DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20201

May 17, 2012

TO: Marilyn Tavenner
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: /Daniel R. Levinson/
Inspector General

SUBJECT: Medicaid Rates for New York State-Operated Developmental Centers May Be Excessive (A-02-11-01029)

The attached final report provides the results of our review of Medicaid payment rates for New York State developmental centers.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Brian P. Ritchie, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through email at Brian.Ritchie@oig.hhs.gov. We look forward to receiving your final management decision within 6 months. Please refer to report number A-02-11-01029 in all correspondence.

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

MEDICAID RATES FOR NEW YORK STATE-OPERATED DEVELOPMENTAL CENTERS MAY BE EXCESSIVE

Daniel R. Levinson
Inspector General

May 2012
A-02-11-01029

Office of Inspector General

http://oig.hhs.gov

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the Medicaid program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

In New York State (the State), the Office for People With Developmental Disabilities (OPWDD) provides services to both Medicaid and non-Medicaid eligible beneficiaries with intellectual and developmental disabilities under a cooperative agreement with the Department of Health (DOH), which administers the State's Medicaid program. OPWDD oversees Intermediate Care Facilities (ICF) for individuals with intellectual and developmental disabilities. ICFs include State- and privately operated facilities with 30 or fewer beds and State-operated facilities with more than 30 beds. During our audit period, the State operated 13 facilities with more than 30 beds and 2 Small Residential Units on the campus of 1 of these facilities that provided services to individuals with intellectual and developmental disabilities. For reporting purposes, we refer to these 15 facilities as "developmental centers." We refer to ICFs with 30 or fewer beds as "State-operated ICFs" or "privately operated ICFs."

For State fiscal year (SFY) 2009, DOH claimed Medicaid reimbursement on behalf of 1,688 beneficiaries at developmental centers totaling $2,266,625,233 ($1,133,312,609 Federal share). The State's actual costs for the developmental centers totaled $577,684,725.

Developmental center payment rates are set using a complex methodology detailed in the State's Medicaid State plan. The rate is currently calculated by using a starting point that the State describes as "total reimbursable operating costs," which includes the prior year's total reimbursable operating costs, a volume variance adjustment, and a trend factor increase. Total reimbursable operating costs do not reflect the State's actual costs. The rate-setting reimbursement methodology for the developmental centers was originally approved in January 1986, retroactive to April 1984. Since then, the State has received CMS approval for more than 35 State plan amendments related to this methodology.

Section 1902(a)(30)(A) of the Act requires that payment for services be consistent with efficiency, economy, and quality of care.

OBJECTIVE

Our objective was to determine whether the payment rate for developmental centers met the Federal requirement that payment for services be consistent with efficiency and economy.

SUMMARY OF FINDINGS

Based on our assessment of the State's rate-setting methodology, we determined that the payment rate for developmental centers might not have met the Federal requirement that payment for services be consistent with efficiency and economy. Specifically, the growth of the daily Medicaid reimbursement rate for the developmental centers has significantly outpaced those of both State-operated and privately operated ICFs—from $195 per day in SFY 1985 to $4,116 per day in SFY 2009, which is the equivalent of $1.5 million per year for one Medicaid beneficiary. This rate is more than nine times the average rate for all other ICFs for the same period. If the State had used actual costs in calculating the Medicaid daily rate for developmental centers, its reimbursement would have totaled $858 million ($429 million Federal share) in SFY 2009, a difference of $1.41 billion ($701 million Federal share). If the State had used prior year actual costs as the starting point for its rate-setting methodology, its SFY 2009 Medicaid daily rate would have been $1,532, or 63 percent less than the calculated reimbursement rate ($4,116).

We also determined that the array of services provided to residents of a privately operated ICF was comparable to the array of services provided to residents of a nearby developmental center; however, the developmental center's Medicaid reimbursement rate was nearly 10 times that of the privately operated ICF.

This growth occurred because CMS did not adequately consider the impact of State plan amendments on the developmental centers' Medicaid daily rate. Specifically, CMS approved more than 35 State Plan Amendments related to the ICF rates, including some that pertained only to developmental centers. CMS reviewed the proposed amendments and, in some cases, asked the State for additional information to address concerns CMS had about the rate-setting methodology. However, CMS's efforts did not prevent the rate from increasing to its current level, which might not be consistent with efficiency and economy.

