

Office of
LEGISLATIVE AUDITOR GENERAL
State of Utah

**ILR 2008-D
November 2008**

A Limited Review of Medical Assistance Eligibility Determination Costs

Medicaid eligibility determination in Utah has been administered exclusively by the Department of Workforce Services (DWS) since July 2007. DWS administers Medicaid eligibility determination along with 11 other core services, which include medical assistance, food and financial, and employment services. As a result, Medicaid eligibility cannot be adequately assessed without a full review of all DWS eligibility determination operations.

**Medical assistance
eligibility
determination cost
increased \$16.4
million from FY 2007
to FY 2008.**

The Legislative Audit Subcommittee approved an audit of Medicaid during its July 2008 meeting. During our initial risk evaluation, we conducted a limited review of the consolidation of medical assistance eligibility determination, which includes Medicaid eligibility determination, within DWS in order to determine the cause and effect of a reported \$16.4 million cost increase. Conversely, it was estimated that the cost of medical assistance eligibility determination would actually decrease \$3.5 million to \$4 million per year after a four-year adjustment period. We are concerned that DWS is not completely able to explain why costs have increased or the actual impact the cost increase has on the state's share of the costs.

Due to the consolidation of eligibility determination services within DWS, an assessment of the actual cost of Medicaid eligibility

determination requires a full review of all eligibility determination services, their associated costs, and DWS' cost allocation methodology.

Medical Assistance Cost Increase Necessitates Full Audit

Medical assistance eligibility determination costs appear to have increased \$16.4 million since the function was consolidated in DWS. Prior to 2007, DOH administered 60 percent of Medicaid eligibility determination while DWS administered the other 40 percent. The two units were consolidated with the intent of lowering costs and improving recipient convenience. Some of the \$16.4 million cost increase appears to have been shifted from both the from employment and the food and financial assistance service eligibility determinations that are also administered by DWS. However, it appears that the cost shifting may lead to an increase in the state's share of DWS eligibility determination service costs. We believe a full audit of DWS should be conducted in order to determine the actual effect of the medical assistance eligibility determination consolidation.

Medicaid Eligibility Determination Was Recently Consolidated in DWS

The Legislature consolidated medical assistance eligibility determination beginning fiscal year 2008 based on information that services could be managed more effectively and efficiently if combined with other eligibility determination services within DWS. Medical assistance services include Medicaid, Children's Health Insurance Program (CHIP), and Primary Care Network (PCN).

Before the consolidation, the Department of Health (DOH) administered eligibility determination for all Medicaid and PCN cases that did not include other employment or food and financial services, or about 60 percent of all Medicaid eligibility determination cases. Meanwhile, DWS administered the Medicaid and PCN eligibility determination services to recipients who required employment or food and financial services, or about 40 percent of all Medicaid eligibility determination cases. DOH administered all CHIP eligibility determination cases before the consolidation.

Prior to the consolidation of eligibility determination services, DOH administered 60 percent of Medicaid eligibility determination.

Medical assistance eligibility determination was consolidated beginning in FY 2008.

DOH spent \$15.9 million on medical assistance eligibility determination in fiscal year 2007. DWS spent an additional \$13.4 million on medical assistance eligibility determination during the same year. After software maintenance costs are subtracted, a total of \$25.9 million in state and federal funds was spent to administer medical assistance eligibility determination in fiscal year 2007.

Upon consolidation of the two units, 253 eligibility workers, 10 leased facilities, and 10 vehicles were transferred from DOH to DWS on July 1, 2007. Including state and federal funds, \$16.6 million was then given to DWS to administer medical assistance eligibility determination. In total, \$14.8 million was transferred to DWS from DOH to administer Medicaid eligibility determination, with \$6.6 million coming from the state General Fund and \$8.2 million coming from federal funds, dedicated credits, and other revenues. The additional funds, which were not transferred from DOH, came from the Tobacco Settlement funds.

