

COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING - FY 07-08 BUDGET REQUEST

Schedule 6											
Change Request for FY 07-08											
Department:	Health Care Policy and Financing			Dept. Approval by:	John Bartholomew			Date:	November 1, 2008		
Priority Number:	BRI-1			OSPB Approval:				Date:			
Program:	Rates Section			Statutory Citation:	25.5-4-401 (1) (a), C.R.S. (2008); 25.5-4-402, C.R.S. (2008); and 25.5-5-408 (1) (d), C.R.S. (2008)						
Request Title:	Hospital and Federally Qualified Health Center Audits — Funding for Renewed Contract										
		1	2	3	4	5	6	7	8	9	10
		Prior-Year Actual	Appropriation	Supplemental Request	Total Revised Request	Base Request	Decision/ Base Reduction	November 1 Request	Budget Amendment	Total Revised Request	Change from Base in Out Year
	Fund	FY 05-06	FY 06-07	FY 06-07	FY 06-07	FY 07-08	FY 07-08	FY 07-08	FY 07-08	FY 07-08	FY 08-09
Total of All Line Items	Total	1,996,614,308	2,111,655,409	0	2,111,655,409	2,125,934,036	(365,797)	2,125,568,239	0	2,125,568,239	0
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	715,081,453	740,905,782	0	740,905,782	747,059,902	(182,898)	746,877,004	0	746,877,004	0
	GFE	261,300,000	256,100,000	0	256,100,000	256,100,000	0	256,100,000	0	256,100,000	0
	CF	0	76,512	0	76,512	76,512	0	76,512	0	76,512	0
	CFE	23,713,210	55,563,806	0	55,563,806	56,549,000	0	56,549,000	0	56,549,000	0
	FF	996,519,645	1,059,009,309	0	1,059,009,309	1,066,148,622	(182,899)	1,065,965,723	0	1,065,965,723	0
(1) Executive Director's Office, Hospital and Federally Qualified Health Clinic Audits	Total	350,000	367,850	0	367,850	367,850	131,350	499,200	0	499,200	0
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	175,000	183,925	0	183,925	183,925	65,675	249,600	0	249,600	0
	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	175,000	183,925	0	183,925	183,925	65,675	249,600	0	249,600	0
(2) Medical Services Premiums	Total	1,996,264,308	2,111,287,559	0	2,111,287,559	2,125,566,186	(497,147)	2,125,069,039	0	2,125,069,039	0
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	714,906,453	740,721,857	0	740,721,857	746,875,977	(248,573)	746,627,404	0	746,627,404	0
	GFE	261,300,000	256,100,000	0	256,100,000	256,100,000	0	256,100,000	0	256,100,000	0
	CF	0	76,512	0	76,512	76,512	0	76,512	0	76,512	0
	CFE	23,713,210	55,563,806	0	55,563,806	56,549,000	0	56,549,000	0	56,549,000	0
	FF	996,344,645	1,058,825,384	0	1,058,825,384	1,065,964,697	(248,574)	1,065,716,123	0	1,065,716,123	0
Letter Notation:											
Cash Fund name/number, Federal Fund Grant name:											
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 07-08
EFFICIENCY AND EFFECTIVENESS ANALYSIS

SELECT ONE (click on box):

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

Priority Number:	BRI-1
Change Request Title:	Hospital and Federally Qualified Health Clinic Audits - Funding for Renewed Contract
Long Bill Line Item(s)	(1) Executive Director’s Office, Hospital and Federally Qualified Health Clinic Audits; (2) Medical Services Premiums
State and Federal Statutory Authority:	25.5-4-401 (1) (a), C.R.S. (2006); 25.5-4-402, C.R.S. (2006); and 25.5-5-408 (1) (d), C.R.S. (2006)

Summary of Request (Alternative A): This request would achieve a net savings for the Department of \$365,797 by increasing funding for audits of hospitals and federally qualified health clinics. For every \$1 spent on audits in FY 05-06, the Department achieved an estimated savings to Medical Services Premiums of \$2.72 for desk audits and \$5.00 for site audits.

Alternative A {Recommended alternative}:

Problem or Opportunity Description: The Department contracts with a certified public accounting firm to perform federally mandated cost and rate data audits for hospitals, federally qualified health clinics and rural health centers that participate in Medicaid. The certified public accounting firm establishes reimbursement rates, reviews contracts, calculates final cost settlements, rebases calculations, consults and assists on cost report interpretations, and meets with providers to resolve discrepancies. The annual rates of reimbursement for hospitals, federally qualified health clinics and rural health centers are computed from and based on

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.

