



March 2006

Report No. 06-33

## Several Factors Likely Contributed to APD Funding Surplus in Fiscal Year 2004-05

### *at a glance*

The Agency for Persons with Disabilities (APD) experienced a substantial funding surplus in both the Developmental Disabilities Home and Community-Based Services Waiver (\$58.4 million) and the Family and Supported Living Waiver (\$25.4 million) programs in Fiscal Year 2004-05.

The agency primarily attributes the surplus in the Developmental Disabilities Home and Community-Based Services Waiver to its implementation of an automated system in July 2004 that screened claims from service providers before they were processed for payment. However, other factors, in addition to this system, likely contributed to the surplus. Most notably, the agency received an additional \$20 million in appropriations to serve 571 more individuals but it subsequently did not increase the number of waiver recipients over the prior year. The surplus in the Family and Supported Living Waiver was due to the length of the enrollment process. The agency expects to have a \$35.3 million surplus in Fiscal Year 2005-06.

The agency needs to routinely conduct additional analyses that would enable it to assess the contribution of various factors, such as the Gatekeeper system, client attrition, prior service authorization, and the length of time taken to enroll and provide services to clients, in causing waiver funding surpluses. The Legislature should specifically require the agency to regularly report on projected funding surpluses or deficits.

### Scope

As requested by the Legislature, this report examines the funding surplus experienced by the Agency for Persons with Disabilities in Fiscal Year 2004-05. Specifically, the report addresses the amount of the agency's surplus, factors that likely contributed to the surplus, steps the agency should take to better inform the Legislature about its funding status, and the estimated budget surplus for Fiscal Year 2005-06.

### Background

The Agency for Persons with Disabilities supports persons with developmental disabilities to help ensure their safety, self-sufficiency and well-being. Persons with developmental disabilities include individuals who have or are at risk of having mental retardation, autism, cerebral palsy, spina bifida, or Prader-Willi syndrome. Many agency clients receive services in community settings, which include the person's home, a family home, a supported living situation, or a group home.

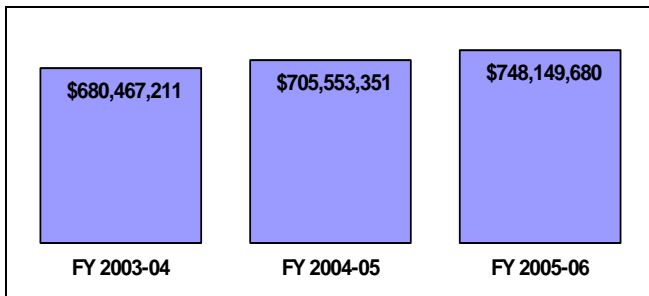
Florida has three Medicaid waivers that allow the state to receive federal Medicaid matching payments for services provided to developmentally disabled persons:

- the Developmental Disabilities Home and Community-Based Services Waiver (DD/HCBS) funds services such as personal care, nursing, residential habilitation, and training with no dollar cap limits;

- the Family and Supported Living (FSL) Waiver funds services to eligible persons living in their own home or family home. This waiver provides 11 services with a total per-client dollar cap of \$14,282; and
- the Consumer Directed Care Plus (CDC+) Waiver allows consumers to direct their own care and develop a purchasing plan to manage their allocated monthly budgets in order to meet their long-term care needs.

Appropriations for both the DD/HCBS Waiver and the Family and Supported Living Waiver have increased in recent years. As shown in Exhibit 1, appropriations for the DD/HCBS Waiver increased from \$680.5 million in Fiscal Year 2003-04 to \$748.2 in Fiscal Year 2005-06 (an increase of 9.9%). Appropriations for the Family and Supported Living Waiver increased from \$28.5 million in Fiscal Year 2004-05 to \$49.9 million in Fiscal Year 2005-06 (an increase of 75.1%).<sup>1</sup>

#### Exhibit 1 Appropriations for the Home and Community-Based Services Waiver Have Increased Since Fiscal Year 2003-04



Source: General Appropriations Acts for Fiscal Years 2003-04, 2004-05, and 2005-06.

<sup>1</sup> The federal match for these waivers was 59% with the remaining 41% being state general revenue.

