CHAPTER 4

Division Practices Need to Ensure Cost-Effective Allocation and Use of Waiver Funds

Federal and state policies require states' HCBS waiver services to be cost effective. The Division has chosen to meet this requirement primarily through DOORS (not an acronym), a funding model designed to allocate money equitably, according to participants' needs and within an established budget. However, we found discrepancies between how the funding system is purported to work and how it actually works. These discrepancies raise questions as to how well the system contributes to the cost-effective allocation and use of funds.

The effect of DOORS on program costs and client choices should be studied.

Our concerns focus on administrative choices regarding the selection of DOORS variables, the lack of external validation of data on which the model is based, and the overriding of model results. These choices appear to drive rather than contain costs. The Division needs to be more forthright about the service choice and program cost implications of its administrative decisions. We recommend the Department of Health contract for an independent study to assess how the selection of variables and administrative adjustments to the model affect program costs and service choices for clients. We also recommend the Division develop an accounting system to track funds used for emergency cases and forced rate requests.

State Waiver Programs Must Demonstrate Cost Effectiveness

States have great latitude when designing waiver programs.

According to a U.S. Department of Health and Human Services primer on Medicaid, at both the federal and state levels, it is important that waiver services and supports be delivered in a cost effective and efficient manner. At the federal level, criteria for waiver cost effectiveness simply require average per-capita waiver costs to be less than the average per-capita institutional cost. At the state level, however, the focus becomes one of balancing ever-increasing demands for services with available resources.

Consequently, the federal government gives states great latitude in designing and implementing HCBS waivers, expecting state budget pressures will assure that the costs of providing needed services to developmentally disabled persons are no greater than necessary.

Cost containment is a key state responsibility

Financial analysis can help programs develop cost containment measures.

A recent Robert Wood Johnson Foundation study notes that state developmental disabilities directors are responsible for allocating funds within their budgets. According to the study, financial management analysis is essential in helping states develop ways to effectively reduce waiting lists and contain costs. The study recommends that each state develop strategies for overall funding allocation and rate setting, based on thorough financial management analysis.

As participant numbers and costs continue to rise nationwide, the need for cost containment has become increasingly important. Program costs in Wyoming are particularly sensitive to changes in the federal Medicaid match rate, since the waiver is the only funding source for adult services. A change in match rate can shift more program costs back to the state. Since the waiver began in 1991, the maximum federal match rate has fluctuated from a high of 69 percent in FY ’92, to a low of 58 percent in FY ’04. Federal participation is expected to continue this decrease in FY ’05.

Division Aims to Be Cost-Effective

Cost effectiveness is a primary waiver goal.

The Division’s objective for the waiver program is “to assure that individuals with developmental disabilities in Wyoming, including those at risk of institutionalization, have access to a choice of coordinated services that enhance their lives, foster self-sufficiency, and maintain them in the least restrictive and most cost-effective environment.” The Division emphasizes “it is vital that the state manage its resources effectively and efficiently.”

Division officials maintain that the DOORS funding model supports the goals of achieving a system that is person-centered, portable, predictable, and fair and equitable. To achieve these goals, each waiver client must be able to control the use of his or her funds (person-centered), use those funds anywhere in the state (portable), and plan for all services from year to year (fair, equitable, and predictable).

Division Sought a Better Way To Allocate Waiver Funds

DOORS addresses problems seen in previous funding approaches.

Prior to developing DOORS in 1998, the Division used traditional funding approaches such as setting conventional rate schedules and cost caps, using funding tiers, and conducting ad hoc negotiations with provider agencies. It developed DOORS in response to specific problems encountered with those approaches. For example, ad hoc negotiations had led to increases in costs and variations in payments among providers and clients.

Division developed new funding approach

The DOORS model was officially implemented for all Adult Waiver clients in FY ’99. Since then, the Division has implemented three new versions of the model and is currently preparing a fifth version.

The goal of DOORS is to allocate more funds to needier clients.

Using stepwise multiple regression, the Division identified a number of individual characteristics and service choices that explain variations in client funding. The objective of the model is to allocate resources across a broad range of clients so that clients with greater disabilities who require more services are allocated IBAs greater than clients with less severe disabilities who require fewer services. DOORS also enables the Division to cost out services for those individuals determined eligible for the waiver but who must wait for services.

