



agency for persons with disabilities
State of Florida

Jeb Bush
Governor

Shelly Brantley
Director

OFFICE OF INSPECTOR GENERAL

MANAGEMENT REVIEW OF THE HOME AND COMMUNITY BASED SERVICES WAIVER PROJECTION PROCESS

MANAGEMENT REVIEW M-06/07-001



Charles Faircloth
Inspector General

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Director of Auditing

“Promoting accountability, integrity and efficiency in government”

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Copies of Supporting Documents Available upon Request

EXECUTIVE SUMMARY

The Office of the Inspector General, Agency for Persons with Disabilities (Agency), conducted a management review of the internal controls surrounding the compilation process of the Home and Community Based Services (HCBS) waiver budget surplus/deficit amounts. The scope of this review did not address the technical aspects of the projection methodologies used by the Agency. The initial scope encompassed an examination of the HCBS waiver budget projections in the agency Quarterly Reports for fiscal year 2005/2006.

The objective of this review was to make recommendations to management concerning the control activities surrounding the compilation process of the HCBS waiver budget surplus/deficit amounts. Control activities are policies and procedures that help ensure the reliability of financial reporting and in turn, assist management in making informed program policy decisions.

Interviews were conducted with Agency personnel and Agency records were reviewed, specifically the supporting spreadsheets and accounting records. The review covered projected information for the 2004/2005 and 2005/2006 fiscal years.

The following is a summary of the review findings:

1. There were discrepancies noted when reviewing the various budget forecasting calculations for the HCBS waiver.
2. The Agency should consult with the users of the Quarterly Reports as to the method of presenting, on a cash and/or accrual basis, the projected HCBS waiver costs compared to the program appropriated funds.

The attached report provides a detailed description of our findings and recommendations and may be read in full for a comprehensive understanding of the review.

INTRODUCTION

Pursuant to Section 20.055, Florida Statutes, an agency Office of the Inspector General is responsible for promoting accountability, integrity and efficiency in state government. The statute states that an agency's Inspector General must "provide direction for, supervise, and coordinate audits, investigations, and management reviews relating to the programs and operations of the State agency."

BACKGROUND

The Home and Community Based Services waiver (HCBS waiver) is a federally-approved Medicaid waiver service program authorized under Title XIX of the Social Security Act and provides home and community-based supports and services to eligible persons with developmental disabilities. The HCBS waiver offers thirty-one services without dollar cap limits. The Consumer Directed Care Plus program is also administered through the HCBS waiver.

APD is appropriated general revenue funds and tobacco settlement trust funds for which the state receives Medicaid matching payments for the allowable HCBS waiver services. The agency's approved budget is set forth in law through the General Appropriations Act (GAA) under specific line-item budget for *Special Categories, Home and Community Based Services Waiver*. The amount of the general revenue funds and tobacco settlement funds appropriated will in fact dictate the amount of the Federal matching funds based on the Federal Medical Assistance Percentage (FMAP), which is annually published by the United States Department of Health and Human Services. For example, the FMAP, effective October 1, 2006, for Florida, was 58.76 percent. A \$100 claim would be reimbursed with \$41.24 in State funds and \$58.76 in Federal match funds.

A current year appropriation is expended for prior year HCBS waiver claims not covered by the certified forward funds and current fiscal year HCBS waiver service claims submitted for payment through September 30th. Medicaid services claims can be submitted up to one year from the date of service.

The proviso language in the 2003/2004 GAA required quarterly status reports to be submitted to the Executive Office of the Governor and the Senate and House Appropriations Committees regarding the financial situation in the HCBS waiver (Quarterly Reports). A modification of the proviso language was incorporated into Section 393.0661, Florida Statutes, during the 2006 Legislative session.

The Division of Budget and Planning, Data Analysis Unit prepares the HCBS waiver projections, including those reported in the Quarterly Reports. HCBS waiver projections are also reported in internal management reports, legislative presentations, and documents for meetings with staff from the Governor's office and legislative committees.

The budget forecasting model used by the Data Analysis Unit to project HCBS waiver costs is called the "Completion Methodology". The Completion Methodology utilizes an analysis of the historical pattern lags and provides a cumulative completion percentage for each successive payment month beginning with the month of service. This percentage is then applied to actual payments to estimate the complete payment amount. This method requires at least three months of paid claims data into the fiscal year to provide for a full fiscal year projection. "Ad hoc" methods of projection are applied to populations where caseload increase is a significant cost factor.

The projected costs are only part of the reported financial situation of the HCBS waiver. The total funds available for HCBS waiver services is calculated based on the GAA state funds plus the Federal matching funds, calculated using the applicable FMAP and subtracting the prior year claims projected to be paid from current year funds. The resulting amount is the current fiscal year service budget. The current fiscal year projected HCBS waiver costs are netted against the current fiscal year service budget to show a deficit or surplus. Although the GAA appropriations covers a 15 month period to pay claims, the HCBS waiver costs are calculated on the full accrual basis (total cost of all services rendered within the fiscal year).