## Findings

### *The Agency for Persons with Disabilities experienced a substantial funding surplus in its Developmental Disabilities Home and Community-Based Services and Family and Supported Living Waivers in Fiscal Year 2004-05*

Although the agency has encountered budget deficits and surpluses for its waiver programs in the past, the amount of its Fiscal Year 2004-05 surplus was high by historical standards. The agency reported budget deficits in the DD/HCBS Waiver in both Fiscal Years 2001-02 and 2002-03, with deficits of \$42.4 million and \$6.1 million, respectively. The agency experienced a small surplus of \$1.9 million in Fiscal Year 2003-04, which grew substantially to \$58.4 million in Fiscal Year 2004-05.

As a result of the \$58.4 million surplus for the DD/HCBS Waiver in Fiscal Year 2004-05, the agency reverted \$21 million to the state General Revenue Fund, which resulted in the state foregoing the opportunity to draw down \$30.1 million in federal Medicaid matching funds.<sup>2</sup>

The agency also experienced a \$25.4 million surplus in the Family and Supported Living Waiver in Fiscal Year 2004-05.<sup>3</sup> As a result, the agency reverted \$10.4 million to the state General Revenue Fund which resulted in the state foregoing the opportunity to draw down \$15 million in federal Medicaid matching funds.

### *Several factors likely contributed to the HCBS funding surplus*

The agency primarily attributes the DD/HCBS surplus in Fiscal Year 2004-05 to its implementation of an automated system that screens waiver claims from service providers before they are processed for payment. The purpose of this system, referred to as the Gatekeeper system, is to ensure the accuracy of provider billings. The Gatekeeper system became operational July 1, 2004.

<sup>2</sup> The agency reported the remaining \$7.3 million of the DD/HCBS surplus was used to help cover financial obligations carried forward from Fiscal Year 2003-04.

<sup>3</sup> The Family and Supported Living Waiver was initially funded in Fiscal Year 2004-05.

Department managers contend that the Gatekeeper system was primarily responsible for the surplus because it was the only major change that occurred in the agency's financial control processes during Fiscal Year 2004-05.

The agency reports that multiple indicators could be used to demonstrate the Gatekeeper system's effect. For example, there would be lower costs as a result of claims being denied by the system. Costs would also be lowered by the Gatekeeper system denying claims that were subsequently resubmitted and paid at a lower amount. The agency reported that for claims resubmitted in the first half of Fiscal Year 2004-05, the amount paid was 6.2% below the amount originally submitted. In addition, it is possible there were claims that were never submitted due to the system having a deterrent effect. However, the agency reports it is difficult to quantify these effects because of the way data is gathered on denied claims.

The agency reports that claims paid in Fiscal Year 2004-05 after the implementation of the Gatekeeper system were \$17.8 million lower than claims paid in Fiscal Year 2003-04. While this decrease in claims payments indicates that the implementation of the Gatekeeper system contributed to the funding surplus, it only accounts for a portion of the overall \$58.4 million surplus. Therefore, it is likely that there are other factors that contributed to the surplus.

Additional funding and prior service authorization reviews likely contributed to the DD/HCBS surplus. During Fiscal Year 2004-05, the agency was appropriated \$20 million with the expectation that the agency would serve an additional 571 clients during the year.<sup>4</sup> However, the number of waiver recipients in Fiscal Year 2004-05 subsequently did not increase over the number served in Fiscal Year 2003-04.

As shown in Exhibit 2, the program served an average of 364 fewer clients per month under the DD/HCBS Waiver in Fiscal Year 2004-05 than in Fiscal Year 2003-04. The program served an average of 22,360 persons in Fiscal Year 2004-05 compared to an average of 22,724 waiver recipients in Fiscal Year 2003-04. Agency staff reported that this decline in the number of waiver recipients was due to attrition and the transfer of DD/HCBS clients to the CDC+ Waiver. In Fiscal Year 2004-05, a monthly average of 123 clients transferred to the CDC+ Waiver.

