

STATE OF COLORADO FY 2011-12 BUDGET REQUEST CYCLE: DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

Schedule 13 Change Request for FY 2011-12 Budget Request Cycle											
Decision Item FY 2011-12			Base Reduction Item FY 2011-12			Supplemental FY 2010-11			Budget Amendment FY 2011-12		
Request Title:		Nursing Facilities Audit Expansion									
Department:		Health Care Policy and Financing				Dept. Approval by:		John Bartholomew JB		Date: January 3, 2011 12/3/10	
Priority Number:		BA-4				OSP/B Approval:		<i>[Signature]</i>		Date: 12/5/10	
	Fund	1	2	3	4	5	6	7	8	9	10
		Prior-Year Actual FY 2009-10	Appropriation FY 2010-11	Supplemental Request FY 2010-11	Total Revised Request FY 2010-11	Base Request FY 2011-12	Decision/ Base Reduction FY 2011-12	November 1 Request FY 2011-12	Budget Amendment FY 2011-12	Total Revised Request FY 2011-12	Change from Base (Column 5) FY 2012-13
<b>Total of All Line Items</b>		<b>Total</b> 2,879,612,780	3,110,164,940	0	3,110,164,940	3,103,718,108	0	3,103,718,108	0	3,103,718,108	0
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	763,831,176	701,862,703	0	701,862,703	1,080,789,509	0	1,080,789,509	0	1,080,789,509	0
	GFE	0	161,444,485	0	161,444,485	161,444,485	0	161,444,485	0	161,444,485	0
	CF	343,695,933	339,986,208	0	339,986,208	307,995,803	0	307,995,803	0	307,995,803	0
	CFE/RF	3,917,255	7,595,243	0	7,595,243	3,334,253	0	3,334,253	0	3,334,253	0
	FF	1,768,168,416	1,899,276,301	0	1,899,276,301	1,550,154,058	0	1,550,154,058	0	1,550,154,058	0
<b>(1) Executive Director's Office; (F) Provider Audits and Services, Professional Audit Contracts</b>		<b>Total</b> 1,790,216	3,306,813	0	3,306,813	2,438,566	0	2,438,566	24,840	2,463,406	24,840
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	895,108	1,256,281	0	1,256,281	969,283	0	969,283	0	969,283	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	352,988	0	352,988	250,000	0	250,000	12,420	262,420	12,420
	CFE/RF	0	0	0	0	0	0	0	0	0	0
	FF	895,108	1,697,544	0	1,697,544	1,219,283	0	1,219,283	12,420	1,231,703	12,420
<b>(2) Medical Services Premiums</b>		<b>Total</b> 2,877,822,564	3,106,858,127	0	3,106,858,127	3,101,279,542	0	3,101,279,542	(24,840)	3,101,254,702	(24,840)
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	762,936,068	700,606,422	0	700,606,422	1,079,820,226	0	1,079,820,226	0	1,079,820,226	0
	GFE	0	161,444,485	0	161,444,485	161,444,485	0	161,444,485	0	161,444,485	0
	CF	343,695,933	339,633,220	0	339,633,220	307,745,803	0	307,745,803	(12,420)	307,733,383	(12,420)
	CFE/RF	3,917,255	7,595,243	0	7,595,243	3,334,253	0	3,334,253	0	3,334,253	0
	FF	1,767,273,308	1,897,578,757	0	1,897,578,757	1,548,934,775	0	1,548,934,775	(12,420)	1,548,922,355	(12,420)
Non-Line Item Request:		None.									
Letternote Revised Text:		None.									
Cash or Federal Fund Name and COFRS Fund Number:		Medicaid Nursing Facility Cash Fund (22X)									
Reappropriated Funds Source, by Department and Line Item Name:		None.									
Approval by OIT?		Yes: <input type="checkbox"/> No: <input type="checkbox"/>		N/A: <input checked="" type="checkbox"/>							
Schedule 13s from Affected Departments:		None.									

**CHANGE REQUEST for FY 2011-12 BUDGET REQUEST CYCLE**

Department:	Health Care Policy and Financing
Priority Number:	BA-4
Change Request Title:	Nursing Facilities Audit Expansion

**SELECT ONE (click on box):**

- Decision Item FY 2011-12
- Base Reduction Item FY 2011-12
- Supplemental Request FY 2010-11
- Budget Request Amendment FY 2011-12

**SELECT ONE (click on box):**

Supplemental or Budget Request Amendment Criterion:

- Not a Supplemental or Budget Request Amendment
- An emergency
- A technical error which has a substantial effect on the operation of the program
- New data resulting in substantial changes in funding needs
- Unforeseen contingency such as a significant workload change

Short Summary of Request:

The Department requests \$24,840 total funds, \$12,420 cash funds, for FY 2011-12 and subsequent years, from the Medicaid Nursing Facility Cash Fund in order to expand the current scope of nursing facility audits to include an audit of reported Medicare days and total days. This function is essential to properly determine provider fee contributions and supplemental payments. This request would be fully offset by a reduction to nursing facility supplemental payments in Medical Services Premiums. In total, this request is budget neutral.

