

STATE OF COLORADO FY 2009-10 BUDGET REQUEST CYCLE: DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

Schedule 13											
Change Request for FY 2009-10 Budget Request Cycle											
Decision Item FY 2009-10 <input checked="" type="checkbox"/>		Base Reduction Item FY 2009-10 <input type="checkbox"/>			Supplemental FY 2008-09 <input type="checkbox"/>			Budget Amendment FY 2009-10 <input type="checkbox"/>			
<b>Request Title:</b>		Nursing Facility Audit Reprocurement									
<b>Department:</b>		Health Care Policy and Financing			<b>Dept. Approval by:</b>		John Bartholomew <i>JB</i>		<b>Date:</b>		November 3, 2008
<b>Priority Number:</b>		DI-14			<b>OSPB Approval:</b>		<i>John U. 2/0</i>		<b>Date:</b>		10-7-08
		1	2	3	4	5	6	7	8	9	10
		Prior-Year Actual FY 2007-08	Appropriation FY 2008-09	Supplemental Request FY 2008-09	Total Revised Request FY 2008-09	Base Request FY 2009-10	Decision/ Base Reduction FY 2009-10	November 1 Request FY 2009-10	Budget Amendment FY 2009-10	Total Revised Request FY 2009-10	Change from Base (Column 5) FY 2010-11
Fund											
<b>Total of All Line Items</b>	<b>Total</b>	0	1,708,700	0	1,708,700	1,708,700	129,866	1,838,566	0	1,838,566	129,866
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	0	854,350	0	854,350	854,350	64,933	919,283	0	919,283	64,933
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE/RF	0	0	0	0	0	0	0	0	0	0
	FF	0	854,350	0	854,350	854,350	64,933	919,283	0	919,283	64,933
<b>(1) Executive Director's Office; (F) Provider Audits and Services, Professional Audit Contracts*</b>	<b>Total</b>	0	1,708,700	0	1,708,700	1,708,700	129,866	1,838,566	0	1,838,566	129,866
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	0	854,350	0	854,350	854,350	64,933	919,283	0	919,283	64,933
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE/RF	0	0	0	0	0	0	0	0	0	0
	FF	0	854,350	0	854,350	854,350	64,933	919,283	0	919,283	64,933

\*Prior to the reorganization of the Department's budget in the FY 2008-09 Long Bill HB 08-1375, funding for nursing facility audits was appropriated in (1) Executive Director's Office; Nursing Facility Audits.

<b>Non-Line Item Request:</b>	None
<b>Letternote Revised Text:</b>	None
<b>Cash or Federal Fund Name and COFRS Fund Number:</b>	FF: Title XIX
<b>Reappropriated Funds Source, by Department and Line Item Name:</b>	N/A
<b>Approval by OIT?</b>	Yes: <input type="checkbox"/> No: <input type="checkbox"/> N/A: <input checked="" type="checkbox"/>
<b>Schedule 13s from Affected Departments:</b>	N/A

**CHANGE REQUEST for FY 2009-10 BUDGET REQUEST CYCLE**

Department:	Health Care Policy and Financing
Priority Number:	DI-14
Change Request Title:	Nursing Facility Audit Reprocurement

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

- Decision Item FY 2009-10
- Base Reduction Item FY 2009-10
- Supplemental Request FY 2008-09
- Budget Request Amendment FY 2009-10

**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:

This request is for an increase of \$129,866 in the total funds appropriation for the (1) Executive Director’s Office; (F) Provider Audits and Services, Professional Audit Contracts line item. This request is to increase the funding for audits of Medicaid nursing facilities for rate setting purposes.

Background and Appropriation History:

The Department is statutorily required to audit costs reported by Medicaid nursing facilities for rate setting purposes. The Department conducts a competitive procurement once every five years to obtain professional audit services needed to perform this function. The current procurement period will expire on June 30, 2009. A new procurement will be conducted in FY 2008-09 to continue audit services for the five-year period beginning July 1, 2009.

The Department contracts with an independent accounting firm to perform audits of nursing facility cost reports. The Medicaid “Financial and Statistical Report of Nursing Homes” (MED-13) determines which costs are reasonable, necessary, and patient related to subsequently set rates based on those costs. The audited cost reports are the basis for

setting nursing facility rates to cover the reasonable and necessary costs of providing care for Medicaid clients, in accordance with State and federal statutes.

Having a five-year contract provides high accuracy and consistency in developing nursing facility rates annually. Any reduction in the scope, complexity, or quality of nursing facility audit services would result in higher Medicaid reimbursement rates, on average, for nursing facilities.