Division’s Financial Practices Have Been Questioned by CMS

The 2003 CMS review identified problems with the Division’s system for demonstrating the DOORS model’s ability to produce reasonable individual funding levels (IBAs). It also questioned the Division’s process for approving requests for additional funding that were on the order of three to four times the amounts that DOORS had set as the individuals' IBAs (see Chapter 5).

We have concerns similar to those noted by CMS.

Rather than replicating CMS' approach and conducting another case file review, we analyzed the Division's client, ICAP, allocation, and expenditure data for the current Adult Waiver population. In our analysis, we took a much broader approach to reviewing program operations, and this approach identified many of the same concerns CMS noted. An additional concern is that although the Division provided much of the data we used to analyze and describe its practices, we were unable to reconcile many numbers from Division reports, electronic data, and interviews. Because of gaps and inconsistencies in the data, we chose to examine the issue of cost effectiveness by concentrating largely on Division practices and procedures that work to undermine this purpose.

Certain Division Practices Override the Model's Inherent Neutrality

In theory, DOORS is capable of meeting the Division's expectations and could contribute to a more cost-effective use of public money. The Division's primary intent in creating DOORS was not to develop a cost containment system, but to better support client choice of services and providers. Nevertheless, Division officials believed that allocating a set level of funds within the context of these goals would also address cost containment and cost effectiveness issues.

The Division revises the DOORS model frequently.

Despite these admirable goals, several Division practices have undermined the cost containment potential of the model. These practices include: selecting model variables that support certain providers, not obtaining external or internal validation of the data used to develop and revise the model, and administratively overriding model results.

Selection of variables

The Division chooses which variables to include in DOORS. Some examples of variables in the formula are: clients' living arrangements, work settings, the types of services received in the past as well as functional and medical information from the ICAP assessments. The decision to include or exclude a statistically significant variable is a subjective administrative decision. Such decisions dictate how the available funding will be allocated to different clients, as well as how funds are likely to be budgeted in each client's plan.

The Division has made choices about variables that tend to increase costs. For example, the model excludes blindness, a variable that would help hold costs down because blind individuals tend to be less costly than similarly disabled non-blind individuals. In addition, the model allocates funds to clients for services they need or prefer but to which they may not have access.

The Division implements policy preferences through its choice of model variables.

Similarly, the Division has chosen to include residential and day habilitation in the DOORS model as a living arrangement variable. As a result, individuals who choose group residential settings receive relatively more funding than individuals who have equivalent needs, based upon their disabilities, but a different residential preference. This funding outcome creates a policy that supports those providers who offer group residential settings. The Division's choice to include these variables may dissuade clients from choosing less expensive residential placements.

DOORS has been based on unvalidated financial and clinical data

In developing and subsequently revising DOORS, the Division assumed that past services offered to individuals were both reasonably priced and necessary. Assuming that existing service costs bore a reasonable relationship to need, the Division accepted past cost and utilization data without systematically validating this data. The Division also could not demonstrate that it obtained independent external validation of the cost and clinical data that were used in the model.

Other states validate cost and clinical information.

In terms of clinical data, Division officials and others admit that ICAP results on which the first model was based were unreliable. Unlike Wyoming, Nebraska validates its clinical information by requiring that each participant requesting behaviorally related services undergo clinical observation and psychological assessment by institutional professionals. Also in contrast to Wyoming, South Dakota validates actual costs each year, by verifying provider contact time with every waiver client over a one-month period.

Administrators adjust model results

Not all adjustments are clearly driven by client needs.

The Division has the ability to override model features and adjust model results. In some cases, these adjustments address changes in client needs, but in others, the adjustments are not clearly driven by individual client needs. For example, the Division has administratively adjusted model results up six percent for inflation, and applied a hold harmless provision to maintain past funding levels for individuals served by certain providers. By taking these actions, the Division has in effect regulated certain providers' incomes through the manipulation of individuals' IBAs.