RECOMMENDATION

We recommend that CMS work with the State to ensure that the State's Medicaid daily rate for developmental centers meets the Federal requirement that payment for services be consistent with efficiency and economy. Use of such a rate might have saved the Federal Medicaid program approximately $701 million in SFY 2009.

DEPARTMENT OF HEALTH AND CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

In written comments on our draft report, DOH stated that it, along with OPWDD, agreed to work with CMS to ensure that the State's Medicaid daily rate for developmental centers meets the Federal requirement that payment for services be consistent with efficiency and economy. In separate comments, CMS concurred with our recommendation and stated that it was working with State officials to develop a revised payment methodology that will result in developmental center payment rates that are consistent with efficiency and economy. DOH's and CMS's comments are included in their entirety as Appendixes B and C, respectively.

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INTRODUCTION

BACKGROUND

Medicaid Program

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the Medicaid program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

Pursuant to section 1905(b) of the Act, the Federal Government pays its share of a State's medical assistance expenditures under Medicaid based on the Federal medical assistance percentage (FMAP), which varies depending on the State's relative per capita income. States with a lower per capita income relative to the national average are reimbursed a greater share of their costs. States with a higher per capita income are reimbursed a lesser share. By law, the FMAP rates cannot be lower than 50 percent. Although FMAPs are adjusted annually for economic changes in the States, Congress may increase FMAPs at any time.

New York State's Medicaid Program

In New York State (the State), the Office for People With Developmental Disabilities (OPWDD) provides services to both Medicaid and non-Medicaid eligible individuals (beneficiaries) with intellectual and developmental disabilities under a cooperative agreement with the Department of Health (DOH), which administers the State's Medicaid program.[1] DOH uses the Medicaid Management Information System (MMIS), a computerized payment and information reporting system, to process and pay Medicaid claims.

Intermediate Care Facilities in New York State

OPWDD oversees Intermediate Care Facilities (ICF) for individuals with intellectual and developmental disabilities. These facilities are residential treatment options designed for individuals whose disabilities severely limit their ability to live independently. ICFs provide 24-hour onsite assistance and training, intensive clinical and direct-care services, supervised activities, and a variety of therapies. Developmental and intellectual disabilities include a variety of conditions that cause mental or physical limitation (e.g., autism, cerebral palsy).

ICFs include State-operated and privately operated facilities with 30 or fewer beds and State-operated facilities with more than 30 beds. During our audit period, the State operated 13 facilities with more than 30 beds and 2 Small Residential Units (SRU) on the campus of 1 of these facilities that provided services to individuals with intellectual and developmental

[1] In July 2010, the Office of Mental Retardation and Developmental Disabilities (OMRDD) was renamed OPWDD. We refer to it throughout this report as OPWDD.

disabilities.[2] For reporting purposes, we refer to these 15 facilities as "developmental centers." We refer to ICFs with 30 or fewer beds as "State-operated ICFs" or "privately operated ICFs."

For State fiscal year (SFY) 2009, DOH claimed Medicaid reimbursement on behalf of 1,688 beneficiaries at developmental centers totaling $2,266,625,233 ($1,133,312,609 Federal share). The State's actual costs[3] for the developmental centers totaled $577,684,725.

Developmental Center Payment Rates

Developmental center payment rates are set using a complex methodology detailed in Attachment 4.19-D, Part II, of the State's Medicaid State plan. The attachment sets forth the methods and standards for establishing the rates. The rate is currently calculated by using a starting point that the State describes as "total reimbursable operating costs," which includes the prior year's total reimbursable operating costs, a volume variance adjustment, and a trend factor increase. As a result, total reimbursable operating costs do not reflect the State's actual costs. The rate-setting reimbursement methodology for the developmental centers was originally approved in January 1986, retroactive to April 1984. Since then, the State has received CMS approval for more than 35 State plan amendments (SPA) related to this methodology.

Federal Requirement

Section 1902(a)(30)(A) of the Act requires that payment for services be consistent with efficiency, economy, and quality of care.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the payment rate for developmental centers met the Federal requirement that payment for services be consistent with efficiency and economy.

