

096594

204.38



REPORT TO THE CONGRESS

79 0095

12



Problems In Providing Guidance To States In Establishing Rates Of Payment For Nursing Home Care Under The Medicaid Program B-164031(3)

Social and Rehabilitation Service
Department of Health, Education,
and Welfare

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

~~701088~~ 096594

APRIL 19, 1972



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164031(3)

61
/ To the President of the Senate and the
Speaker of the House of Representatives

This is our report on problems in providing guidance to States in establishing rates of payment for nursing home care under the Medicaid program. Medicaid is a grant-in-aid program administered at the Federal level by the Social and Rehabilitation Service, Department of Health, Education, and Welfare.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Health, Education, and Welfare.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

C o n t e n t s

| | <u>Page</u> | |
|----------|---|----|
| DIGEST | 1 | |
| CHAPTER | | |
| 1 | INTRODUCTION | 5 |
| | Administration of Medicaid program | 5 |
| | Medicaid nursing homes | 6 |
| | Scope of review | 6 |
| 2 | PROBLEMS IN PROVIDING GUIDANCE TO STATES IN ESTABLISHING RATES OF PAYMENT FOR NURSING HOME CARE UNDER THE MEDICAID PROGRAM | 8 |
| | Policies and procedures governing payment rates for nursing home care | 9 |
| | States' methods of establishing payment rates | 11 |
| | Evaluation of ratemaking in four States | 14 |
| | HEW's evaluation of payment rates | 26 |
| 3 | CONCLUSIONS AND RECOMMENDATIONS | 33 |
| | Conclusions | 33 |
| | Recommendations to the Secretary of Health, Education, and Welfare | 34 |
| 4 | AGENCY COMMENTS | 36 |
| APPENDIX | | |
| I | Basis of establishing payment rates for skilled nursing home care under Medicaid as of June 30, 1970 | 39 |
| II | Letter dated March 17, 1972, from the Assistant Secretary, Comptroller, Department of Health, Education, and Welfare to the General Accounting Office | 41 |
| III | Principal officials of the Department of Health, Education, and Welfare responsible for the administration of activities discussed in this report | 44 |

ABBREVIATIONS

GAO General Accounting Office

HEW Department of Health, Education, and Welfare

PREP program review and evaluation project

SRS Social and Rehabilitation Service

D I G E S T

WHY THE REVIEW WAS MADE

The Social and Rehabilitation Service (SRS) of the Department of Health, Education, and Welfare (HEW) administers the Medicaid program under which the Federal Government pays part of the States' cost of nursing home care provided to persons unable to pay for such care.

The Federal share of payments for nursing home care has increased from \$323 million in fiscal year 1966 to \$837 million in fiscal year 1971.

Because of the (1) increasing and substantial costs incurred for nursing home care under the Medicaid program and (2) absence of HEW criteria and guidelines for establishing rates of payment for such care, the General Accounting Office (GAO) examined into the methods followed by Colorado, Michigan, New York, and Oklahoma in establishing rates of payment for nursing home care.

These four States' payments for nursing home care in fiscal years 1970 and 1971 amounted to about \$345 million and \$632 million, respectively; about one half of these payments represented the Federal share.

GAO also obtained information from 44 other States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands regarding their methods of establishing rates of payment for nursing home care.

FINDINGS AND CONCLUSIONS

HEW has not

- formulated and issued appropriate criteria and requirements to guide the States in establishing rates of payment for nursing home care,
- enforced the requirement of the Social Security Act that State plans include a description of the methods and procedures used in establishing payment rates, and
- instituted effective policies and procedures for reviewing and evaluating methods and procedures actually being used by the States in establishing payment rates. (See p. 9.)

In the absence of HEW criteria, the States have adopted methods for establishing rates of payment for nursing home care, which have resulted in differing payment policies and rates. These differences could have an adverse effect not only on the cost of the Medicaid program but also on the level and quality of care given to Medicaid patients.

For example, many of the States allowed a fixed rate or used a rate that was not related to costs of operation. Allowing a nursing home a fixed amount which does not consider the actual costs of operation may generate economic pressure on the nursing home (1) to reduce costs by sacrificing the quality or level of care provided or (2) to avoid incurring the increased costs necessary to improve the level or quality of care. (See pp. 11 and 33.)