In addition, we could not clarify how the Division allocates or accounts for funding IBA increases for existing waiver clients and for emergency cases. According to Division officials, funding for emergency cases and forced rate requests comes from unspent portions of all clients' IBAs. However, providers indicated in interviews they consistently spend between 97 and 99 percent of client IBAs. The Division did not explain how, under these circumstances, it can guarantee enough funding is available to serve more clients or to increase budgets for existing clients who need additional funding.

Average program costs and waiting list costs differ

The Division bases cost projections on averages, rather than actual cost data.

The Division has attributed the average per-client cost of services to the cost of serving persons on the waiting list, even though these two figures differ greatly. As a result, the average cost to serve those on the waiting list may have been overstated in budget requests. For example, when requesting additional funding in the 2003 Session to cover persons on the waiting list, the Division applied the average per-person cost for services of those already on the Adult Waiver. The Division estimated the average cost to serve a waiver participant at $61,733, and this was the figure on which it based a request for more funding.

Instead of using the average cost for those already receiving services, the Division could have used more precise cost estimates. DOORS calculates an IBA for each eligible person, and totaling the IBAs of those on the waiting list should accurately represent their expected initial costs of services.

Waiting list costs may have been lower than average program costs.

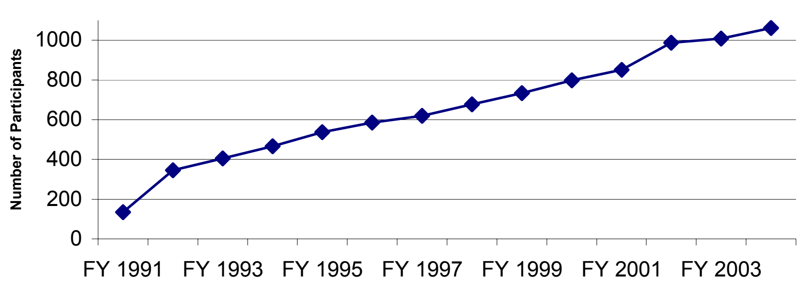
Our analysis shows that individuals on the waiting list as of August 2003 (FY ’04) had IBAs that averaged $16,850, and only one of them had an IBA higher than $61,733. Our analysis also shows that current waiting list individuals have milder disabilities than most persons already on the waiver. Thus, unless the waiting list in FY ’03 had markedly different characteristics than the current list, it seems likely that the average expected cost for their services could have been considerably less than was stated.

DOORS Favors a Traditional High-Cost System

Expanded eligibility criteria have allowed more participants to be added to the Adult Waiver (see Figure 4.1). Program costs have also increased, in part because the DOORS model provides relatively more funding for clients who choose traditional and expensive day habilitation and group home residential habilitation services.

Figure 4.1

Annual Waiver Participation, FY ’91-’04



Source: Division Data*

* Through FY ’03. FY ’04 figure is based on the Division’s most recent waiver amendment, increasing participation to 1,062 by the end of FY ’04.

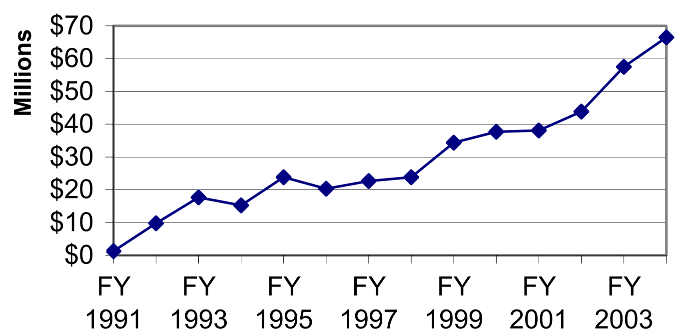
Adult Waiver costs are increasing

Adult Waiver expenditures have increased for the last three biennia.

Adult Waiver costs have risen dramatically since 1991, the first year of the waiver. Division expenditure information shows program costs increasing from approximately $24 million in FY ’98 to a projected $66 million in FY ’04 (see Figure 4.2). This represents a 167 percent increase in Adult Waiver expenditures over the three most recent biennia, or a tripling of the state contribution. Although the Legislature appropriated Footnote 9 funding during the 2002 Session specifically to increase wages for direct care staff, our calculations show that less than one-third of the increases during the three biennia can be attributed to this appropriation.