General Description of Request:

HB 08-1114 authorized the Department to make supplemental payments to nursing facilities. While the General Fund is used for the core components of the nursing facilities rate (such as direct and indirect health care costs and administrative costs), a provider fee collected from nursing facilities serves as the state share for supplemental payments. Supplemental payments include additional reimbursement to facilities for providing services to high acuity clients, funding for the nursing facility pay-for-performance program, preadmission screening and resident review (PASSR), as well as funding growth beyond the statutory General Fund growth cap. The distribution of

supplemental payments is a function of a participating facility's Medicaid and private-pay patient days (also known as "non-Medicare days"). Currently, these days are self-reported by the nursing facilities to the Department on a monthly basis. The Department does not currently audit the data submitted by the nursing facilities.

Because the Department's supplemental payments to nursing facilities and the amount of provider fee assessed to nursing facilities are calculated using the non-Medicare days reported by the nursing facilities, the integrity of the nursing facility provider fee program relies on accurate patient days data. However, because the data is currently unaudited, any errors in the data will lead to an inaccurate assessment of fees and an inaccurate distribution of supplemental payments. In FY 2010-11, four facilities misreported patient days. Had these errors not been discovered by the facilities that reported them, the facilities would have overpaid \$192,000 in provider fee, and experienced \$38,000 in under compensation for program add-ons. Auditing nursing facility reported non-Medicare days protects nursing facilities from inadvertent errors.

In HB 08-1114, the Department was appropriated additional administrative resources to implement the Nursing Facility Provider Fee program, including a one-time increase of \$75,000 total funds for FY 2008-09 for the development of the nursing facility provider fee model and a one-time increase of \$100,000 total funds for FY 2008-09 for the development of the nursing facility pay-for-performance program. Additionally, the Department was appropriated a permanent increase in FTEs for the implementation and maintenance of the Nursing Facility Provider Fee program; 1.3 FTEs were appropriated for FY 2008-09, annualizing to 2.0 FTEs for subsequent years, and an increase of \$8,098 total funds in FY 2008-09 annualizing to \$5,356 total funds in subsequent years for operating expenses. In FY 2009-10, the Department was appropriated \$150,000 total funds from the Medicaid Nursing Facility Cash Fund for the annual review of pay-for-performance applications. The Department's FY 2009-10 DI-14 "Nursing Facility Audit Reprocurement" requested and was approved to increase funding to the nursing facility auditor by \$129,866 total fund to maintain existing levels of auditing. The Department currently has no funding for the purpose of auditing the patient days reported by the nursing facilities.

The Department requests \$24,840 total funds, \$12,420 cash funds, for FY 2011-12 and subsequent years, from the Medicaid Nursing Facility Cash Fund in order to expand the current scope of nursing facility audits to include an audit of reported Medicare days and total days. Specifically, the expanded contract scope will encompass the following: the auditor will compare reported total days with each facility's two most recent cost report submissions, compare reported Medicare days to the most recent Medicare cost report, and compare reported program of all-inclusive care for the elderly (PACE) days to the previous year's submitted PACE days. The auditor will perform this reasonability check for all nursing facilities that participate in the Nursing Facility Provider Fee program. The requested amount is calculated in Table 1, based on information supplied by the Department's current auditor.

Section 25.5-6-202 (9)(c)(II), C.R.S. (2010) requires that nursing facilities only report costs for reimbursement purposes that are reasonable, necessary and patient-related; to meet this requirement, the Department contracts with an auditor to ensure proper cost reporting. The current responsibilities of the auditor include field audits, desk reviews and rate calculations used to set nursing facility-specific per diem rates for Medicaid eligible beneficiaries. The Department anticipates that it can enhance the audit requirements to include patient days without reprocurring the current contract. The Department's request represents a 2.02% increase in the annual contract amount, from \$1,227,366 to \$1,252,206.

This request to increase funding to the nursing facility auditor for the purpose of auditing non-Medicare days ensures integrity by reducing the opportunity for errors and fraud. Furthermore, as funds used to make supplemental payments are matched with federal funds, auditing non-Medicare days proactively addresses a potential federal audit risk to the state.

The Department currently assesses the maximum fee permitted in statute. Therefore, the Department anticipates that any additional expenditure from the cash fund for administrative purposes will require a corresponding decrease in supplemental payments. Consequently, increasing administrative payments will result in a \$24,840 total funds reduction to supplemental payments to nursing facilities. However, as the impact is

distributed across all nursing facilities that participate in the nursing facility provider fee program in the state, the impact to individual facilities will be mitigated. Further, ensuring the accuracy of data on patient days serves to protect the interests of all nursing facilities, by ensuring accurate fee assessments and supplemental payments.

Consequences if Not Funded:

If this request is not approved, there will be insufficient funding to expand the scope of the nursing facility auditor contract to include an audit of non-Medicare days. This will result in the Department's continued reliance on self-reported data from nursing facilities. The Department would be limited in its efforts to ensure the integrity of the Nursing Facility Provider Fee program.

