENCY AND EFFECTIVENESS ANALYSIS

SELECT ONE:

- Decision Item
- Base Reduction Item
- Supplemental Request Criterion:
- Budget Request Amendment Criterion:

Priority Number:	DI - 11
Change Request Title:	Funding for Hospital and Federally Qualified Health Clinic Audits to Increase Recoveries
Long Bill Line Item(s)	(1) Executive Director’s Office, Hospital and Federally Qualified Health Clinic Audits
State and Federal Statutory Authority:	26-4-404 (1) (a), C.R.S. (2004); 26-4-505, C.R.S. (2004); and 26-4-119 (1) (d), C.R.S. (2004)

Summary of Request (Alternative A): This request is to increase the contract for auditing services by \$100,000 in order to identify overpayments to hospitals and health centers due to cost report adjustments and rate setting. While this independent auditing has been successful in controlling costs, the current level of auditing could be expanded and an increase in recoveries to Medicaid is expected. While the amount that could be returned to both Colorado and the federal government cannot be projected exactly, savings in the Medical Services Premiums are assumed to be at least \$100,000 to offset the audit services costs. The request is therefore budget neutral.

Alternative A {Recommended alternative}:

Problem or Opportunity Description: The Department contracts with an independent certified public accounting firm to audit cost and rate data for hospitals, federally qualified health centers, and rural health centers that participate in Medicaid to establish reimbursement rates for services. Auditing of these facilities is federally mandated. The hospital audits are completed from the

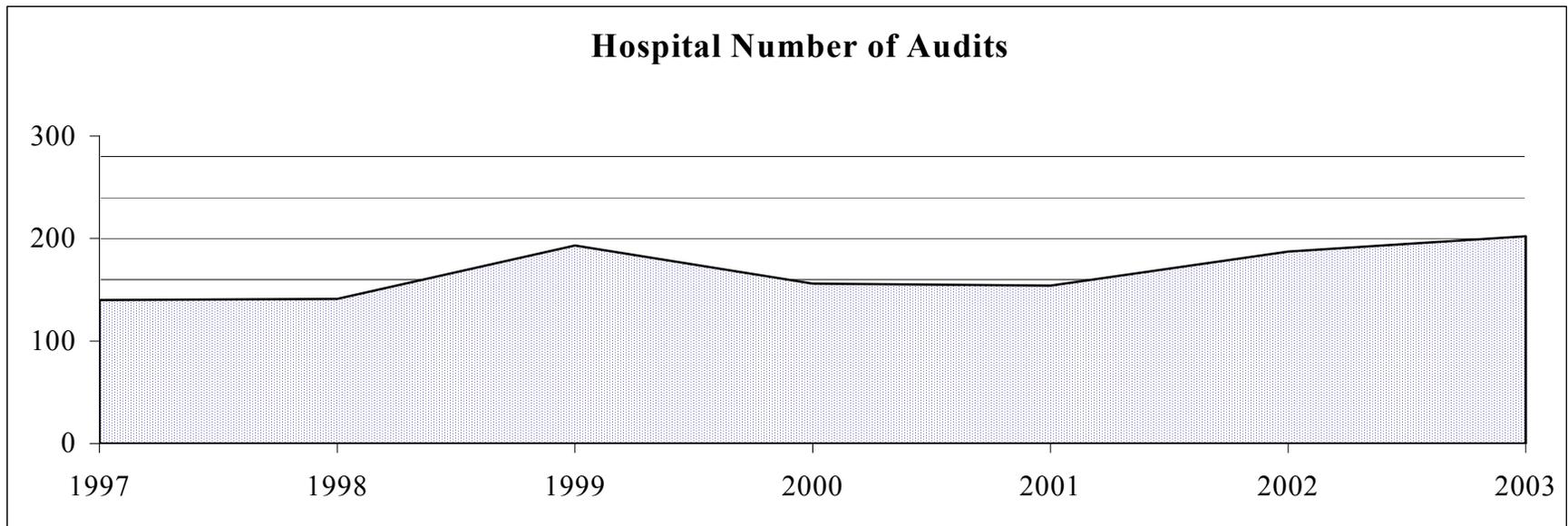
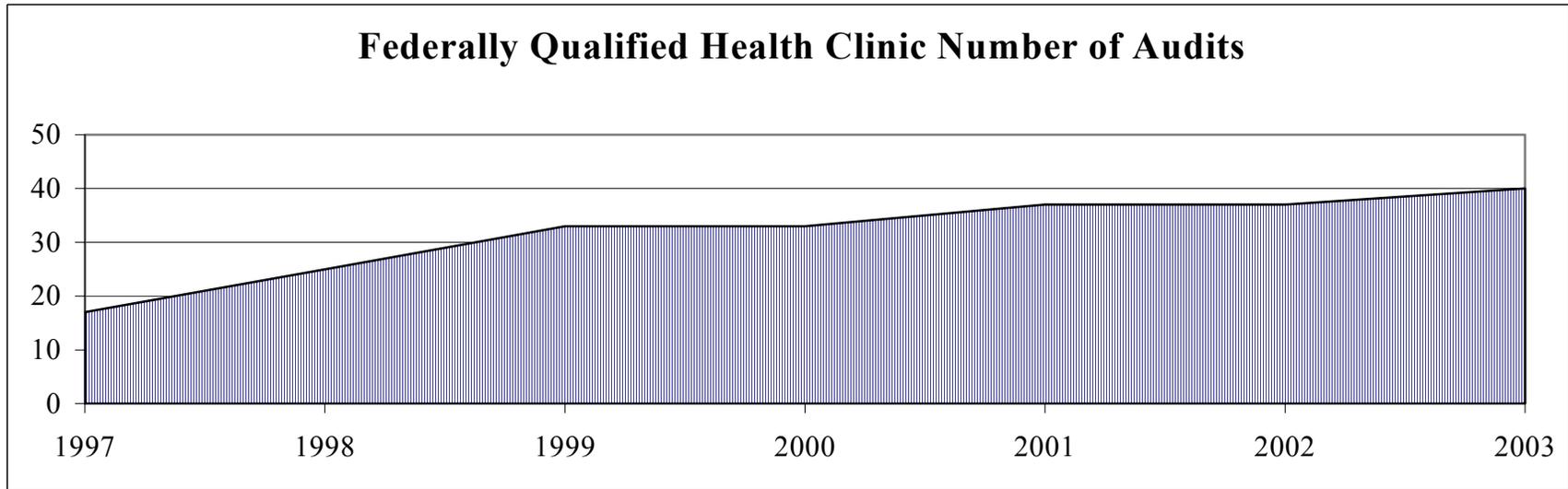
Medicare/Medicaid cost report and tailored to the Medicaid requirements. The accounting firm provides the following services: final settlements, rebasing calculations, consultation, assistance on cost report interpretation, and meetings with providers to resolve problems. The annual rates of reimbursement for hospitals, federally qualified health centers, and rural health centers are computed from the results of these audits. Annual rates are set to cover the reasonable and necessary costs of an efficiently run facility per federal and State law. When this contract expired June 30, 2001, the contractor for these audit services was TrailBlazers Health Enterprises, LLC.