Scope

Our audit period covered daily payments for Medicaid beneficiaries residing in developmental centers for the period April 1, 2008, through March 31, 2009 (SFY 2009). Our review covered 23,024 claims for 1,688 beneficiaries, totaling $2,266,625,233 ($1,133,312,609 Federal share), submitted by DOH for Federal reimbursement.

We did not review the overall internal control structure of CMS, DOH, OPWDD, or the Medicaid program. Rather, we limited our internal control review to those controls related to

[2] Although the 2 SRUs each have only a 12-bed capacity, they received the same Medicaid payment rate as the 13 facilities with more than 30 beds. Additionally, cost information supplied by the State for these facilities included costs associated with the two SRUs.

[3] We relied on cost information provided by the State to us and CMS. Throughout the report, we refer to these costs as "actual costs."

our objective. We did not verify the accuracy of the actual cost information provided by the State.

We performed fieldwork at CMS's, DOH's, and OPWDD's offices in Albany, New York, at the MMIS fiscal agent in Rensselaer, New York, and at a developmental center and a privately operated ICF in Brooklyn, New York, from May through September 2011.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations and the Medicaid State plan;
- held discussions with CMS, DOH, and OPWDD officials to gain an understanding of the State's rate-setting methodology;
- ran computer programming applications at the MMIS fiscal agent that identified all payments for developmental center services[4] for SFY 2009;
- interviewed officials from the largest developmental center—Brooklyn Developmental Center (BDC)—to gain an understanding of how a developmental center is managed and its procedures for claiming Medicaid reimbursement;
- interviewed officials from a privately operated ICF to gain an understanding of the facility's operations and procedures for claiming Medicaid reimbursement;
- recalculated the SFY 2009 Medicaid daily rate for developmental centers using SFY 2008 actual costs provided by the State;
- compared the developmental center payment rate to payment rates for all State-operated and privately operated ICFs for SFY 2009;
- compared the growth rate of the developmental center payment rate to selected State-operated and privately operated ICFs, based on their geographic proximity to each other;[5] and
- compared the number of beneficiaries and types of services provided at BDC with those at a privately operated ICF.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

[4] Specifically, we used rate codes 4100 (State Operated Office of Mental Retardation Developmental Center) and 4102 (OMRDD State Operated ICFs/Developmentally Disabled SRU).

[5] Specifically, we compared the developmental center payment rate to those for a privately operated ICF in Rock Hill, New York, a privately operated ICF in Brooklyn, and a State-operated ICF in Staten Island, New York.

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATION

Based on our assessment of the State's rate-setting methodology, we determined that the payment rate for developmental centers might not have met the Federal requirement that payment for services be consistent with efficiency and economy. Specifically:

- The growth of the daily Medicaid reimbursement rate for developmental centers has significantly outpaced those of both State-operated and privately operated ICFs.

- The State claimed significantly more for developmental center services than its actual costs.

- Privately operated ICFs providing comparable services in similar locations had significantly lower reimbursement rates than that of developmental centers.

This growth occurred because the State's rate-setting methodology significantly inflated the Medicaid daily rate for developmental centers, and CMS did not prevent the rate from increasing to its current levels.

If CMS had ensured that the State's rate-setting methodology for developmental centers resulted in a rate that was consistent with efficiency and economy, the Federal Government might have saved approximately $701 million in SFY 2009.

DAILY MEDICAID RATE FOR DEVELOPMENTAL CENTERS MIGHT NOT HAVE MET THE FEDERAL REQUIREMENT THAT PAYMENT FOR SERVICES BE CONSISTENT WITH EFFICIENCY AND ECONOMY