At the time of the consolidation, the Office of the Legislative Fiscal Analyst estimated that the medical assistance eligibility determination costs would eventually decrease approximately \$3.5 million to \$4 million per year by consolidating the eligibility determination into one department. The recommendation to consolidate eligibility determination functions was supported by the Governor, DOH, and DWS. However, our limited review indicates that total medical assistance eligibility determination costs have actually increased by 63 percent during the first full year of the consolidation. Figure 1 shows the total cost of medical assistance eligibility determination over from fiscal year 2004 to fiscal year 2008 after subtracting software maintenance costs.

Medical assistance eligibility determination costs were expected to decrease \$3.5 to \$4 million per year after a three to four year transition.

Medical assistance eligibility determination costs increased 63 percent after the first year of the consolidation.

Medical assistance eligibility determination costs increased an average of 16 percent per year from FY 2003 to FY 2007.

Part of the eligibility determination cost increase may be the result of cost shifting from other eligibility determination services.

Cost shifting from other eligibility determination services may increase the state's share of total costs.

Figure 1 The Cost of Administering Medicaid Eligibility Determination Increased Almost 71 Percent Since FY 2007. The cost of determining all medical assistance increased 63 percent from FY 2007 to FY 2008.

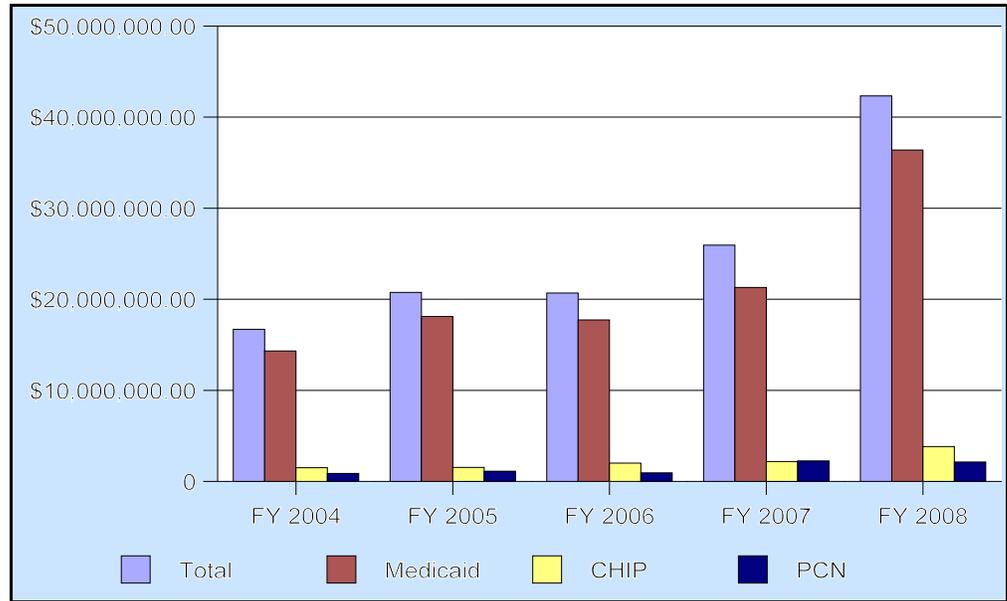


Figure 1 shows that the total cost to administer eligibility determination for Medicaid and CHIP increased since the consolidation in July 2007 while the cost to administer PCN eligibility determination decreased over the same time. During the four years before the eligibility determination consolidation, total medical assistance eligibility determination costs increased an average of 16 percent per year, while the cost of Medicaid eligibility determination increased an average of 15 percent per year. In the first year since the consolidation, the total cost of medical assistance eligibility determination increased 63 percent, from \$25.9 million in fiscal year 2007 to \$42.3 million in fiscal year 2008. The cost of Medicaid eligibility determination increased 71 percent, from \$21.3 million in fiscal year 2007 to \$36.4 million in fiscal year 2008.