The administration of the Medicaid nursing home program can be significantly improved through HEW's issuance of definitive criteria to guide States in establishing payment rates. These criteria should consider such matters as frequency of rate setting, use of audited cost data, allowability of items to be included in the rate, limitations on allowances for inflation and profit, desirability of home-by-home rate setting, and recognition of differences caused by demographic characteristics when group rates are used. (See p. 33.)

RECOMMENDATIONS OR SUGGESTIONS

HEW should

- instruct SRS to expedite the formulation and issuance of appropriate criteria and requirements for guiding States in the establishment of payment rates for nursing home care under the Medicaid program,
- require that States furnish detailed descriptions periodically of the methods followed in establishing payment rates to HEW's regional offices for review, and
- require that SRS periodically review States' implementations of the prescribed criteria to help ensure the proper and efficient administration of the Medicaid nursing home program. (See pp. 34 and 35.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

HEW has stated:

- That it is studying comments received from States on draft guidelines for implementation of the nursing home reimbursement regulation and intends to issue formal guidelines by June 15, 1972.
- That it is preparing proposals for short-range, intermediate-range, and long-range studies on nursing home costs and that the results of these studies would have significant bearing on future departmental

policy governing reimbursement for skilled nursing home services and lead to guides which would assist States in adopting general reimbursement principles.

- That SRS has established long-term-care activities as its number one priority in program monitoring and that HEW intends to make program reviews in each State on a continuing basis with emphasis on reimbursement methods.
- That, as an ongoing policy, States would be required to furnish detailed descriptions periodically of the methods followed in establishing payment rates to HEW's regional offices for review. (See pp. 36 and 37.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report contains no recommendations requiring legislative action by the Congress. It does contain information on weaknesses in HEW's administration of the Medicaid program for nursing homes, suggestions for their correction or improvement, and corrective actions taken or promised by HEW. This information should be of assistance to committees in the Congress in their legislative and oversight responsibilities for the Medicaid program.



CHAPTER 1

INTRODUCTION

The Medicaid program--authorized by title XIX of the Social Security Act, as amended (42 U.S.C. 1396), and administered by the Department of Health, Education, and Welfare--is a grant-in-aid program under which the Federal Government pays part of the cost of medical assistance for persons unable to pay for such care. The act requires that States, under their Medicaid programs, provide inpatient and outpatient hospital services, laboratory and X-ray services, skilled nursing home services, physicians' services, home health services, and early and periodic screening and treatment to eligible persons. Additional services, such as dental care and prescription of drugs, may be provided under a State's Medicaid program if the State so chooses.

Medicaid programs have been adopted by 48 States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. The Federal Government pays from 50 to 83 percent of the costs incurred by States in providing medical services under their Medicaid programs, depending upon the per capita income of the States.

For fiscal years 1970 and 1971, the States and the jurisdictions reported Medicaid expenditures of about \$4.7 billion and \$5.9 billion, respectively; one half of these expenditures represented the Federal share. Of the Medicaid expenditures in fiscal years 1970 and 1971, about \$1.3 billion and \$1.7 billion, respectively, were for nursing home care; about one half of these costs represented the Federal share.

ADMINISTRATION OF MEDICAID PROGRAM

At the Federal level the Secretary of HEW has delegated the responsibility for administering the Medicaid program to the Administrator of the Social and Rehabilitation Service. The authority for administering the field activities of the Medicaid program has been further delegated to the Regional Commissioners of SRS, located in HEW's 10 regional offices.

Under the Social Security Act, the States have the primary responsibility for initiating and administering the Medicaid program. The nature and scope of a State's Medicaid program are contained in a State plan which, after approval by HEW, provides the basis for Federal grants to the State. The Regional Commissioner is responsible for determining whether the State's program is being administered in accordance with Federal requirements and with provisions of the State's approved plan. Supplement D of HEW's Handbook of Public Assistance Administration and SRS's program regulations provide States with Federal guidelines and instructions for administering the Medicaid program.

The HEW Audit Agency is responsible for audits of the manner in which Federal responsibilities relative to State Medicaid programs are being discharged. The Audit Agency has made, and is currently making, a number of reviews of Medicaid nursing home programs.