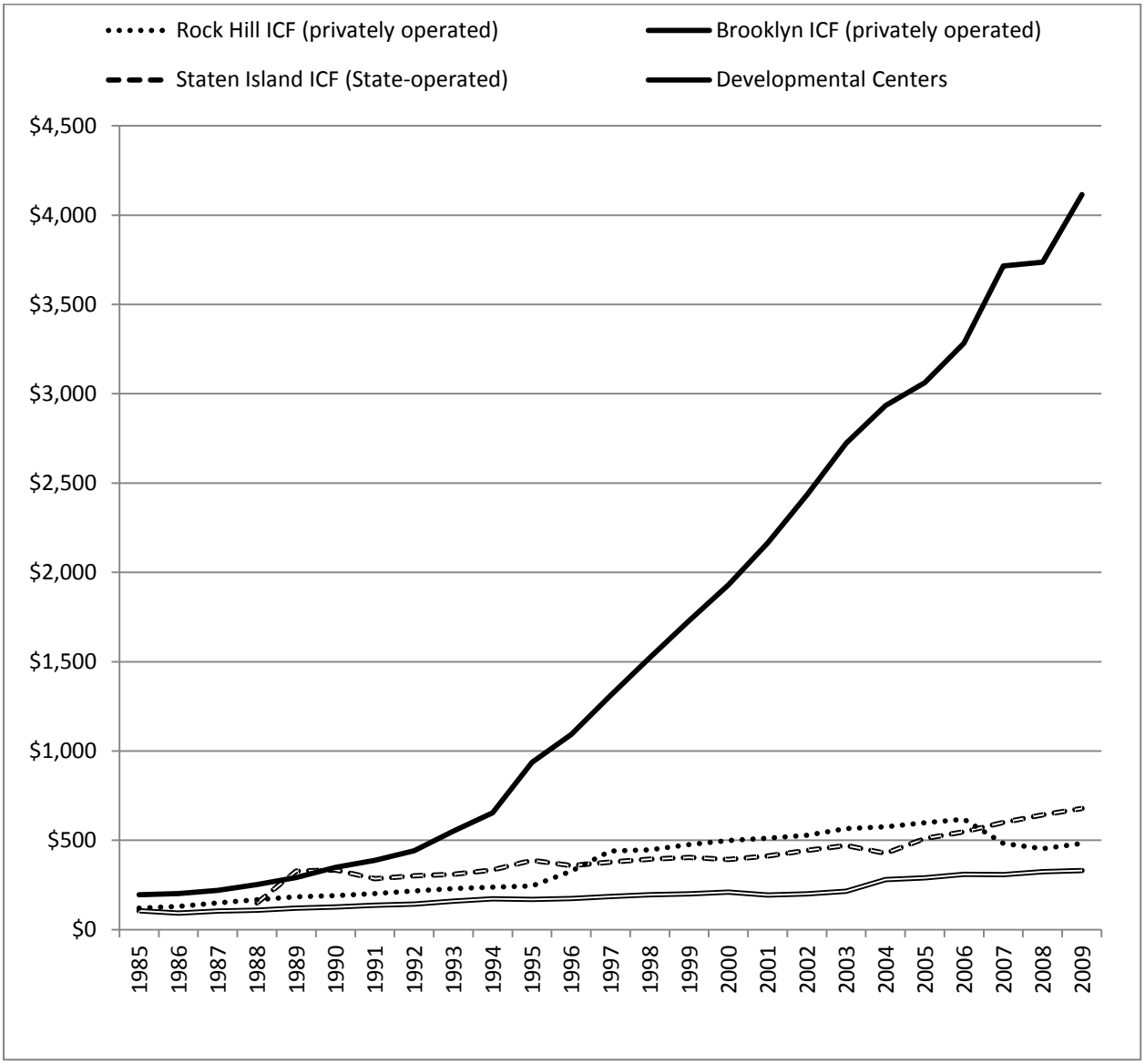
Growth of the Daily Medicaid Reimbursement Rate for Developmental Centers Has Significantly Outpaced Those of Both State-Operated and Privately Operated Intermediate Care Facilities

The daily rate for a Medicaid beneficiary to reside in a developmental center grew from $195 per day in SFY 1985 to $4,116 per day in SFY 2009, which is the equivalent of $1.5 million per year for one Medicaid beneficiary.[6] The developmental center rate was more than nine times the average rate for all other State-operated and privately operated ICFs for the same period. The daily rates for all other State-operated and privately operated ICFs, which are based on actual costs, ranged from $257 to $902 during the same period, with an average rate of $444.

[6] The daily Medicaid rate has since increased to $5,118, or $1.9 million per year, for one Medicaid beneficiary for SFY 2011.