HISTORY

This review encompassed the HCBS waiver financial situation reported in Fiscal Year 2005/2006 Quarterly Reports and was expanded to the calculations supporting the HCBS waiver surplus reported in the November 2005 Legislative presentation. The following are brief summaries of each official HCBS waiver document:

Quarterly Report, First and Second Quarters Fiscal Year 2005/2006 (July 2005-September 2005 and October 2005-December 2005); Budget Summary for HCBS\DS Waiver was projected to be \$25.9 million surplus.

Quarterly Report, Third Quarter Fiscal Year 2005/2006 (January 2006-March 2006); Waiver Budget Forecast for the HCBS Waiver was projected to be \$6.5 million deficit.

Quarterly Report, Fourth Quarter Fiscal Year 2005/2006 (April 2006-June 2006); the Waiver Budget Summary for the HCBS Waiver was projected to be \$13.7 million deficit.

November 2005 APD Legislative Presentation reported “Yearly Savings” realized from cost control measures to be \$63.2 million for fiscal year 2004/2005, which would allow new clients from the waitlist to be funded.

SCOPE, OBJECTIVES AND METHODOLOGY

The scope of this review initially focused on the procedures surrounding the compilation of the HCBS waiver financial situation reported in Fiscal Year 2005/2006 Quarterly Reports and was expanded to the calculations supporting the HCBS waiver surplus reported in the November 2005 Legislative presentation.

The objective of this review was to evaluate, and make recommendations to management, concerning the control activities surrounding the compilation process of the HCBS waiver budget projected surplus/deficit amounts.

To meet the review objective, applicable State and Federal laws, Quarterly Reports, monthly projection spreadsheets, FLAIR and agency accounting records were reviewed. In addition, applicable Agency personnel were interviewed.

FINDINGS AND RECOMMENDATIONS

FINDING 1: We noted the following discrepancies when reviewing the various budget forecasting calculations for the HCBS waiver:

- *The applicable FMAP was not taken into consideration, which reduces the total available HCBS waiver service budget amount used;*
- *The prior year claims amount was not always taken into consideration, which would also reduce the total available HCBS waiver service budget;*
- *The formats in which the HCBS waiver budget forecast calculation was presented were not always consistent, which does not allow for comparison;*
- *The State Funds available amount was not taken from the State Comptroller’s Central Account Cash Ledger it was taken from the General*

Appropriations Act. The State Comptroller's Central Account Cash Ledger indicates the actual cash available.

- *The Quarterly Reports for fiscal year 2005/2006 were not submitted timely.*

Prior to the initiation of this Management Review the responsibility of the HCBS waiver budget deficit/surplus forecasting process appeared to be relegated to one data analyst employee, without the benefit of input and review from other Division of Budget and Planning units. Although the budget forecasting model, Completion Methodology, appeared to be a sound forecasting model, other financial information outside of the Data Analyst Unit was not always considered or known by the analyst. For example, the consideration of the applicable FMAP was introduced by the Revenue Management Unit. The FMAPs effective for October 1, 2004, and October 1, 2005, were 58.90 percent and 58.89 percent, respectively. The Revenue Management Unit also used the State Comptroller Central Account Cash Ledger to track the actual available State cash. Other areas in the Division of Budget and Planning can provide assistance, as mentioned in the recommendation below.

In fiscal year 2005/2006 the Agency enrolled 1,330¹ new clients in the HCBS waiver, in part, based on a projected recurring surplus for fiscal year 2004/2005². Total funds equal the State and Federal funds *available* for HCBS waiver service costs within the fiscal year. After reviewing the HCBS budget forecasting calculations we noted that the applicable FMAP and prior year claims amounts had not been considered. Both the use of the applicable FMAP and prior year claims amounts would decrease the total available funds.

Prior proviso language in the GAA and current language implemented in Chapter 393, Florida Statutes, requires the Agency to submit Quarterly Reports to the Executive Office of the Governor, the chair of the Senate Ways and Means Committee or its successor, and the chair of the House Fiscal Council or its successor. During fiscal year 2005/2006 the Agency submitted three quarterly reports. The first quarterly report, which covered the first and second quarter, was submitted approximately 10 weeks after the end of the second quarter, the third quarterly report was submitted approximately nine weeks after the end of the quarter and the fourth report was submitted approximately eight weeks after the end of the quarter.