The Department issued a Request for Proposal, but due to higher than appropriated proposal amounts, the Request for Proposal failed. A supplemental increase was approved for FY 01-02 to address the reasons the Request for Proposal failed and the Department was able to extend its contract with TrailBlazers Health Enterprises, LLC for FY 01-02. To accommodate needed increases, a Decision Item was approved for FY 02-03 increasing the contract to \$250,000 per year, more than double the earlier contract.

In FY 02-03, the full appropriation was expended as the new contractor (Parrish, Moody and Fikes) completed multiple audits, including hospitals, federally qualified health centers, and rural health centers. Many prior years had gone unaudited due to the lapsed contract for this service, the lower contract amount and difficulty in gathering the necessary data. The expanded audits of hospitals resulted in additional reclaimed funds.

In FY 03-04, to evaluate the time needed and the possible return in savings to the State, the Department's contractor conducted a partial site audit, in addition to current desk audits in the base budget. A site audit is more expensive to conduct, as both more time and additional expenses for travel to each site are needed. These costs are offset by disallowed additional costs, which potentially decrease the rate of each facility audited. Lower rates for facilities translate into savings. The one site audit was very successful and the return on investment was \$9 in expenses disallowed for \$1 of audit expenses.

The following two graphs depict review volumes for recent history.



General Description of Alternative:

The Department rate setting for health centers will be conducted in FY 05-06. By increasing funding for site audits in addition to the desk audits done annually, the Department would have more accurate and, in all likelihood, lower costs on which to base that rate setting. Although the amount of savings to the program could not be quantified and all savings would not be realized in the year the audits were conducted because the audits and subsequent rate setting are staggered during the fiscal year, the Department concludes that real savings would be obtained.

Hospital audits return savings to the Department as the audits are finished. The savings on those audits would be realized in the year the audit was completed.

It is anticipated that at least the cost of hospital and health center audits, \$100,000, would be recovered in FY 05-06. The Medical Services Premiums request is reduced by \$100,000 to reflect these savings.

The Department is committed to reclaiming the maximum amounts allowed by increasing both the number and complexity of the audits of hospitals and health centers. Each year, although the Department spends the entire allocation appropriated for this purpose, there are recoveries that are not made. Adding site audits and increasing the complexity of the current desk audit program each year can obtain a better picture of the true costs of these facilities to Medicaid.