We compared the growth of the Medicaid daily rate for developmental centers to the rates of one State-operated and two privately operated ICFs. As illustrated in the graph, the growth of the daily Medicaid reimbursement rate for developmental centers since 1985 has significantly outpaced those of the selected State- and privately operated ICFs.

Graph: Medicaid Daily Rate for Selected Intermediate Care Facilities (1985-2009)



State Claimed Significantly More for Developmental Center Services Than Its Actual Costs

In SFY 2009, the State claimed nearly $2.27 billion ($1.13 billion Federal share) in Medicaid reimbursement for developmental center services. If the State had used prior year actual costs as the starting point to calculate its Medicaid daily rate, its reimbursement would have totaled $858 million ($429 million Federal share), a difference of $1.41 billion ($701 million Federal share). Using the developmental centers' prior year actual costs as the starting point, the

SFY 2009 Medicaid daily rate would have been $1,532, or 63 percent less than the calculated reimbursement rate ($4,116).[7] (See Appendix A for how these rates were calculated.)

Privately Operated Intermediate Care Facilities Providing Comparable Services in Similar Locations Had Significantly Lower Reimbursement Rates

The Medicaid daily rate for developmental centers was substantially higher than the rate for privately operated ICFs, even those that were in similar locations and that offered comparable services. During our audit period, the Medicaid daily rate for residents of BDC, the largest developmental center in the State, was $4,116 per day (including day treatment services).[8] In comparison, the approved Medicaid daily rate for residents of a privately operated ICF that operated three facilities within 10 miles of BDC ranged from $421 to $535 per day (including day treatment services)—approximately one-eighth of BDC's rate.

We randomly selected 10 BDC residents and 10 privately operated ICF residents and reviewed the residents' Medicaid billing histories for our audit period. Based on our assessment, the array of services provided to residents of the privately operated ICF were comparable to the array of services provided to BDC residents; however, BDC's Medicaid reimbursement rate was nearly 10 times that of the privately operated ICF. Table 1 details our findings.

Table 1: Comparison of Medicaid Services at a Developmental Center and at a Privately Operated Intermediate Care Facility

	Developmental Center	Privately Operated Intermediate Care Facility
Reimbursement Rate(s)[9]	$4,116 per day	$421 to $535 per day
Therapies Included in Reimbursement Rate(s)	Occupational therapy Physical therapy Psychologist services Speech and language pathology Social work Dietetics and nutrition Rehabilitation counseling Nursing services Day treatment	Occupational therapy Physical therapy Psychologist services Speech and language pathology Social work Dietetics and nutrition Rehabilitation counseling Nursing services Day treatment
Annual Billings per Resident	Low: $1,489,623 High: $1,502,172	Low: $99,120 High: $149,670

[7] Other than the starting point, we included the same additional rate calculation components that the State used to calculate its SFY 2009 rate.

[8] During our audit period, BDC provided services to 306 Medicaid beneficiaries.

[9] Rates in the table include developmental center or privately operated ICF services and day treatment services.

Rate-Setting Methodology Significantly Inflates Medicaid Daily Rate for Developmental Centers

Developmental center rates do not reflect the State's actual costs. A developmental center's rate is currently calculated by using a starting point that the State describes as "total reimbursable operating costs," which includes the following components: the prior year's total reimbursable operating costs, a volume variance adjustment, and a trend factor increase. The volume variance adjustment was intended to ensure that annual decreases in headcount at a developmental center did not cause a center to lose operating funds needed to support its fixed costs. The volume variance adjustment achieved this by allowing the State to retain 64 percent of the costs associated with beneficiaries no longer in a developmental center.[10] The trend factor increase, as described in the State plan, is developed by OPWDD.[11] The State's daily rate for developmental centers was inflated by including the volume variance adjustment and the trend factor increase from prior years in the total reimbursable operating costs (starting point) for the current year. The significant inflation of the rate is illustrated in the graph on page 5. (See Appendix A for additional rate calculation components.)

We compared reimbursable operating costs for SFYs 2007 through 2009 to the developmental centers' actual costs. As illustrated in Table 2, the starting point of each annual rate calculation was more than three times the developmental centers' actual costs.