Calculations for Request:

<b>Summary of Request FY 2011-12</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Cash Funds<sup>(1)</sup></b>	<b>Reappropriated Funds</b>	<b>Federal Funds</b>
Total Request	\$0	\$0	\$0	\$0	\$0
(1) Executive Director's Office; (F) Provider Audits and Services, Professional Audit Contracts	\$24,840	\$0	\$12,420	\$0	\$12,420
(2) Medical Services Premiums	(\$24,840)	\$0	(\$12,420)	\$0	(\$12,420)

<b>Summary of Request FY 2012-13</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Cash Funds<sup>(1)</sup></b>	<b>Reappropriated Funds</b>	<b>Federal Funds</b>
Total Request	\$0	\$0	\$0	\$0	\$0
(1) Executive Director's Office; (F) Provider Audits and Services, Professional Audit Contracts	\$24,840	\$0	\$12,420	\$0	\$12,420
(2) Medical Services Premiums	(\$24,840)	\$0	(\$12,420)	\$0	(\$12,420)

<sup>(1)</sup> Medicaid Nursing Facility Cash Fund.

**Table 1: Estimated Cost for Expanded Scope of Work**

Row	Component	Value	Calculation
A	Hours Per Facility	1.5	Per Contractor Estimate
B	Number of Facilities	190	Per Provider Fee Model
C	Total Hours	285	Row A * Row B
D	Hourly Rate <sup>1</sup>	\$87.16	Per Contractor Estimate
E	Total Cost <sup>2</sup>	\$24,840	Row C * Row D

<sup>1</sup> The hourly rate represents a weighted average of multiple rates for various activities required to complete the expanded scope of work.

<sup>2</sup> Due to rounding, the total in Row E will not match Row C \* Row D exactly.

Cash Funds Projections:

No cash fund projection since no new cash funds are being requested.

Assumptions for Calculations:

The Department's contractor for nursing facility audits has provided information regarding the costs of expanding the scope of work to provide audits of nursing facility Medicare and total reported days. The total number of nursing facilities does not fluctuate significantly; as such, the Department anticipates that the requested funding will be sufficient to perform the enhanced audits in future years.

Impact on Other Government Agencies:

None.

Cost Benefit Analysis:

<b>FY 2010-11 Cost Benefit Analysis</b>	<b>Costs</b>	<b>Benefit</b>
<b>Request</b>	Reduction of \$24,840 to Nursing Facility supplemental payments.	The Department will ensure the integrity of the Nursing Facility Provider Fee program and will reduce potential fraud and audit risk.
<b>Consequences if not funded</b>	The Department will be unable to mitigate fraud and audit risks associated with the self-reporting of Medicare and total days from nursing facilities and will be unable to ensure the integrity of the program.	Nursing Facilities will retain \$24,840 in supplemental payments.

Implementation Schedule:

Auditing days in one fiscal year will only impact supplemental payments and provider fees in the following fiscal year. For FY 2011-12 supplemental payments and provider fees to be based on audited days, the Department will need to initiate auditing in FY 2010-11. For FY 2010-11, only, the Department anticipates there will be sufficient funding in (1) Executive Director's Office; (F) Provider Audits and Services, Professional Audit Contracts, due to under expenditure on another contract within the same line item, to initiate the auditing of nursing facility days beginning January 15, 2011. If this request is approved, the auditor will continue in its expanded capacity in FY 2011-12 and subsequent years.

Statutory and Federal Authority:

25.5-6-203, C.R.S. (2010). Nursing facilities - provider fees - federal waiver - fund created - rules - repeal.

*(1) (a) (II) For the fiscal year commencing July 1, 2009, the provider fee shall not exceed seven dollars and fifty cents per nonmedicare-resident day. For the fiscal year commencing July 1, 2010, and each fiscal year thereafter, the provider fee shall not exceed seven dollars and fifty cents per nonmedicare-resident day plus inflation based on the national skilled nursing facility market basket index as determined by the secretary of*

*the department of health and human services pursuant to 42 U.S.C. sec. 1395yy (e) (5) or any successor index.*

*(1) (g) The state department shall establish a schedule to assess the provider fee on a monthly basis and shall collect the fee from nursing facility providers by no later than the end of the next succeeding calendar month. The state board shall establish rules so that provider fee payments from a nursing facility provider and the state department's supplemental medicaid payments to the nursing facility are due as nearly simultaneously as feasible; except that the state department's supplemental medicaid payments to the nursing facility shall be due no more than fifteen days after the provider fee payment is received from the nursing facility. The state department shall require each nursing facility provider to report monthly its total number of days of care provided to nonmedicare residents.*

*(2) (b) (I) All moneys in the fund shall be subject to federal matching as authorized under federal law and subject to annual appropriation by the general assembly for the purpose of paying the administrative costs of implementing section 25.5-6-202 and this section and to pay the supplemental medicaid payments established under section 25.5-6-202 (7).*

Performance Measures:

*Improve the long-term care delivery system: Initiate new contracting requirements and oversight to make more efficient use of vendors.*

Increasing the stability of the Nursing Facility Provider Fee program by via the expansion of an existing nursing facility auditor is an efficient use of a vendor and assists the Department in achieving its objective to improve the long-term care delivery system.