Implementation Schedule:

Task	Month/Year
Contract Amendment Written	April 2005
Contract Amendment Signed	July 2005
Start-Up Date	July 2005
Complete Audits	June 30, 2006

Calculations for Alternative's Funding:

Summary of Request FY 05-06 and FY 06-07 Matches Schedule 6 and Recommended Request	Total Funds	General Fund	Federal Funds
Total Request	\$0	\$0	\$0
(1) Executive Director's Office – Nursing Facility Audits	\$100,000	\$50,000	\$50,000
(2) Medical Services Premiums	(\$100,000)	(\$50,000)	(\$50,000)

	Hours	Rate	Cost
Auditors	60.00	\$60.00	\$3,600
Clerical	6.67	\$60.00	\$400
Total Per Audit	66.67	\$60.00	\$4,000
		Number of Audits	25
			\$100,000

Impact on Other Areas of Government: None

Assumptions for Calculations:

The cost per site audit is based on a standard rate that would be charged by the auditor regardless of what levels of employees are working on the audit. That rate is \$60 per hour. The number of hours for each site audit was estimated, by the current auditor.

Travel expenses are included in the hourly rate. The Department estimates the number of additional audits in a year to be 7 hospitals and 18 federally qualified health centers, a total of 25 audits at an estimated \$4,000 per audit. Total cost of the audits is \$4,000 times 25, which equals \$100,000.

It is assumed that at least the cost of the audits, \$100,000, would be saved in Medical Services Premiums, when more complex and detailed site audits are performed.

Concerns or Uncertainties of Alternative: The exact number of audits and the exact amount of increased recoveries is not known at this time.

Alternative B {Status quo; no change in funding; not recommended}:

General Description of Alternative: With the same appropriation as in previous years, no additional audits or site visits would be completed.

Calculations for Alternative’s Funding: No change in funding with this alternative.

Concerns or Uncertainties of Alternative: As costs per audit increase over time, the number of audits and thus the savings from these audits for these facilities, would decline. The Department has been successful in identifying costs that can be disallowed at the current level of funding, however, the current level of funding does not provide for all of the audits that could be completed given adequate funding. There is concern that only the surface layer of savings has been achieved. Mistakes and identification of costs that are not appropriate have been discovered without utilizing site audit techniques. Maintaining level funding would not produce the maximum cost avoidance possible.

Supporting Documentation

Analytical Technique: Return on Investment

Return on Investment Analysis – Rough Estimate	
Investment in site audits and more complex audits for hospitals and federally qualified health centers	Return would be cost avoidance by disallowing additional costs and reducing payments to hospitals and by disallowing costs and reducing rates in the subsequent year for federally qualified health centers.
\$28,000 hospital site audits = 7 audits	For hospitals, the current program disallows \$3 to \$5 per dollar of audit costs. Site audits would be identified as those with lower disallowed costs. Audits that are disallowing \$3 would now return \$5 due to a more intense scrutiny of cost information. This would return an additional \$2 for each dollar spent.

<p>\$72,000 federally qualified health center site audits = 18 audits</p>	<p>For federally qualified health centers, the current program disallows \$3 to \$5 per dollar of audit costs. The estimated return would be a \$5 to \$9 return based on the trial site review. This more intense scrutiny of cost information would return an additional \$2 to \$4 for each dollar spent. For the purpose of this analysis the midpoint was chosen, \$3 per dollar invested.</p>
<p>\$100,000 total FY 05-06 requested funds</p>	<p>28,000 times \$2 = \$56,000 72,000 times \$3 = \$216,000 Total = \$272,000</p>
<p>Return on Investment is the ratio of the investment to the return</p>	<p>2.72</p>

A return on investment that is greater than 1 is considered favorable.

Quantitative Evaluation of Performance - Compare all Alternatives:

See Return on Investment analysis above.

Statutory and Federal Authority:

26-4-404 (1) (a), C.R.S. (2004). Providers - payments – rules . . . *but no provider shall, by this section or any other provision of this article, be deemed to have any vested right to act as a provider under this article or to receive any payment in addition to or different from that which is currently payable on behalf of a recipient at the time the medical benefits are provided by said provider.*

26-4-405, C.R.S. (2004). Providers - hospital reimbursement. *On or after July 1, 1987, the state department shall pay all licensed or certified hospitals under this article, except those hospitals operated by the department of human services, pursuant to a system of prospective payment, generally based on the elements of the medicare system of diagnosis-related groups . . . The state department shall develop and administer a system for assuring appropriate utilization and quality of care provided by those providers who are reimbursed pursuant to the system of prospective payment developed under this section.*

26-4-119 (1) (d), C.R.S. (2004). Capitation payments - availability of base data - adjustments - rate calculation - capitation payment proposal - preference - assignment of medicaid recipients. *A federally qualified health center, as defined in the federal "Social Security Act", shall be reimbursed by the state department for the total reasonable costs incurred by the center in providing health care services to all recipients of medical assistance.*

Department Objectives Met if Approved:

1.1 To maximize the opportunity to maintain health care services through the purchase of services in the most cost-effective manner possible

1.5 To accurately project, report, and manage budgetary requirements to effect Executive and Legislative intent with program and budget development and operations. To accurately record and monitor expenditures for programs managed by the Department so there may be accurate financial reporting at all times.