Table 2: Starting Point of Annual Rate-Setting Calculation

State Fiscal Year	Reimbursable Operating Costs Components (Starting Point)	Reimbursable Operating Costs (Starting Point)	Prior Year Actual Costs	Percent Difference
2007	SFY 2006 Total Reimbursable Operating Costs Volume Variance Adjustment Trend Factor Increase (x 5.33%) SFY 2007 Starting Point	$1,708,886,277 $(2,309,772) $90,960,528 $1,797,537,033	$518,641,250	347%
2008	SFY 2007 Total Reimbursable Operating Costs Volume Variance Adjustment Trend Factor Increase (x 3.03%) SFY 2008 Starting Point	$ 1,797,537,033 $(3,643,034) $54,354,988 $1,848,248,987	$547,242,147	338%
2009	SFY 2008 Total Reimbursable Operating Costs Volume Variance Adjustment Trend Factor Increase (x 2.97%) SFY 2009 Starting Point	$1,848,248,987 $2,288,332 $54,960,959 $1,905,498,278	$580,689,833	328%

[10] New York State Plan, Attachment 4.19-D, Part II, page 6.

[11] New York State Plan, Attachment 4.19-D, Part II, page 39. According to the State, OPWDD sets the trend factor by using estimated current price movement related to wages, salaries, and employer costs for employee benefits and costs other than labor for the applicable fiscal year for "voluntarily operated residential health care facilities."

Centers for Medicare & Medicaid Services Did Not Adequately Consider the Impact of State Plan Amendments on the Medicaid Daily Rate for Developmental Centers

CMS approved more than 35 SPAs related to the ICF rates, including some that pertained only to developmental centers. CMS reviewed the proposed SPAs and, in some cases, asked the State for additional information to address concerns it had about the rate-setting methodology. However, CMS's efforts did not prevent the rate from increasing to its current level, which might not be consistent with efficiency and economy.

POTENTIAL COST SAVINGS

If CMS had ensured that the State's rate-setting methodology for developmental centers resulted in a rate that was consistent with efficiency and economy, the Federal Government might have saved approximately $701 million in SFY 2009.

RECOMMENDATION

We recommend that CMS work with the State to ensure that the State's Medicaid daily rate for developmental centers meets the Federal requirement that payment for services be consistent with efficiency and economy. Use of such a rate might have saved the Federal Medicaid program approximately $701 million in SFY 2009.

DEPARTMENT OF HEALTH AND CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

In written comments on our draft report, DOH stated that it, along with OPWDD, agreed to work with CMS to ensure that the State's Medicaid daily rate for developmental centers meets the Federal requirement that payment for services be consistent with efficiency and economy. In separate comments, CMS concurred with our recommendation and stated that it was working with State officials to develop a revised payment methodology that will result in developmental center payment rates that are consistent with efficiency and economy. DOH's and CMS's comments are included in their entirety as Appendixes B and C, respectively.

APPENDIXES

APPENDIX A: CALCULATION OF THE STATE FISCAL YEAR 2009 MEDICAID DAILY RATE

Rate Component	State Calculation	OIG Recalculation
Total Reimbursable Operating Costs as of 3/31/08 Excluding Any Education Costs	$1,905,498,278	
Total Reported Developmental Center Costs - 3/31/08 (SFY 2008)		$580,689,833
"Volume variance" adjustment (Decrease per day @ 36 percent variable costs removed)	($5,424,122)	($5,424,122)
Subtotal (Post-Adjustment)	$1,900,074,156	$575,265,711
Trend Factor (3.52 percent)	$66,882,610	$20,249,353
"Closure Incentive Plan" Payment Adjustment	$4,092,608	$4,092,608
Other Adjustments/Accruals	($3,704,481)	($3,704,481)
Revised Operating Costs After Rate Period Adjustments	$1,967,344,893	$595,903,191
Health Care Enhancement	$182,425,990	$182,425,990
Total Reimbursable Operating Costs	$2,149,770,883	$778,329,181
Capital	$30,173,772	$30,173,772
Estimated Gross Receipts (OPWDD Costs)	$2,179,944,655	$808,502,953
Tax Assessment (5.5 percent)	$119,896,956	$44,467,662
OPWDD Reimbursable Operating Costs	$2,299,841,611	$852,970,615
Education Costs (provided by State Education Department)	$4,753,984	$4,753,984
Total Reimbursable Costs	**$2,304,595,595**	**$857,724,599**
Days	559,974	559,974
SFY 2009 Medicaid Daily Rate	**$4,116**	**$1,532**