MEDICAID NURSING HOMES

Nursing homes generally are defined as medical facilities providing convalescent or inpatient care to persons not requiring hospital care but needing certain medical care and services that cannot be provided in their homes or in residential or custodial facilities. To participate in the Medicaid program, nursing homes must meet State licensing requirements and Federal requirements. Supplement D of HEW's handbook recommends that States' payments to nursing homes for care and services be based on reasonable costs, determined according to commonly used accounting methods on a per diem or a relationship of costs-to-charges basis.

SCOPE OF REVIEW

Because of both the substantial Medicaid expenditures for nursing home care and the expressed concern of the Congress in the rising cost of medical care, we examined into the guidance given to States by HEW and into the methods followed by States in establishing rates of payment for such care. Our review was concerned with an evaluation of HEW's policies and procedures relating to payments to nursing homes under the Medicaid program.

Our work, performed principally at HEW headquarters in Washington, D.C., included a review of the basic legislation authorizing the Medicaid program. In field visits to Colorado, Michigan, New York, and Oklahoma, we also examined into the methods by which these States established rates of payment for nursing home care. In addition, we obtained information by questionnaire from the other participating States and jurisdictions concerning their methods of reimbursement and rates of payment for nursing home care as of June 30, 1970.

We selected Colorado, Michigan, New York, and Oklahoma for our review because of (1) their divergent methods of nursing home reimbursement, State-wide negotiated reimbursement in Michigan and Oklahoma and actual cost reimbursement in Colorado and New York, (2) Colorado's, Michigan's, and Oklahoma's nursing home expenditures, in relation to their overall Medicaid costs, which exceeded the national average, and (3) New York's substantial expenditures for nursing home care. For fiscal year 1971 these States expended about \$632 million for nursing home care. Information on Medicaid and nursing home programs in these States for fiscal year 1970 follows.

| | <u>Fiscal year 1970</u> | | | | <u>June 30, 1970</u> | |
|------------|------------------------------|----------------------|--|-------------------------|--|--|
| | <u>Medicaid expenditures</u> | <u>Federal share</u> | <u>Skilled nursing home expenditures</u> | <u>Percent of total</u> | <u>Number of skilled nursing homes</u> | <u>Number of skilled nursing home patients</u> |
| | (000,000 omitted) | | | | | |
| Nationwide | \$4,700 | \$2,400 | \$1,260 | 27 | 7,400(a) | (b) |
| Colorado | 36 | 20 | 15 | 42 | 179 | 4,678 |
| Michigan | 206 | 103 | 93 | 45 | 213 ^c | 17,629 |
| New York | 1,195 | 512 ^d | 204 | 17 | 543 | (b) |
| Oklahoma | 79 | 54 | 42 | 53 | 395 | 15,732 |

^aIncludes four homes in Puerto Rico. Also, 213 of the homes were reported as of January 1, 1970.

^bInformation not available.

^cAs of January 1, 1970.

^dNew York expended \$172 million that was not subject to Federal matching.

CHAPTER 2

PROBLEMS IN PROVIDING GUIDANCE TO STATES

IN ESTABLISHING RATES OF PAYMENT

FOR NURSING HOME CARE

UNDER THE MEDICAID PROGRAM

We reported to the Congress in October 1967 on the need for HEW to provide adequate guidance to the States concerning appropriate or acceptable methods of establishing rates of payment for nursing home care provided to welfare recipients.¹ Although HEW agreed that Federal guidelines were needed in this area, such guidelines have not been promulgated. We believe that action by HEW is essential to ensure that Federal funds provided for nursing home care are expended as economically and effectively as possible. Prolonged delays in formulating methods for use by the States could have an adverse effect not only on the cost to the Federal Government and to the States but also on the level and quality of care given to nursing home patients under the Medicaid program.

HEW has been paying part of the costs incurred by States for nursing home care for a number of years. In fiscal year 1966 the Federal share of payments for nursing home care provided under HEW programs amounted to about \$323 million; in fiscal year 1971 these payments under Medicaid had risen to about \$837 million. HEW, despite these increased payments and its earlier acknowledgement of the need for action in this matter, has not

--formulated and issued appropriate criteria and requirements to guide the States in establishing rates of payment for nursing home care;

¹"Need for More Effective Guidance to States in Establishing Rates of Payment for Nursing Home Care Provided to Welfare Recipients" (B-114836, Oct. 31, 1967).