Desk audits of hospitals and clinics are surveys tailored to Medicaid requirements completed from Medicare/Medicaid cost reports. Desk audits analyze cost reports to determine the accuracy and reasonableness of financial data reported by providers, identify problem areas that warrant additional review, and obtain information for use in planning a site audit if deemed necessary.

Site audits result in more accurate data and greater cost recovery than desk audits by focusing on specific payment issues that are potentially material in nature, or that put Colorado Medicaid dollars at risk. Site audits, also referred to as expanded audits, typically include onsite reviews and require more detailed verification of data than desk audits. They address areas not covered by Medicare that are material to Medicaid costs, such as nursery and neo-natal costs, and are alert to indications of fraud or abuse.

The Department's base appropriation in FY 03-04 and FY 04-05 for hospital and federally qualified health center audits was \$250,000 per year. This funding was used to perform desk audits that yielded annual Medical Services Premiums savings of over \$5 million. In FY 05-06, an additional \$100,000 was appropriated so that site audits could be conducted in addition to desk audits, which increased both the accuracy of cost reporting and savings to Medical Services Premiums. In FY 05-06 it is estimated that for every \$1 spent on audits, the Department achieved Medical Services Premiums savings of \$2.72 for desk audits and \$5.00 for site audits.

The Department's current auditing contract expires June 30, 2007, and needs to be re-bid prior to FY 07-08. The current contract has been in effect for five years. It was originally a two-year contract with three options to renew for one year. Over the present five-year contract period, the auditor received one cost of living adjustment in FY 06-07 (November 15, 2005 Budget Request for FY 06-07, Decision Item 11).

General Description of Alternative:

This request increases the base appropriation for hospital and federally qualified health clinic audits by \$131,350 to raise the hourly contract rate and provide sufficient funding for additional site audits. Since audits result in \$2.72 to \$5.00 savings to Medical Services Premiums for every \$1 spent, the total change in funding requested with Alternative A is a net Department savings of \$365,797.

Since the Department's current auditing contract expires June 30, 2007, it needs to be re-bid prior to FY 07-08. Recent communications between the Department and its auditor indicate that the contracted hourly rate, including the cost of living adjustment, is far below market rates and would not be sufficient for future audits. The contracted hourly rate is \$63.17, and research by the Department's Rates Section shows the hourly rate for comparable work in Colorado ranges from \$75 minimum to \$250 maximum. Alternative A requests funding to support an hourly rate of \$80.

In addition to the increased funding requested to meet the current industry rate of \$80 per hour for auditors in Colorado, the Department also requests an increase in the number of hours worked under the contract from 5,823 to 6,240, which is an increase of 0.2 FTE. This would enable the contractor to complete additional site audits, which yield greater savings than desk audits.

Since site audits had not been conducted prior to FY 05-06, the Department estimated that site audits would achieve the same Medical Services Premiums savings of \$2.72 per \$1 spent on audits as had been achieved previously with desk audits (November 15, 2005 Budget Request for FY 06-07, Decision Item 11). Site audits, however, have resulted in greater savings than desk audits, and therefore, the Department has revised its Medical Services Premiums savings per \$1 spent on site audits from \$2.72 to \$5.00.

Implementation Schedule:

Task	Month/Year
RFP Issued	February 2007
Contract Written	May 1, 2007
Contract Awarded/Signed	July 1, 2007
Start-Up Date	July 1, 2007

Calculations for Alternative's Funding:

Summary of Request FY 07-08 Matches Schedule 6, Column 6 and Recommended Request	Total Funds	General Fund	Federal Funds
Total Request	(\$365,797)	(\$182,898)	(\$182,899)
(1) Executive Director's Office, Hospital and Federally Qualified Health Clinic Audits	\$131,350	\$65,675	\$65,675
(2) Medical Services Premiums	(\$497,147)	(\$248,573)	(\$248,574)

Impact on Other Areas of Government: None

Assumptions for Calculations:

The Department used the assumptions below, as shown in Tables 1 and 2 of the attachment, to calculate the amount of additional funding needed to re-bid its contract for hospital and federally qualified health clinic audits before it expires on June 30, 2007:

- The hourly rate in the Department's current auditing contract is \$63.17. Research by the Department's Rates Section shows that rates for comparable audit work range from \$75-\$250 per hour. The Department assumes it will not be able to secure a new auditing contract unless it receives funding sufficient to pay an auditor \$80 per hour. This hourly rate represents a 27% increase over the current rate of \$63.17.
- The Department multiplied the requested hourly rate of \$80 by 6,240 hours (the number of hours equivalent to 3.0 FTE per year) to derive a total requested contract amount of \$499,200 (see Table 1 in the attached exhibit).