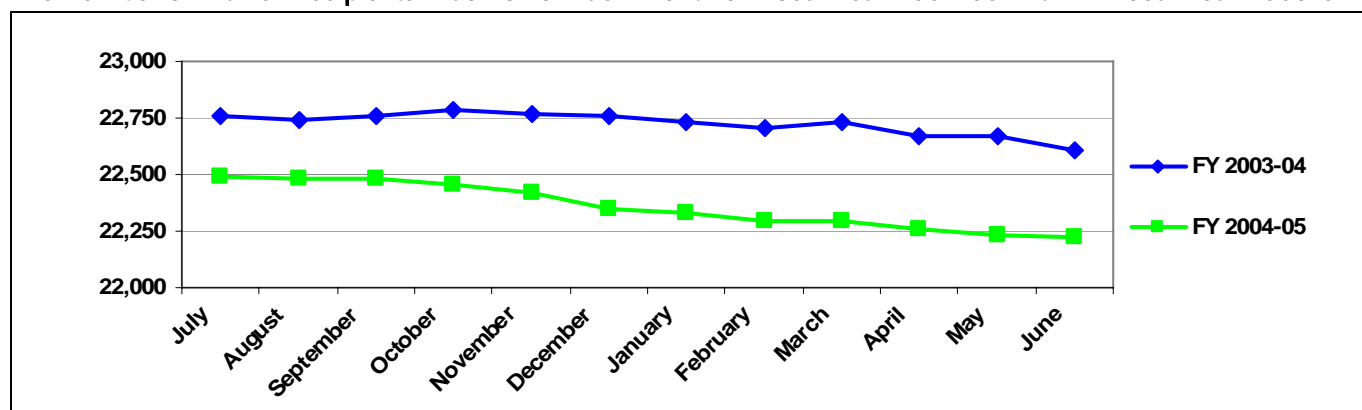
Another factor that may have contributed to the surplus was the prior service authorization process administered by MAXIMUS, Inc., under a contract with the agency. Before clients can receive services under the DD/HCBS Waiver, their support and cost plans must undergo a prior service authorization review.<sup>5</sup> These reviews are

<sup>4</sup> This included 360 crisis clients, 156 people from the agency's waiting list, and 55 clients transitioning from an institutional facility to the community.

<sup>5</sup> MAXIMUS began conducting prior service authorization reviews in August 2001.

## Exhibit 2

### The Number of Waiver Recipients Was Lower Each Month of Fiscal Year 2004-05 Than in Fiscal Year 2003-04



Source: Medicaid FREEDOM Database as of March 1, 2006.

intended to ensure that services are medically necessary and that their duration and scope are within established waiver service limitations. MAXIMUS conducts prior service authorization reviews of support and cost plans that include requests for residential habilitation services and that have costs that equal or exceed \$77,975. MAXIMUS estimates that prior service authorization reviews resulted in cost reductions of \$24.3 million in Fiscal Year 2004-05. Cost reductions occur when a prior service authorization review results in a reduction or termination of an existing service.<sup>6</sup>

The agency primarily monitors its financial condition by using a budget forecasting methodology that compares its available funding to its year-to-date spending plus projected outstanding claims expenditures for the remainder of the year. This is a reasonable methodology for monitoring the agency's financial condition and is used by other entities. However, we believe the agency needs to routinely conduct additional analyses that would enable it to assess the contribution of other factors, such as client attrition and prior service authorization, to funding surpluses.

The agency's surplus in the Family and Supported Living Waiver in Fiscal Year 2004-05 was due to the amount of time it takes to enroll and serve clients. The Legislature appropriated \$28.5 million to the agency to serve 2,000 additional clients under the Family and Supported Living Waiver in Fiscal Year 2004-05. The agency enrolled 1,968 clients during this year. However, it took over seven months to enroll and begin serving clients. Before clients can begin to receive services, they must undergo a multi-step enrollment process including an initial contact with the agency, the selection of a waiver support coordinator, the development of a support and cost plan, and a prior service authorization review, all of which take varying lengths of time to complete. Other steps, such as Medicaid eligibility determination, are the responsibility of other agencies and can take up to 90 days to complete. As a result of the amount of time it takes to enroll and serve clients, the agency expended only

\$3 million of the increased appropriation by the end of the fiscal year, resulting in a surplus of \$25.4 million.

### ***The agency was cautious about concluding there was a funding surplus in Fiscal Year 2004-05***

Agency budget projections began showing that there could be a funding surplus in the DD/HCBS Waiver in the fall of 2004. However, agency budgeting staff were cautious about concluding that the agency was experiencing a funding surplus for several reasons, including the agency's history of funding deficits in prior fiscal years, and a lack of historical experience with the new Gatekeeper system. These staff indicate that they notified the agency's director of a potential funding surplus in December 2004 and notified the Legislature in the spring of 2005.