- enforced the requirement of the Social Security Act that State plans include a description of the methods and procedures used in establishing payment rates; and
- instituted effective policies and procedures for reviewing and evaluating methods and procedures actually being used by the States in establishing payment rates.

POLICIES AND PROCEDURES GOVERNING PAYMENT
RATES FOR NURSING HOME CARE

Prior to enactment of the 1967 amendments to the Social Security Act, the establishment of rates of payment for nursing home care provided under Federal and State programs was left entirely to the discretion of the States. The 1967 amendments contained general requirements governing payment for medical care and services. Section 1902(a)(30) of the act provides that payment for various types of medical care and services be not in excess of reasonable charges consistent with efficiency, economy, and quality of care. Also the act requires that each State plan specify the methods and procedures established by the State to ensure that payments are not in excess of reasonable charges.

In June 1966 HEW issued regulations relating to payments for medical care and services provided under the Medicaid program. At that time HEW recognized that payments under the program should be made at reasonable costs by suggesting that fee structures for institutions, such as nursing homes, "focus on payment on a reasonable-cost basis determined according to commonly used accounting methods on a per diem or relationship of costs to charges basis" and be realistic to ensure the level and quality of care provided. HEW recommended that for comparable facilities payment be equivalent to reasonable costs under title XVIII of the act (Medicare). HEW did not provide any criteria, however, as to what procedures or methods States should use in developing rates of payment for nursing home care on the basis of reasonable cost.

On June 7, 1968, HEW issued an interim policy statement relating to reasonable charges and, as is customary, solicited comments, suggestions, or objections from interested

parties. The interim policy provided for States to set an upper limit on payments for institutional services, including nursing homes, by taking into consideration the usual payments received by nursing homes for similar services furnished to other than Medicaid patients; that is, to Medicare and private patients. This policy, however, did not preclude payments for institutional services in excess of payments for Medicare or private patients. In addition, the policy required that States include in their plans a description of methods to be used in establishing payment rates for institutional services. HEW considers this requirement to be met on the basis of a broad statement in a State's plan that the payment for such services would not exceed the upper limit.

HEW changed the interim policy with respect to the upper limit on payments for institutional services. This change provides that payments for institutional services cannot exceed reasonable costs, as defined by the standards and principles for computing reimbursement to such institutions under the Medicare program. In other words the Medicare reimbursement method was established as the ceiling for institutional services. Regulations implementing this change were issued on January 25, 1969.

On March 13, 1969, the Commissioner, Medical Services Administration, SRS, notified the States that the upper limit on payments for institutional services, as established in the January 25, 1969, regulations, was not applicable to skilled nursing homes and that provision for an application of upper limits on payments for skilled nursing home services would be clarified at a later date. On June 18, 1970, however, HEW issued regulations, effective July 1, 1970, re-establishing the upper limit on payments for skilled nursing home services as originally provided for in the January 25, 1969, regulations.

On October 8, 1970, HEW forwarded a preliminary draft of guidelines for reasonable charges for skilled nursing home services to all State agencies, requesting their comments, criticisms, and/or suggestions. These guidelines, however, will assist States in establishing only the upper limit on payments, as provided for in the June 18, 1970,

regulations. They are not designed to guide States in adopting general reimbursement principles.

In our October 1967 report to the Congress, we recommended that the Secretary of HEW take the necessary action to expedite the formulation and issuance of appropriate criteria and requirements for guiding the States in establishing rates of payment for nursing home care. Although SRS has taken certain actions regarding payments to nursing homes--a recommendation in 1966 that payments be based on reasonable costs, the establishment in 1970 of an upper limit on such payments, and the issuance in 1970 of preliminary draft guidelines for establishing the upper limits--it has not formulated any additional criteria for establishing rates of payment.