Figure 4.2

Adult Waiver Annual Expenditures FY ’91-’04



Source: Division data*

* Data provided by the Division up through FY ’03. FY ’04 shows anticipated expenditures based on total biennium appropriations for FY ’03-’04.

Residential and day habilitation services account for most of waiver funds

The Division has not established some obvious cost controls.

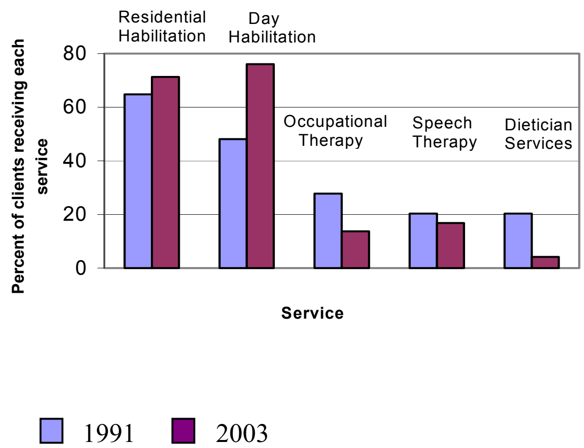
DOORS provides an incentive to use more costly services such as residential and day habilitation, and not less costly services such as family residential placements. The Division’s system centers on client and team choices, and it sets few requirements for how planning teams should allocate clients’ budgets. The Division also has not established obvious cost controls such as maximum rates for habilitation services (see Chapter 5).

The financial effect of including residential and day habilitation in the DOORS model can be seen in the increasing proportion of total program costs accounted for by these services. In FY '03, these two services accounted for almost 80 percent of all budgeted dollars. As the proportion of total program dollars supporting these two services has increased, the proportion of dollars for other possibly more targeted therapeutic services has decreased (see Figure 4.3).

Almost 80% of Adult Waiver funds are spent on two services.

Figure 4.3

Proportion of waiver clients receiving various services 1991 and 2003



Source: Division data

Use of other waiver services is decreasing.

By allocating the greatest portion of funding to services such as residential and day habilitation, DOORS does not encourage the development of other services covered by the waiver. According to the Division, the model enhances client choice by making funds portable. Portable funds are said to encourage competition and help contain costs. However, very few communities in Wyoming, a highly rural state, offer any real choice in providers or available services. The DOORS model essentially supports the same service structure that existed prior to the Adult Waiver, and many clients outside of cities such as Cheyenne, Casper, and Sheridan have few options from which to choose. The limited infrastructure that exists is illustrated in maps in Appendix D.

DOORS model could help meet the demands of a changing client mix that has changing needs

It is important to note that increasing program costs are a result of a dynamic, not static, funding environment. This is because both the client mix and client needs are constantly changing. A strength of DOORS is that it can be used to adjust IBAs within the program's entire budget in response to these changing needs.

Recommendation: The Division should obtain an independent analysis of the DOORS model and its effect on client services and program costs.

We believe DOORS can be used to fairly and equitably allocate program funds. However, its variables and underlying assumptions have not been validated, and certain Division decisions and practices have interfered with its inherent neutrality. To restore the original potential of the model, the Division needs to demonstrate that its own practices and procedures are valid. Therefore, the Department of Health should contract for a review of the DOORS model that includes an assessment of:

- how the selection of variables affect Adult Waiver program costs and clients' service choices, and
- how administrative adjustments have affected Adult Waiver program costs and service infrastructure development.

Standard procedures can help ensure funding practices are fair and equitable.

This review should culminate in a report that the Department makes available to interested parties by December 1, 2004.

Once this review has been completed and there has been sufficient time to comment on the results, the Division should develop written guidelines and procedures for using, updating, and implementing new versions of the model. Adherence to standard procedures can help ensure that future adjustments to the model itself or to the funding results are fair, equitable, and cost-effective. Overall, these steps will provide the opportunity to promote lower cost service options while maintaining an emphasis on individual choice, health, and safety.

Recommendation: The Division should establish a system to account for the money it uses to fund emergency cases and forced rates.

As discussed on page 36, we were unable to determine how the Division administers the funds it uses for these purposes. We believe this is a process that warrants standard procedures and more accountability.

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