However, we believe that the agency should have reported the potential surplus to the Legislature before the spring of 2005. Such reporting would be consistent with proviso in the General Appropriations Act for Fiscal Year 2004-05 that directed the agency to submit quarterly reports regarding the financial status of the DD/HCBS Waiver during Fiscal Year 2004-05.<sup>7</sup> The agency did not mention a potential funding surplus in the reports it submitted to the Legislature during Fiscal Year 2004-05.

### ***The agency expects that it will experience a funding surplus in Fiscal Year 2005-06***

A proviso in the Fiscal Year 2005-06 General Appropriations Act authorized the agency to use recurring savings from its Gatekeeper system and prior service authorization to serve additional clients from its waiting list. As of March 7, 2006, the agency had enrolled 5,371 clients from its waiting list, including 1,143 clients who were enrolled in the DD/HCBS Waiver and 4,228 who were enrolled the Family Supported Living Waiver. The agency expects to enroll a total of 6,150 persons on its waiting list in either the DD/HCBS Waiver or the Family and Supported Living Waiver by the end of

<sup>6</sup> MAXIMUS also estimates that prior service authorization reviews resulted in a cost avoidance of \$3.5 million. Cost avoidance occurs when a request for a new service is denied. MAXIMUS's estimates are based on the estimated dollar cost of proposed services included in a client's cost plan less the cost of the approved cost plan.

<sup>7</sup> The quarterly reports were to include but not be limited to information about the number of current clients being served through the waiver, and actual and projected cost information as compared with the appropriation available to the program.



Fiscal Year 2005-06.<sup>8</sup> It also expects to enroll 360 crisis clients and 90 clients transitioning from an institution to the community.

However, the agency is currently anticipating that it will experience funding surpluses in both the DD/HCBS Waiver and the Family and Supported Living Waiver for Fiscal Year 2005-06. As of March 2006, the agency estimates that it will have a surplus of \$25.9 million in DD/HCBS Waiver and \$9.4 million in the Family and Supported Living Waiver.

The agency attributes this surplus to the length of the enrollment process. The agency reports that it currently takes approximately six months to enroll a client on its waiting list in the DD/HCBS Waiver or Family and Supported Living Waiver. Consequently, the majority of new clients enrolled in the waivers will not receive 12 full months of service in Fiscal Year 2005-06, although the agency received funding for a full year of services for these clients.

Another factor that may contribute to these ongoing surpluses is the expansion of the prior service authorization process. In July 2005, APS Healthcare, Inc., began conducting prior service authorization reviews for clients in the DD/HCBS Waiver with cost plans and amendments under \$77,975 and that do not include certain residential habilitation services and clients in the Family and Supported Living Waiver. As of December 2005, APS Health Care, Inc., reported that it had completed 18,245 reviews and had averted \$3.1 million in potential payments that it deemed did not meet criteria for being medically necessary or within established waiver service limitations.

The agency has sought to use some of the projected surplus to provide additional services. In January 2006, the agency received approval for a budget amendment to use approximately \$5.5 million in non-recurring surplus general revenue funds to pay for services to meet the specific needs of approximately 2,000 individuals on the waiver

waiting list. These services include respite care, adult day training, and parent training.

## Recommendations

To enable the Agency for Persons with Disabilities to better estimate its funding needs, we recommend that the agency routinely conduct analyses that would enable it to assess the contribution of various factors, including the Gatekeeper system, client attrition, prior service authorization, and the length of time taken to enroll and provide services to clients, in causing waiver funding surpluses. The results of these analyses should be reported to the Legislature.

We also recommend the Legislature continue to require the Agency for Persons with Disabilities to submit quarterly reports to the Legislature that provide information on the financial status of the DD/HCBS and Family and Supported Living Waivers. In addition, the Legislature should specifically require the agency to report on funding surpluses or deficits.

## Agency Response

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the director of the Agency for Persons with Disabilities for her review and response.

The director's written response is reproduced in its entirety in Appendix A.

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Gary R. VanLandingham, OPPAGA Director

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<sup>8</sup> If the agency enrolls 6,600 persons, it expects that 11,000 to 12,000 persons will remain on its waiting list. These persons would include those who had been on the waiting list but were not receiving services through the waiver programs and those who were newly added to the waiting list. However, some persons on the waiting list may be receiving some services through the Medicaid state plan or the state's school districts. Also, some persons on the waiting list may be receiving services paid for by general revenue funds.