STATES' METHODS OF ESTABLISHING PAYMENT RATES

States, in the absence of HEW criteria, have adopted methods for establishing rates of payment for nursing home care, which have resulted in differing payment policies and rates. These differences could have an adverse effect not only on the cost of the Medicaid program to the Federal and State Governments but also on the level and quality of care given to Medicaid patients.

We obtained information by questionnaire or through field visits, as of June 30, 1970, on the methods and rates of payment used by the States and jurisdictions participating in the Medicaid program. Our analysis of the information showed that several methods were used in establishing rates of payment for nursing home care and that the rates ranged from \$4.53 to \$68.17 a day. This information is summarized below and detailed in appendix I.

| Method of establishing payment rates (note a) | GAO classifi- cation | Number of States or jurisdictions using each method | Range of daily payment rates (note b) | |
|--|----------------------------|---|---|---------|
| | | | Low | High |
| Reasonable cost: | 1 | | | |
| Same as title XVIII (Medicare) | 1a | 13 | \$ 5.00 | \$50.54 |
| Defined by the State with dollar limitations | 1b | 8 | 5.00 | 19.50 |
| Defined by the State with- out dollar limitations | 1c | 2 | 8.24 | 16.50 |
| Negotiated: | 2 | | | |
| Statewide | 2a | 9 | 4.53 | 24.99 |
| Individual county | 2b | 1 | 9.19 | 10.00 |
| Individual home | 2c | 1 | 16.00 | 18.50 |
| Actual cost | 3 | 7 | 5.00 | 68.17 |
| Fixed by State Legislature or agency | 4 | 3 | 9.00 | 14.00 |
| Classification of home by level of care provided | 5 | 3 | 4.77 | 10.79 |
| Other | 6 | <u>3</u> | 5.00 | 34.99 |
| Total | | 50 | | |
| No Medicaid nursing homes (note c) | | <u>2</u> | - | - |
| Total | | <u>52</u> | | |

^aWhen a State's payment method was a combination of methods, such as reasonable cost and nursing home classification, we selected the method which seemed to predominate.

^bThe low and high rates may represent payments to one or to relatively few homes and, in some cases, tend to present an extreme picture. For example, the high rate of \$68.17 under the actual cost classification (3) was paid to one specialized home in New York. Also the low rate of \$4.53 under the negotiated classification (2a) was paid to only 22 of 395 homes in Oklahoma.

^cGuam does not have any nursing homes. In the Virgin Islands patients receive nursing home care under the home health care program or in a hospital.

BEST DOCUMENT AVAILABLE

Although the methods used by the States for establishing rates of payment for nursing home care varied, we found that, under each of the above methods, there was considerable variation in the factors used in arriving at a payment rate. Some of the variations are discussed below.

Reasonable-cost method

Reasonable-cost methods were used by 23 States or jurisdictions, but differences existed in the definitions of reasonable costs. The reasonable-cost criteria used for reimbursing providers under the Medicare program was adopted by 13 States and the remaining 10 adopted varying interpretations of reasonable costs. In analyzing information supplied by the States, we noted that the 13 States which reported that they had established payment rates on the basis of title XVIII criteria (Medicare) also differed in their application of that criteria.

Negotiation method

Variations also existed under the negotiation method, with respect to geographic coverage, frequency of rate determination, and evidence required to support the negotiated rate. In addition to the lack of a uniform geographic basis upon which the rates were negotiated--statewide, individual county, individual home--differences existed as to the timing of, and the type of, evidence used in the negotiation process. For instance, one State reported that new rates were negotiated when State funds were available and when studies indicated a need for renegotiation on the basis of accelerated costs. Another State reported that its rates were negotiated on the basis of audit reports of nursing home costs from independent consulting firms. A third State reported that its rates were negotiated on the basis of pressure from the State Nursing Home Association to increase the rates to accommodate various cost factors.

EVALUATION OF RATEMAKING
IN FOUR STATES

In view of the diversity of the methods reported by States for establishing payment rates for nursing home care and the different applications of factors employed by those States which reported using like methods, we examined the methods used in Colorado, Michigan, New York, and Oklahoma to determine the effect that these methods could have on the cost of the Medicaid program and/or on the level and quality of care provided to Medicaid patients.

Our examination of the methods used in these four States was not for the purpose of being critical of the States but merely to determine the effects under the Medicaid program that could result from the methods used.