The contract is administered at a flat monthly rate. This flat reimbursement system was implemented by the Department in 1998 to simplify accounting, contract management and budgeting procedures; thus, vendors must submit a fixed price bid for the entire contract period. This fixed price system allows funding for this function to be requested on a continuation basis throughout the five-year period. Detailed requirements are necessary to continue a rigorous evaluation of nursing facility costs each year.

A competitive procurement began in FY 2003-04 to issue a new five-year contract to begin in FY 2004-05. The Department had two bidders and the contractor was selected through the State-approved procurement process based on a combination of technical audit requirements and cost. The successful bid for audit services from FY 2004-05 through FY 2008-09 was for an increased amount over prior years for a total appropriation of \$1,097,500 as requested in DI-8 submitted November 1, 2004 for FY 2005-06 and S-6 submitted January 3, 2005 for FY 2004-05.

During the 2008 legislative session, HB 08-1114 was enacted which made significant changes to nursing facility reimbursement methodology. The audit contractor will need to evaluate different information than what has been reviewed in the past in order to calculate rates in accordance with the new methodology; however, this change will not affect the cost of conducting the audits. The change to reimbursement methodology will not change the overall scope or detail level of audits currently conducted.

General Description of Request:

The Department is requesting an additional \$129,866 in increased funds for the contract to audit nursing facilities. The increase would raise the annual contract amount to

\$1,227,366, an 11.83% increase, to continue providing three different service levels as well as consulting services to the Department. Current service levels include field audits, desk reviews and rate calculations used to set nursing facility-specific per diem rates for Medicaid eligible beneficiaries. The contract function is necessary for the purpose of making accurate payments to nursing facilities per 25.5-6-202 (9) (c) (II), C.R.S. (2008) which requires that nursing facilities only report costs for reimbursement purposes that are reasonable, necessary and patient-related.

The current appropriation of \$1,097,500 has not been increased since FY 2004-05 and an increase in funding is needed to cover an overall increase in costs associated with conducting audits of nursing facilities. An increase in funding is necessary to continue contractually provided services for thorough and effective audits of Medicaid nursing facilities over the next five fiscal years. The Department is requesting an 11.83% increase in funding over the current appropriation with continuation funding through FY 2013-14.

The Department avoids additional costs in its Medical Services Premiums line by conducting audits of nursing facilities. Independent audits of nursing facility cost reports help the Department avoid potential additional costs from misallocation by nursing facility providers, and identify savings per diem when the auditor discovers costs that are not allowed per Medicaid regulations. The Department currently estimates cost avoidance in Medical Services Premiums of approximately \$3.25 million. The Department estimates there is a ratio of approximately \$2.65 to \$1 of savings to the cost of nursing facility audits. These ratios are greatly affected by the quality of the auditor and rigorous auditing standards are required of the contractor in order to maintain these ratios.

Consequences if Not Funded:

If this request is not approved there would not be sufficient funding to maintain the current level of detail for nursing facility audits. This could result in decreased quality and thoroughness of nursing facility audits, a reduced number of site visits or a failed procurement. Decreasing the quality or number of audits would result in fewer identified

errors and cost misallocations, resulting in higher costs to Medical Services Premiums. In addition, a weaker audit program could increase the likelihood of fraud.

Calculations for Request:

<b>Summary of Request FY 2009-10</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Federal Funds</b>
Total Request	\$129,866	\$64,933	\$64,933
(1) Executive Director's Office; (F) Provider Audits and Services, Professional Audit Contracts	\$129,866	\$64,933	\$64,933

<b>Summary of Request FY 2010-11</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Federal Funds</b>
Total Request	\$129,866	\$64,933	\$64,933
(1) Executive Director's Office; (F) Provider Audits and Services, Professional Audit Contracts	\$129,866	\$64,933	\$64,933

Cash Funds Projections:

Not applicable.

Assumptions for Calculations:

The Department's contractor for nursing facility audits provided information regarding how much it currently costs to conduct the three different levels of service it provides. The following table details these costs by level of service provided:

<b>Level of Service</b>	<b>Number to be completed</b>	<b>Cost per level of service</b>	<b>Total</b>
Field Audits	52	\$8,700	\$452,400
Desk Reviews	106	\$4,750	\$503,500
Rate Calculations	52	\$2,500	\$130,000
<b>Subtotal</b>			<b>\$1,085,900</b>
Consulting Services	1000 Hours	\$70.00	\$70,000
<b>Estimated Total Cost</b>			<b>\$1,155,900</b>