# Appendix A



Jeb Bush,  
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March 27, 2006

Gary R. VanLandingham, **Director**  
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Dear Mr. VanLandingham:

Thank you for the opportunity to respond to the March 2006 OPPAGA report, "Several Factors Likely Contributed to APD Funding Surplus in Fiscal Year 2004-2005." While this is an extraordinarily complex issue, particularly without guidance and training in complicated Medicaid Waiver forecast models and subsequent analysis, your team conducted a professional review in the short time frame allotted for this report.

I assure you this Agency takes the responsibility of budget planning and forecasting very seriously. It is, in part, through precision budgeting that we are able to serve additional persons with disabilities with their medically necessary supports and services. While the addition of the Gatekeeper billing accuracy edits that went into effect July 1, 2004, were originally anticipated to have negligible savings results, the system's total impacts proved to save millions of dollars. Because providers may submit claims a year or more after providing services, the magnitude of Gatekeeper's impact could have only become evident well into the fiscal year.

Your report points to other budget accountability measures as contributing to an Agency surplus. Since 2001, the Legislature has prescribed specific budget measures to help turn around year after year of budget deficits. The Agency implemented each of these measures in accordance with Legislative direction, including the most recent measure, Gatekeeper.

As with any Medicaid program, projections fluctuated based on claims data available at the time of analysis. In fact, initially, projections were forecasting a deficit for the fiscal year. Yet, as additional claims data became available, forecasts began to suggest that Gatekeeper would potentially translate to recurring savings. Your report does not accurately reflect the timeline this Agency provided, which outlined the various steps budget experts took to solidify projections to make appropriate policy decisions. Further, your report does not respect the thoughtful process of analysis required of a Medicaid Waiver program. In fact, it was not until March 2005 that the surplus was confirmed by analysts with the Agency for Health Care Administration, the entity charged with managing Medicaid funds.

Your report states the Agency is predicting a non-recurring surplus for the current fiscal year, FY 2005-2006. The Legislature funds the Agency to serve all consumers with a full year of medically necessary supports and services. Funding assumes all new consumers will begin receiving services at the start of the fiscal year, when in fact, it can be several months before new consumers are enrolled, they select their providers and the Agency begins receiving bills for services. This fiscal year, with more than 6,600 individuals with developmental disabilities enrolling in new or expanding waiver services, the phase-in effect is predicted to lead to a non-recurring surplus in waiver funding. However, these consumers will receive a full year of supports and services in the coming year necessitating the full funding amount.



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In anticipation of the phase-in effect, the Agency put forth a budget amendment to transfer dollars to allow one-time, non-recurring stipends to go to persons with disabilities on the waiting list. While the Agency initially pursued a transfer of \$19.5 million in state funds, it was recommended that the budget amendment instead reflect a transfer of \$5 million. The transfer funded 2,000 individuals with up to \$2,500 in stipends for medically necessary supports and services, including, but not limited to, environmental modifications, consumable medical supplies, supported employment.

Included with this letter is a thorough review of specific sections contained in your report and the Agency response to your recommendation.

By reducing waste, we are able to direct those recurring savings to serve additional persons with developmental disabilities on the waiting list. These recurring dollars, coupled with Legislative appropriations, mean at least an additional 6,600 persons with disabilities will be served through waiver services.

- I. **Report language, Page 1, first paragraph:** "...experienced a substantial funding surplus in both the Developmental Disabilities Home and Community Based Services Waiver (\$58.4 million) ..."

**Agency Response:** The \$58.4 million HCBS surplus was recurring surplus amount (the difference between the appropriation and the cost of services provided in that fiscal year.) Because \$7.3 million was paid from FY 2004-05 appropriations for prior year claims, the net surplus and actual "unspent" amount from the fiscal year budget, was \$51.1 million.

- II. **Report language, Page 3, third paragraph:** "While this decrease in claims payments indicates that the implementation of the Gatekeeper system contributed to the funding surplus, it only accounts for a portion of the overall \$58.4 million surplus."