While it appears that medical assistance determination costs have increased almost \$16.4 million, that does not necessarily mean that state and federal programs had to come up with all of the funds. At least some of the cost increase appears to have been the result of cost shifting from other eligibility determination services within DWS. However, this cost shifting may actually increase the state's share of the costs. A full audit could more fully determine the potential effect of cost shifting.

DWS does not know why medical assistance eligibility determination costs increased.

A full legislative audit could help determine the cause and effect of the medical assistance eligibility determination cost increase.

DWS employs an RMTS system to determine how eligibility workers spend their time.

DWS has several theories as to why costs have increased since the eligibility determination consolidation. The following are some possible reasons DWS gave for the increase in costs for medical assistance eligibility determination services:

- Eligibility merger transition and moving (e.g., cost of breaking leases, salary adjustments, etc.)
- Training of both former DOH staff and staff continuing with DWS
- Open enrollment of CHIP after 10-month closure, resulting in pent-up demand
- Increasing Medicaid caseloads
- FTE increase at DWS to prepare for eREP implementation
- Cost-of-living allowance

Due to the scope limitations of this audit, we were not able to validate the impact of these concerns; however, we believe that they likely explain at least part of the reason for the medical assistance eligibility determination cost increase from fiscal year 2007 to fiscal year 2008. We are concerned, however, that DWS does not appear to fully know why costs have increased since the consolidation of medical assistance eligibility determination. Therefore, we recommend that a full audit of DWS be conducted in order to determine the cause of the increase in medical assistance eligibility determination costs and the effect the eligibility determination consolidation will have on the state.

Cost Shifting May Increase The State's Share of Costs

As previously mentioned, Medicaid eligibility determination is administered by DWS eligibility workers who administer eligibility determination for a total of 12 core eligibility determination services, including medical assistance, food and financial assistance, and employment services. The administration of these services is funded based on the amount of time eligibility workers spend on each program. For example, if eligibility workers spend 25 percent of their time determining food stamp eligibility, 25 percent of the department's eligibility determination expenditures would be billed to the food stamps program. This cost allocation plan is used in order to accommodate the varying sources of funding for each service. The department employs a random moment time sample (RMTS) in order to determine how to fund

eligibility determination services. The RMTS is discussed in more detail beginning on page 8 of this report.

Due to the RMTS method of time allocation, it appears that at least part of the increased cost of medical assistance eligibility determination is funded by shifting time from other eligibility determination services. We are concerned about the impact this shifting may have on the state because some eligibility services that are reportedly receiving proportionally less time, based on RMTS results, receive more federal funding than the medical assistance determination services. Thus, while total eligibility determination costs may not increase, the state may be required to pay a greater share of the DWS eligibility determination costs.

DWS eligibility workers have spent less time on eligibility services that have a higher federal contribution since the medical assistance eligibility determination consolidation.

DWS eligibility workers spent 310 percent more time administering Medicaid eligibility determination in fiscal year 2008 than they did in fiscal year 2007, based on the average number of quarterly RMTS strikes. This can be explained partly by both the increased workload after the consolidation and an increase in Medicaid cases. However, it appears that the time spent administering Medicaid eligibility determination has increased more than should be expected.

Due to the greater-than-expected increase in time spent on Medicaid eligibility determination, eligibility workers appear to be spending less time on services that receive a higher federal match. Figure 2 shows the time spent on the 12 core DWS eligibility services by quarter from fiscal year 2004 to fiscal year 2008.

Figure 2 DWS Eligibility Workers Spent an Average of 27 Percent of Their Time on Medicaid Eligibility Determination in FY 2008. Since the medical assistance eligibility consolidation, eligibility workers appear to be sending more time administering Medicaid eligibility determination than they do on other eligibility determination services that receive higher rates of federal funding.