RECOMMENDATION 1: Subsequent to the completion of this review Agency management has taken the initiative to start revising the projection format and implementing certain recommendations. We commend management for these efforts and recommend written procedures be developed and implemented to govern the waiver budget forecasting process. The following should be considered for incorporation into the written procedures to ensure verification and consistency:

- *Use of a standard format that shows the components that are used in the calculation of the available service budget;*
- *Have the Data Analysis Unit provide the forecast of expenditures by population category and service to another unit within the Division of Budget and Planning to complete the calculation with*

¹ Does not include Brown v. Bush and Crisis cases

² November 2005 Legislative Presentation

other relevant information: FMAP, prior year claims, budget amendments, etc;

- *Have the accounting staff perform a monthly reconciliation of approved payments and actual cash transfers to provide for an accurate establishment of the certified forward payables at the fiscal year end;*
- *Routine review of projected expenditures to actual expenditures;*
- *Establish a time-line as to when projections are required to be reported and determine if use of the current budget forecasting method is reasonable, if not, determine another method;*
- *Work with applicable outside parties to determine the format for reporting to those parties;*
- *Calculations should be verified by a separate staff member, and*
- *Supporting documentation of reportable calculations should be maintained.*

Implemented written procedures will provide for consistent application of data, assigned responsibilities, relevancy of projection methodology, advance preparation for due dates, and verification of information.

FINDING and RECOMMENDATION 2: The Agency should consult with the users of the Quarterly Reports as to the method of presenting, on a cash and/or accrual basis, the projected HCBS waiver costs compared to the appropriated program funds.

The authoritative language requires that the Agency report in the Quarterly Reports the information concerning actual and projected waiver costs compared to the amount of appropriation available to the program and any projected surpluses or deficits.

In the prior Quarterly Reports the projection of HCBS waiver service costs have been reported on a full accrual basis for the fiscal year, even though the State funds represent cash to expend on current year disbursements through September 30th. Because Medicaid claims can be submitted up to 12 months from the date of service; the full service year projection often exceeds the available State cash amount. Full accrual accounting recognizes expenses when incurred rather than paid (e.g., the date of service).

A projection based on the potential payment dates is a more accurate reflection of the Agency's current year cash flow. A projection of service costs based on full accrual accounting records a future liability for services rendered and carried into the following fiscal year appropriations.

MANAGEMENT RESPONSE

Although it is not required by law, this review was provided to Agency managers to review and provide a response. The response is adopted and incorporated by reference in this report and is set forth below in full

November 29, 2006

Charles Faircloth
Inspector General
Agency for Persons with Disabilities
4030 Esplanade Way, Suite 380
Tallahassee, FL 32399

Re: Management Review M-06/07-001

Dear Charles:

I want to thank you and your staff for conducting this management review of the Home and Community Based Services (HCBS) Waiver Projection process. My staff and I have reviewed preliminary findings to assess how we can improve this process.

Response to Findings/Recommendations 1

We agree with the conclusions listed in Finding 1. During Fiscal Year 2005/2006, APD began to recruit and hire staff with expertise in various areas of state budget, revenue management and accounting/financial services. As these bureaus and units were formed and as your report indicates, late in 2005/2006, they were asked to provide assistance to the Data Analysis Unit to examine the information and assumptions used that fell within their areas of expertise.

Beginning with the first quarter of Fiscal Year 2006/2007, we have already implemented a review process which includes other staff from the Bureau of Financial Support Services and Bureau of Administrative Services' Revenue Management and Budget units to confirm assumptions used by the Data Analysis Unit for the Federal Medical Assistance Percentage (FMAP) rate, updated state budget totals from the State CFO's ledgers and reporting of journal transfers to the Agency for Healthcare Administration (AHCA) of the state match. Data Analysis staff is also aware of and is reporting prior year claims against current year budget within the framework of assumptions provided by users of this information.

Data Analysis staff work to confirm and verify information before submitting reports for management review. The unit has been instructed to prepare written procedures documenting the process of gathering and reporting of information in order to provide internal and external users of information with the assumptions used to prepare the information.

We are currently working with Legislative appropriation's staff and Governor's budget staff to develop and refine the methodology, assumptions and standard reporting format to provide consistency to the process and allow users of the information to be able to compare information provided from period to period. An additional initiative is underway to work with AHCA and The Legislative Office of Economic & Demographic Research to ensure that methodology and assumptions used by APD receive outside review in an effort to improve projection information.

Response to Findings/Recommendations 2

Many of the steps mentioned in response to the findings/recommendations above include providing solutions to recommendations listed in the management report for these findings.

For example from observing the Social Services Estimating Conference in October 2006, we have learned that state economists do not update prior service month information that is older than 6 months old and instead report these claims in the oldest month still open. This is done to parallel the certified forward period, which until FY 05/06 was six months long. Beginning with FY 06/07, the period will be shortened to three months which parallel's the revised certified forward period in statute.

Your staff and the management report they produced have provided us with beneficial information that is being used to develop necessary solutions to improve the quality of information to all users of the information and reports for the HCBS Waiver.

Sincerely,

/s/ Barney Ray

Barney Ray
Interim Deputy Director of Budget and Planning

Cc: Shelly Brantley, Executive Director

Respectfully submitted,

Charles Faircloth
Inspector General
Agency for Persons with Disabilities

Date: _____

Karen Glymph
Director of Auditing
Agency for Persons with Disabilities

Date: _____