**Agency Response:** The budget surplus is calculated using claim totals for services provided within the fiscal year, including an estimate of claims outstanding at the end of the year. By contrast, payment-year totals comprise claims paid within the fiscal year irrespective of their service dates. Because payment-year totals and service-year totals represent different sets of claims, it is incorrect to relate one to the other in the manner of the report.

- III. **Report Language, Page 3, last paragraph:** "Agency staff reported that this decline in the number of waiver recipients was due to attrition...."

**Agency Response:** The HCBS appropriation covers both the HCBS and the CDC waivers. Accordingly, the net client population of both waivers needs to be considered in relating funding to clients served. By only emphasizing the HCBS waiver clients, the population actually served under the HCBS appropriation is understated and consequently inflates the portion of the surplus attributed to client attrition. With the inclusion of the CDC waiver clients an average of 241 fewer clients per month were served under the HCBS appropriation in fiscal year 2004-05 than in fiscal year 2003-04.

- IV. **Report Language, Page 4:** "*The agency was cautious about concluding there was a funding surplus in Fiscal Year 2004-05*" "These staff indicated that they notified the agency's director of a potential funding surplus in December 2004 and notified the Legislature in the spring of 2005."

**Agency Response:** During the fall of 2004, APD staff used two different methodologies for the funding analysis, the adopted Mercer model (discussed below) and a linear trend, requested by OPB. The two methods illustrated different results. The linear trend model, which ignored any Gatekeeper effect, projected a deficit for FY 2004-05. The adopted Mercer model illustrated a potential surplus. In December 2004, APD staff worked with AHCA Medicaid analysts for independent verification of appropriate variables and methods for analyzing the waiver budget. Medicaid analysis staff concurred

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with the APD methods. In March 2005, APD General Counsel requested an independent projection of HCBS waiver spending compared to budget from AHCA/Medicaid and a surplus was confirmed. APD Director briefed AHCA Director concerning independent analysis. After additional analysis and sufficient claims data, APD analysts were confident of a surplus and the Legislature was officially notified in April 2005.

- V. **Report Language, Page 4, Recommendation, Page 5:** "However, we believe the agency should have reported the potential surplus to the Legislature before the spring of 2005. Such reporting would be consistent with proviso in the General Appropriations Act for Fiscal Year 2004-05 that directed the agency to submit quarterly reports regarding the financial status of the DD/HCBS Waiver...." "We also recommend the Legislature continue to require the Agency for Persons with Disabilities to submit quarterly reports to the Legislature that provide information on the financial status of the DD/HCBS and Family Supported Living Waivers. In addition, the Legislature should specifically require the agency to report on funding surpluses or deficits."

**Agency Response:** Proviso requires APD to submit quarterly reports to the Legislature, and defines the information to be included in the reports in general terms only. There is no direction in Proviso that explicitly defines points of information to be included in the quarterly reports. Further, Proviso does not explicitly define the report's format. However, there has been recent discussion and subsequent consensus between the Governor's Office and Legislative staff as to the specific report format and specific points of information to be contained in the report. These definitions have been explicitly followed in the agency's most recent quarterly report. The agency will continue to follow these definitions in subsequent quarterly reports unless or until directed otherwise.

- VI. **Recommendation, Page 5:** "...that the agency routinely conduct analyses that would enable it to assess the contribution of various factors, including the Gatekeeper system, client attrition, prior service authorization, and the length of time taken to enroll and provide services to clients, in causing waiver funding surpluses. The results of theses (sic) analyses should be reported to the Legislature."

**Agency Response:** The work of APD in forecasting waiver costs and analyzing the respective impact of contributing factors is an evolving effort. During FY 2003-04, waiver forecasting was contracted to Mercer Consultants, Inc. In July 2004, agency staff assumed forecasting responsibility by adapting the Mercer model and reprogramming the extensive underlying calculations. Simultaneously, agency staff developed an internal data warehouse for waiver claims and prepared numerous computer programs to integrate claims data with agency administrative data representing client demographic, waiver enrollment, and client cost plans. The foundation thereby established has allowed staff to routinely analyze trends in client populations, costs, and services, and report results to management. The recent addition of two high-level statistical analysts to our staff should further our efforts to supplement predictive waiver models with targeted explanatory analyses.

If further information concerning our response is needed, please contact Chuck Faircloth, Inspector General or Karen Glymph, Director of Auditing.

Sincerely,



Shelly Brantley  
Director

Cc: Chuck Faircloth, Inspector General