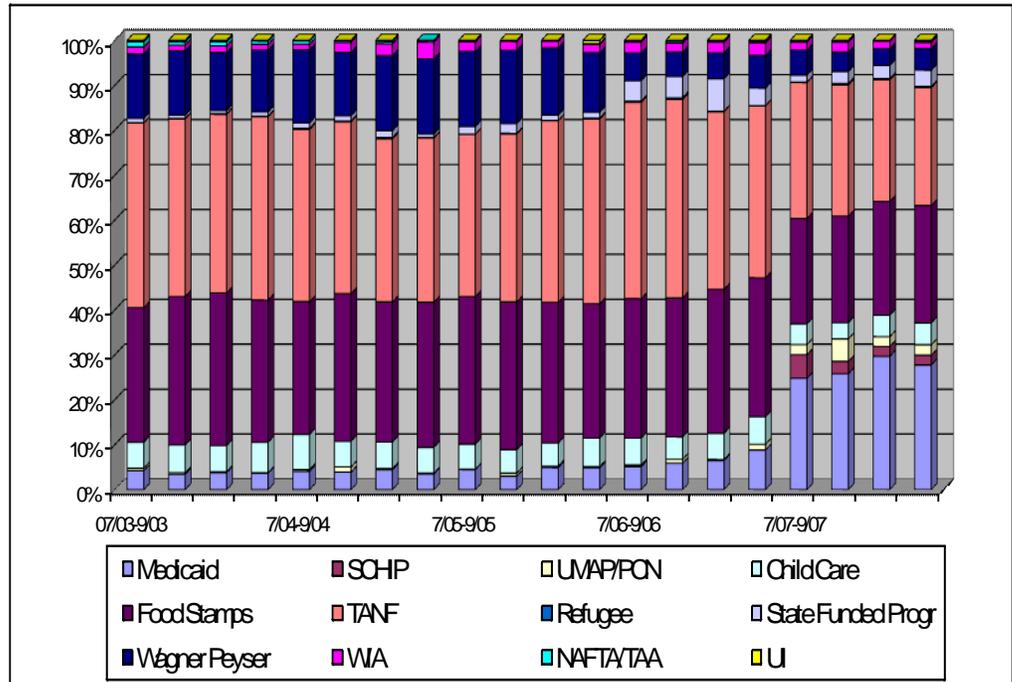


Figure 2 shows that DWS eligibility workers are reportedly spending proportionally more time on Medicaid eligibility determination and proportionally less time on other eligibility determination services since the medical assistance eligibility determination consolidation at the beginning of fiscal year 2008. DWS eligibility workers reported spending an average of 6.6 percent of their time on Medicaid eligibility determination in fiscal year 2007, yet they reported spending 27 percent of their time on Medicaid eligibility determination in fiscal year 2008.

Medicaid cases increased 5.9 percent from FY 2007 to FY 2008.

Another explanation for the shift in time spent on certain eligibility services could be the changing demand for certain services. For example, Medicaid cases increased 5.9 percent from July 2007 to July 2008, while Temporary Assistance for Needy Families (TANF) cases decreased 16.8 percent during the same time period.

The decrease in time spent on TANF eligibility determination, for example, is one possible example of how spending more time on Medicaid

TANF cases decreased 16.8 percent from FY 2007 to FY 2008.

eligibility determination than expected may impact the state. TANF eligibility determination is 100 percent federally funded after the state pays a required amount. Due to the fact that eligibility workers are spending more time on Medicaid eligibility determination and less time on TANF eligibility determination, DWS receives an increased share of its funding from Medicaid and a decreased share of its funding from TANF. Moreover, Medicaid eligibility determination funding is based on a 50 percent federal match compared to 100 percent federal payment for TANF eligibility determination. Thus, the state is required to pay the 50 percent difference between time that would have previously been billed to TANF but is now spent administering Medicaid eligibility determination.