Colorado

Nursing home payment rates established during fiscal year 1970 by the Colorado Department of Social Services were determined on the basis of semiannual cost reports submitted by the individual nursing homes and were audited by a certified public accounting firm engaged by the State to ensure the validity of the reports. The payment rate to an individual home was based upon the lesser of (1) its cost of operation (adjusted as discussed below) or (2) a limitation established by the Department of Social Services. The maximum amount, or ceiling, was determined by overall State fiscal restraints.

The Department of Social Services adjusted the validated costs of the individual homes by excluding those costs not related to providing patient care, such as board of directors' fees, promotion costs, fund-raising costs, and officers' and owners' life insurance premiums. Also the Department imposed a limitation on those costs related indirectly to providing patient care, such as advertising, rent, and depreciation.

The daily rates, based on the adjusted costs, were increased by allowances for inflation and profit. For the 6-month period ended June 30, 1970, the allowances were

3 percent for inflation and 70 cents for profit for proprietary homes and 52 cents for profit for nonproprietary homes.¹ The maximum amount, or ceiling, allowed as a payment rate as of June 30, 1970, including allowances for inflation and profit, was \$11 a day for proprietary nursing homes and \$10.82 a day for nonproprietary nursing homes.

We believe that Colorado's practice of using actual costs incurred in providing patient care, on a home-by-home basis, was a reasonable method to follow in arriving at rates to be paid for nursing home care. In addition, from the standpoint of controlling costs, the added State requirement for independent audits of nursing home costs--which are not required by HEW under the Medicaid program--appeared to be in the best economic interest of the Medicaid program. The establishment of a ceiling on the daily rate, however, can generate economic pressure to reduce costs at the sacrifice of the quality or level of care provided in those nursing homes whose patient-care costs exceed the limitations. Also the lack of HEW guidance as to the type and amount of allowances to be included in the payment rates, such as inflation and profit, permits wide discretion in making rate determinations which may or may not be equitable.

¹Prior to January 1, 1970, the State was allowing a factor of 1-1/2 percent as inflation and a profit factor of 65 cents a day for proprietary homes and 47 cents a day for nonproprietary homes.

Michigan

In Michigan rates of \$14 and \$14.48 a day were used in fiscal years 1969 and 1970, respectively, for paying nursing homes for care provided to Medicaid patients. These rates were established on the basis of negotiations between the State Department of Social Services and the Michigan Nursing Home Association. This flat rate is paid to each nursing home in the State.

In August 1968 the Governor of Michigan, in an effort to establish an equitable payment rate, appointed an advisory committee to arrive at a method for establishing reasonable rates of payment for nursing home care provided to Medicaid patients. In determining reasonable rates of reimbursement for nursing home care, the committee retained a certified public accounting firm to (1) solicit cost data from a sample number of nursing homes selected by the firm and (2) make a cost study for the committee .

In its study the accounting firm designed a statistically valid sample which required data from 34 skilled nursing homes; the sample design gave recognition to home size and geographical location. The committee, however, was unable to make a definitive recommendation as to a proper method of rate establishment, citing as its reasons the lack of a sufficient base of cost information (only 20 of the skilled nursing homes sampled responded adequately to the accounting firm's solicitation) and the difficulty in arriving at an objective determination of allowable profit.

The committee therefore recommended continuance of a flat-rate method of payment and stated that, for an interim period, an adequate payment rate would be one based on the available patient-care cost information obtained from the 20 nursing homes, with reasonable allowances for administrators' salaries, inflation, interest, and profit. Following this recommendation a payment rate of \$14.48 a day was negotiated for use during fiscal year 1970, as shown below.

| | <u>Daily payment rate</u> |
|--|---------------------------|
| Average cost of providing patient care | \$11.50 ^a |
| Allowances for: | |
| Administrators' salaries | .92 |
| Inflationary costs | .74 |
| Interest and profit | <u>1.32</u> |
| Total | <u>\$14.48</u> |

^aDaily payment rate is a weighted-average cost which gives recognition to geographic location of the 20 responding homes.