The contractor's estimated cost of \$1,155,099 per year represents a 5% increase over the current contract amount. The contractor also estimates that costs will continue to increase over the five years of the contract and estimates their costs will increase on average by 3% per year. The increase of 3% per year is in line with current Consumer Price Index rates for medical services and the Department believes this is a reasonable estimate for inflation of costs over the five year period of the contract. The following table shows the costs inflated for the course of the five year contract:

<b>Fiscal Year</b>	<b>Estimated Price</b>	<b>Notes</b>
FY 2009-10	\$1,155,900	Estimated cost per current contractor
FY 2010-11	\$1,190,577	Inflated by 3%
FY 2011-12	\$1,226,294	Inflated by 3%
FY 2012-13	\$1,263,083	Inflated by 3%
FY 2013-14	\$1,300,976	Inflated by 3%
Sum of Years 1 through 5	\$6,136,830	
<b>Total Fixed Price Estimate</b>	<b>\$1,227,366</b>	Sum of 5 years divided by 5

Using the average cost over the course of the five year contract, the Department estimates the necessary fixed price for each year to be \$1,227,366.

In addition, per diem savings are estimated by the audit contractor each year. For each year and for each nursing facility, the auditor compiles the cost per patient per day (per diem) calculated before the audit and the cost per patient per day calculated after the audit. The two rates are compared and the differences in the rates computed. The average of the difference is the average per diem savings due to the audit conducted that year. The following tables show the assumptions used to calculate the average savings per day and the nursing facility costs, and their growth over the same period.

Year	Per Diem Savings	Actual Nursing Facility Costs
FY 2003-04	(\$1.23)	\$416,011,012
FY 2004-05	(\$0.98)	\$423,878,333
FY 2005-06	(\$0.41)	\$456,520,328
FY 2006-07	(\$0.71)	\$478,303,487
FY 2007-08	(\$1.35)	\$486,568,498
Average	(\$0.94)	

Estimated patient days FY 2009-10	3,323,690	November 3, 2008 FY 2008-09 Budget Request, Exhibits for Medical Services Premiums, Page EH-2
Average savings per patient day	\$0.94	Average savings per day for all nursing facilities over a five year period per current audit contractor
Average growth in nursing facility per diem reimbursement	4.55%	November 3, 2008 FY 2008-09 Budget Request, Exhibits for Medical Services Premiums, Page EH-3
Estimated savings per patient day	\$0.98	Average savings per day for all nursing facilities multiplied by the average growth rate in nursing facility reimbursement (\$0.98 increased by 4.55%)
Estimated savings	\$3,257,216	Patient days multiplied by estimated savings per patient day
Contract funding	\$1,227,366	Proposed contract funding level
Savings for each dollar spent on the contract	\$2.65	Estimated reduction divided by contract funding

Impact on Other Government Agencies: None.

Cost Benefit Analysis:

<b>FY 2009-10 Cost Benefit Analysis</b>	<b>Costs</b>	<b>Benefits</b>
<b>Request</b>	The cost of the request includes \$129,866 to increase the funding for audits of Medicaid nursing facilities.	Increasing the funding for these audits will ensure the Department maintains the quality and detailed level of audits currently provided. Through detailed audits, the Department is able to avoid potential additional costs from the misallocation of costs by nursing facility providers; for every \$1.00 spent on the audits, the Department saves \$2.77.
<b>Consequences if not Funded</b>	If this request is not approved there would be additional costs to the Medical Services Premiums line item as well as an increased potential for fraud.	No benefits.

Implementation Schedule:

No implementation schedule is necessary because the audit contract will be executed as of July 1, 2009 regardless of the approval or denial of this request.

Statutory and Federal Authority:

25.5-6-202 (9) (c) (II), C.R.S. (2008) *For all rates effective on or after July 1, 1997, for each class I nursing facility provider, only such costs as are reasonable, necessary, and patient-related may be reported for reimbursement purposes. Nursing facility providers may include the level of medicare part A ancillary costs that was included and allowed in the facility's last medicaid cost report filed prior to July 1, 1997. Any subsequent increase in this amount shall be limited to either the increase in the facility's allowable medicare part A ancillary costs or the percentage increase in the cost of medical care reported in the United States department of labor bureau of labor statistics consumer price index for the same time period, whichever is lower. Part B direct costs for medicare shall be excluded from the allowable reimbursement for facilities.*

25.5-6-201 (2), C.R.S. (2008) *"Actual cost" or "cost" means the audited cost of providing services.*



Performance Measures:

By assuring the Department maintains an adequate funding level for the nursing facility audits, this change request will help the Department achieve its performance measure to “conduct nursing facility audits (both change of ownership or risk based audits) to recoup patient payment (third party liabilities) currently used in personal needs accounts.”