We are concerned that the consolidation of medical assistance eligibility determination may impact the state in the future. We are also concerned that the current RMTS time allocation system may not be accurately accounting for the time eligibility workers are spending on each eligibility determination service. A full audit could address these issues.

DWS Eligibility Determination Program Needs Review

A full legislative audit could address concerns with DWS's cost allocation system.

During the course of our limited evaluation of Medicaid eligibility determination costs, we found other areas in DWS where we believe a full legislative audit could provide additional insight. As previously mentioned, we have concerns that the cost allocation method that DWS uses may not be completely accurate and reliable. A full audit could also help increase the efficiency of the eligibility determination process, specifically within the eligibility determination call centers. We recommend that a full audit be conducted on the DWS cost allocation method and the eligibility determination process.

Cost Allocation Method Needs Greater Level of Review

As previously mentioned, DWS uses a random moment time sample (RMTS) to determine funding for the eligibility determination services it administers. The sample is set up so that 4,500 emails will be randomly sent out to eligibility workers each quarter asking what they are doing at the exact moment they receive the email. Due to the impact this method

has on funding, it is essential that the data collected from this sample be accurate. As previously discussed, we have some concerns about the accuracy of the system, but we were not able to make conclusions in our limited review of Medicaid eligibility determination costs. The department's RMTS should be reviewed in depth to determine accuracy.

The federal Department of Health and Human Services (DHHS) has approved the current cost allocation plan contingent upon the system's accuracy. In its approval letter, DHHS states the acceptance of the plan is subject to "the information contained in the Plan and provided by the state in connection with our review of the Plan [being] complete and accurate in all material respects." We are concerned that the RMTS system may not be entirely accurate because eligibility workers may not be consistently selecting the appropriate program and may not fully understand how to complete the emailed survey. We believe a full audit of DWS would determine if the overall cost allocation system is accurate.

Eligibility Call Center Could Be Reviewed

In our limited review of the Medicaid eligibility determination, we also noticed some other potential areas for increased effectiveness and efficiency. Particularly, it appears that the efficiency of eligibility inquiries that are made over the phone could be improved. We believe that the current call allocation process and telecommute options are among the areas that a full audit could address.

Under the direction of the DWS director, the eligibility determination call center for the Central Region has recently implemented a method of continuous improvement, called Kaizen. We believe that a full legislative audit could assist the department by reviewing additional methods that could be used to increase the effectiveness and efficiency of the call centers.

Recommendation

1. We recommend that a full legislative audit be conducted on the eligibility determination process and the DWS cost allocation system.

A full legislative audit could help increase the effectiveness and efficiency of the eligibility determination process.



State of Utah

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**Department of
Workforce Services**

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November 12, 2008

Dear Legislative Audit Committee:

The Utah Department of Workforce Services has reviewed the Legislative Auditor General's Report Number 2008-D dated December 2008, "A Limited Review of Medical Assistance Eligibility Determination Costs."

Medicaid and other program eligibility costs are a significant concern to the Department of Workforce Services, because of the program implications, the resources required to do eligibility, and the impact on current and potential clients using the Department's services. Workforce Services, along with the Department of Health, have evaluated potential causes for the cost increases.

The Department of Workforce Services welcomes a review/audit of the Medicaid eligibility determination process used by the Department. The only request from the Department is that the Legislative Auditor General considers waiting until next State fiscal year to begin their audit. The rationale for this recommendation is:

1. The Department has just finished the first year of the consolidation of the Health eligibility workers into Workforce Services;
2. The Department is currently implementing eREP which has training and organizational change requirements which will continually change through the year;
3. The Department has planned a full organization evaluation as a prelude to a possible restructuring in light of items 1 and 2 listed above.

We feel that since the Department is in a state of transition, it would be more effective for all concerned to wait to start the audit. Your consideration of our request would be greatly appreciated.

Sincerely,

Kristen Cox, Executive Director

Cc Governor's Office of Planning and Budget
Legislative Fiscal Analyst Office