

Kansas Department of

Social and Rehabilitation Services

Gary J. Daniels, Acting Secretary

Legislative Budget Committee

November 9, 2004

**Update on SRS Deferrals, Audits, and Penalties as of
October 31, 2004**

and

Update on SRS Office Closures

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Chairman Morris and members of the Committee, thank you for the opportunity to appear before you today to update you on SRS Deferrals, Audits, and Penalties as of October 31, 2004 and the closure of SRS offices.

**Update on SRS Deferrals, Audits, and Penalties
as of October 31, 2004**

Child Welfare Managed Care Deferral. CMS has deferred federal Medicaid funding for the child welfare community-based services contracts retroactively to July 1, 2003. This deferral is due to the state's inability to comply with the new managed care regulations that came into effect August 2003. Because child welfare contract payments are a fixed amount per child and are designed to cover a broad array of services, CMS defines these contracts as managed care contracts subject to the new regulations.

To date, CMS has deferred all four quarters of state FY 2004 totaling \$30,457,112. The department is currently working with CMS to resolve these deferrals and reach compliance in future periods. CMS is reviewing our claims for Targeted Case Management and it is expected that when the deferral is settled, the department will not receive the full amount deferred.

During the first week of November, Deputy Secretaries Laura Howard and Candy Shively, Sandra Hazlett, Scott Brunner, and Jaymee Metzenthin met with Tom Lenz and staff from the Kansas City Regional CMS office. The group discussed the new child welfare contracts and whether CMS would need to approve the contracts or require a selective contracting waiver. Mr. Lenz is going to summarize the discussion and provide, in writing, CMS's understanding of the programmatic design and financing of the new contracts. Since there is no Medicaid financing in the capitated rate paid to contractors and the contractors are not authorized to direct children to specific providers, CMS did not think a selective contracting waiver was required.

Title XIX Funds for State Hospitals Disallowance. CMS disallowed unreimbursed education costs of \$13.6 million discovered from an audit of past years' cost reports for the state mental health hospitals. CMS disallowed the claim because it was made beyond the two-year filing period and SRS has appealed it. For accounting and budgeting purposes and to bolster the claim,, the state hospital Title XIX account will have to return the funds to the SRS Medicaid fund. This loss of revenue to the state hospital Title XIX account will mean spending limitations will significantly exceed available funds, causing severe shortages in the state hospital budgets. CMS has just recently responded to our discovery request. SRS legal counsel will submit her written brief to the Departmental Appeals Board (DAB) in early December and the DAB is expected to make its ruling by March 15, 2005.

OIG Review of Child Welfare Medicaid Claims. The Office of Inspector General (OIG) is reviewing Kansas' use of the Rehabilitation Services Option of the federal Medicaid program. Services currently being reviewed by OIG include in-home family therapy and behavior management attendant care. These reviews have occurred in several other states. Similar OIG Medicaid reviews in at least two other states have identified audit exceptions of approximately \$20 million. Kansas is subject to the same risk of identified audit exceptions as these other states.

OIG Audit of LEA Funding. The Office of Inspector General (OIG) from the Department of Health and Human Services have completed a review of federal Medicaid claims Kansas is making for medically necessary health related services provided by local school districts to children with disabilities. The OIG also reviewed federal Medicaid claims made for administrative costs, of local school districts, associated with supporting activities related to the Medicaid program. SRS has not yet received final reports of these reviews. Initial indications are the OIG will recommend some recovery be sought by CMS. The OIG has indicated their basis for this recommendation will be lack of procedural compliance by local school districts, out-dated and improperly established reimbursement rates, and lack of adequate SRS oversight of school district procedures and reporting.

OIG DDS Audit finding. The OIG audited administrative costs claimed by the Kansas Disability Determination Services from FY 1998 through March 31, 2002. The report included a finding that the State of Kansas inappropriately charged SSA for \$4.9 million in indirect costs for this period. SRS has appealed this finding because SSA had approved the audited indirect cost methodology in our cost allocation plan. The appeal is still pending and SRS will inform the Governor and Legislature when that appeal is settled.

OIG Audit of General and Application Controls Supporting the Business Operations of the Medicaid Management Information System (MMIS). The Office of Inspector General from the Department of Health and Human Services has completed

its onsite audit. The purpose of this IT audit was to assess the general and application controls over program eligibility and claims processing for MMIS. The period covered by the audit was FFY 2003. The audit involved work at SRS, EDS and MAXIMUS Healthwave Clearinghouse. The auditors generally found that there were no immediate security risks to SRS in eligibility and claims processing. Their major global finding was the lack of an entity wide, formal, written, security plan for SRS. They also noted that the disaster recovery plans (for service continuity) at EDS and MAXIMUS were outdated and nonexistent, respectively. However, even with these vulnerabilities, they noted tape backups and other security measures over eligibility and claims processing were adequate.

OIG Audit of Accounts Receivable Related to Medicaid Overpayments. The Office of Inspector General from the Department of Health and Human Services is currently auditing SRS to assess whether SRS reported Medicaid provider overpayments according to Federal regulations. The period covered by the audit is FFY 2003. Auditors have an estimated draft report date of January 1, 2005, and plan to hold a closing conference November 16.

Food Stamp Penalty. The Federal FY 2002 Kansas food stamp payment error rate of 11.7% exceeded the national error rate of 8.26%, and led to a penalty of \$1,493,379. The state accepted the option offered by the United States Department of Agriculture to reinvest 50% (\$746,690) of the sanction in efforts to reduce the error rate. Under the agreement, the payment for the remaining 50% of the penalty depends on whether the state can achieve an error rate at or below the national error rate in both Federal Fiscal Years 2004 and 2005. One half of the remaining sanction is forgiven for meeting the target in each fiscal year. The Federal FY 2004 error rate (for the ten months of October 2003 to July 2004) has averaged 4.9% and is below the expected national error rate of 5.5% - 6.0%. It is projected that Kansas will meet the error rate standard and avoid paying the remainder of the suspended penalty.

Update on SRS Office Closures

Fifty-five local SRS offices have been closed through October 2004. An additional seven offices are scheduled for closure during the remainder of this fiscal year. The following chart identifies the savings:

Fiscal Year	Offices Closed	SGF Savings	AF Savings
2003	8	\$0	\$0
2004	42	\$228,009	\$484,611
2005	12	\$222,600	\$473,039
2006	0	\$155,500	\$330,552
Total	62	\$606,109	\$1,288,202

The first local offices did not close until May 2003, thus no savings were realized in FY 03. FY 06 savings are FY 05 savings annualized. Savings have been incorporated in the Department's budget document.

Savings identified are net savings in rents, information technology and other costs associated with operating an office; offset by costs to move, upgrade phone systems, and establish and maintain Access Points. What is not reflected are savings from increases in rent and operating expenses that would have occurred had the offices remained open. Since 1997, building rents increased an average of 23% in the offices that were (will be) closed.

Savings related to the consolidation of management areas from 11 areas to 6 regions, are estimated to be \$1,014,184 SGF (\$2,314,073 AF) in FY 05 and annually thereafter. The Department's budget submission reflects these savings. Consolidation savings are being achieved through administrative and operational efficiencies gained through the consolidation of regions and redesigned service delivery models. Administrative positions are being reallocated to direct service positions, needed to meet rising caseloads.

This concludes my testimony. I will gladly stand for any questions.