- The 27% increase in the hourly rate was used to revise the cost per desk audit from \$1,094.79 to \$1,386.47; and the cost per site audit from \$4,204.00 to \$5,324.00 (see Table 2 in the attachment).
- The revised cost per audit figures were then multiplied by the current number of audits being performed, equal to 240 desk audits and 25 site audits, for a total revised contract cost of \$465,852.
- The \$98,002 difference between the revised contract cost of \$465,852 and the current contract cost of \$367,850 was subtracted from the total additional funds requested of \$131,350 to determine the amount remaining for additional site audits: \$33,348.
- The \$33,348 remaining for site audits was then divided by the \$5,324 cost per site audit to determine that six additional site audits could be performed under the new contract with additional funding.

To determine the additional savings to Medical Services Premiums under the new total contract amount requested, the following assumptions were used as shown in Table 2 of the attachment:

- Estimated savings of \$2.72 per \$1 spent on desk audits, or \$332,752, yields a Medical Services Premiums savings of \$905,086. Estimated savings of \$5.00 per \$1 spent on site audits, or \$133,100 plus the remaining \$33,348, yields a Medical Services Premiums savings of \$832,240. Combined total savings of \$832,240 due to site audits plus \$905,086 due to desk audits equals a total estimated Medical Services Premiums savings of \$1,737,326.
- Since current Medical Services Premiums savings are estimated to total \$1,240,179, the Department requests the difference in savings of \$497,147 as a base reduction to the Medical Services Premiums appropriation in FY 07-08.
- The total change in Department funding requested with Alternative A is a savings of \$365,797, which is equal to the additional audit contract cost of \$131,350 less Medical Services Premiums savings of \$497,147.

Concerns or Uncertainties of Alternative: Since the length and complexity of audits vary, the actual quantity of audits performed under the new contract may differ from the estimates in Alternative A. Since the cost of each audit actually performed is a function of time for the contractor, the actual cost per audit figures also fluctuate. By fixing the total contract amount, however, the Department is able to cap its costs while instructing the contractor to perform site audits with the greatest return on investment potential.

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

General Description of Alternative: Maintain current funding level for hospital and federally qualified health clinics audits.

Calculations for Alternative's Funding: There is no change in funding with this alternative.

Concerns or Uncertainties of Alternative: The current level of funding supports 2.8 FTE auditors at \$63.17 per hour. Since current research shows market rates for comparable audit work range from a minimum of \$75 per hour to a maximum of \$250 per hour, the Department may not receive any responses to the request for proposals it issues to re-bid the contract which expires on June 30, 2007. If responses are received to the Department's request for proposals at the current level of funding, it is likely those responses would include fewer hours and less auditing work than is currently performed under the contract. As this would likely reduce the overall savings achieved to Medical Services Premiums, Alternative B is not recommended.

Supporting Documentation

Analytical Technique:

Return on Investment

	Alternative A	Alternative B
Investment	Additional cost of auditing contract: \$131,350	\$0
Return	Additional Medical Services Premiums savings: \$497,147	\$0
Return	Increased probability of a successful effort to re-bid the contract.	Lower probability of a successful effort to re-bid the contract.
	ROI = 3.78	ROI = 0

Quantitative Evaluation of Performance:

The return on investment analysis above is based on an estimated \$2.72 return per \$1 spent on desk audits and an estimated \$5.00 return per \$1 spent on site audits. Although Alternative A requires additional funding of \$131,350 for the auditing contract, the return on investment is estimated to be more than triple the cost. In addition, although there is no additional cost with Alternative B, the savings to Medical Services Premiums due to audits would likely be reduced in FY 07-08. This is because the existing contract amount is unlikely to support the required number of hours, FTE, or audit work that is currently being performed.

Statutory and Federal Authority:

25.5-4-401 (1) (a), C.R.S. (2006). 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.*

25.5-4-402, C.R.S. (2006). 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..*

25.5-5-408 (1) (d), C.R.S. (2006). 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 preserve 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 affect 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.