OIG = Office of Inspector General
OPWDD = Office for People With Developmental Disabilities
SFY = State fiscal year

APPENDIX B: DEPARTMENT OF HEALTH COMMENTS

NEW YORK
state department of
HEALTH

Nirav R. Shah, M.D., M.P.H.
Commissioner

Sue Kelly
Executive Deputy Commissioner

March 26, 2012

James P. Edert
Regional Inspector General for Audit Services
Department of Health and Human Services
Region II
Jacob Javitz Federal Building
26 Federal Plaza
New York, New York 10278

Ref. No. A-02-11-01029

Dear Mr. Edert:

Enclosed are the New York State Department of Health's comments on the Department of Health and Human Services, Office of Inspector General's draft audit report A-02-11-01029 on "Medicaid Rates for New York State Developmental Centers May Be Excessive."

Thank you for the opportunity to comment.

Sincerely,

Robert W. Loccicero, Esq.
Deputy Director
for Administration

Enclosure

cc: Jason Helgerson
James C. Cox
Diane Christensen
James Moran
Vincent Sleasman
Stephen Abbott
Dennis Wendell
Stephen La Casse
Irene Myron
Ronald Farrell

New York State Department of Health's Comments on the Department of Health and Human Services Office of Inspector General's Draft Audit Report A-02-11-01029 on "Medicaid Rates for New York State Developmental Centers May Be Excessive"

The following are the New York State Department of Health's (Department) comments in response to the Department of Health and Human Services, Office of Inspector General's (OIG) draft audit report A-02-11-01029 on "Medicaid Rates for New York State Developmental Centers May Be Excessive."

Recommendation #1:

We recommend that CMS work with the State to ensure that the State's Medicaid daily rate for developmental centers meets the Federal requirement that payment for services be consistent with efficiency and economy. This could have potentially saved the Federal Medicaid program approximately $701 million in SFY 2009.

Response #1:

The Department and the NYS Office for People With Developmental Disabilites (OPWDD) agree to work with the Centers for Medicare & Medicaid Services (CMS) to ensure that the State's Medicaid daily rate for developmental centers meets the Federal requirement that payment for services be consistent with efficiency and economy.

APPENDIX C: CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

Administrator
Washington, DC 20201

DATE: MAR 1 4 2012

TO: Daniel R. Levinson
Inspector General

FROM: Marilyn Tavenner
Acting Administrator

SUBJECT: Office of Inspector General (OIG) Draft Report: "Medicaid Rates for New York State Developmental Centers May Be Excessive" (A- 02-11-01029)

Thank you for the opportunity to review and comment on the OIG Draft Report entitled: "Medicaid Rates for New York State Developmental Centers May Be Excessive" (A- 02-11-01029). New York State developmental centers, which include Intermediate Care Facilities, provide inpatient services to Medicaid clients with developmental disabilities. New York's Office for People with Developmental Disabilities (OPWDD) oversees the developmental centers and is responsible for setting their Medicaid payment rates. This report examined Medicaid payments rates set by OPWDD and determined that the reimbursement level provided to State developmental centers may not have met the Federal requirement that payment for services be consistent with efficiency and economy. OIG estimated that if OPWDD had set rates based on more recently reported provider cost information, the Federal Medicaid program could have saved approximately $701 million in Federal Financial Participation in State Fiscal Year 2009.

OIG Recommendation:

The OIG recommends that CMS work with New York to ensure that the State's Medicaid daily rate for developmental centers meets the Federal requirement that payment for services be consistent with efficiency and economy.

CMS Response:

We concur. The Centers for Medicare & Medicaid Services is working with State officials to develop a revised institutional payment methodology that will result in rates for New York's developmental centers to assure Medicaid payments are consistent with efficiency and economy.

We appreciate the effort that went into this report and look forward to working with OIG on this and other issues.