This flat-rate method for paying all nursing homes within the State, even though based on average cost data from sampled homes, fails to recognize differences in costs of providing care in individual homes, caused by such things as location, size, efficiency, and quality of care. For example, the cost data from the 20 nursing homes, which formed the basis for the average daily \$11.50 payment for patient care in all homes in Michigan for fiscal year 1970, ranged from \$9.78 to \$13.75, as shown below.

| Individual homes' daily cost of providing patient care | |
|--|---|
| <u>Under average payment rate (8 homes)</u> | <u>Over average payment rate (12 homes)</u> |
| \$ 9.78 | \$11.53 |
| 9.81 | 12.02 |
| 9.96 | 12.56 |
| 10.09 | 12.57 |
| 10.25 | 12.64 |
| 10.50 | 12.76 |
| 10.70 | 12.82 |
| 11.30 | 12.96 |
| | 12.99 |
| | 13.21 |
| | 13.34 |
| | 13.75 |

The table shows that eight homes, under the flat-rate method, could receive payments for providing patient care which would be more than reported costs. Conversely, 12 of the homes could receive payments which would be less than reported costs.

New York

In New York payment rates for nursing home care are established by the application of a State-devised formula to costs incurred and reported by individual homes. Each year nursing homes participating in the Medicaid program are required to furnish cost information--certified by an independent licensed or certified public accountant--to the State Department of Health. The certifications are made of all costs incurred by the homes in providing patient care.

The Department adjusts the reported costs of a home to allow only those costs related to the efficient delivery of nursing services and places a limitation on the costs allowable for certain items. For example, the Department has established amounts allowable as compensation for the administrator of a home on the basis of its bed capacity; any amount reported in excess of the maximum is disallowed in developing the daily payment rate.

Formula for arriving at payment rate

The formula applied to a home's reported costs, as adjusted, consists of (1) establishing a basic payment rate, or ceiling, which the adjusted daily rate may not exceed, (2) recognizing inflation, and (3) permitting an allowance for return on investment for proprietary homes.

Ceiling on rate

The nursing homes are paid their reported patient costs, as adjusted, up to a ceiling established by the State. The ceiling on the payment rate is established by grouping nursing homes by geographical location, bed capacity, type of ownership (proprietary or nonproprietary), and average length of patient stay.

After the homes are grouped, a ceiling on the daily payment rate is developed by computing the average daily rate for each group and then limiting the daily rate to the homes in each group to no more than 10 percent above the group average. In applying this limitation, however, certain ancillary costs, such as prescription drugs, therapy, and laboratory services, are excluded. State officials

advised us that these costs were not considered when the limitation was determined because all homes did not provide ancillary services and that to include such costs would distort the average computation for the group. The resulting group computation is the allowable basic daily payment rate to which other factors are added (see below) to arrive at a final payment rate.

Recognition of inflation

Payment rates in New York are established on a prospective basis; that is, costs are projected from the latest cost-reporting period to the current rate period. State officials advised us that this projection was necessary because of the time lag between the period for which costs were reported and the period for which the rate was effective. For example, the rates in effect for the 6-month period ended June 30, 1970, were based on calendar year 1968 costs. Rates for the fiscal year ended June 30, 1971, were based on calendar year 1969 costs.

For the rate period ended June 30, 1970, the cost projection consisted of applying to the daily basic payment rate the lesser of (1) 75 percent of the rate of increase in each nursing home's per diem costs, excluding real property expenses, between 1967 and 1968 or (2) the average increase for all homes in the group. After the adjusted rate is computed, the State applies an additional 75 percent to project the annual average rate of increase to the effective rate period.

The following illustration for one home in New York shows the cost-projection process.

| | | |
|--|----------------|----------------|
| Allowable basic daily payment rate | | \$14.48 |
| 1968 basic daily rate | \$14.40 | |
| 1967 basic daily rate | <u>-12.37</u> | |
| Dollar increase, 1968 over 1967 | \$ <u>2.03</u> | |
| Percentage increase, 1968 over 1967 | 16.4% | |
| Limitation on percentage increase, 75% x 16.4% | 12.3% | |
| Average increase for group of homes | 13% | |
| Lesser of 12.3% or 13% times the allowable basic daily payment rate (\$14.48 x 12.3%) | | <u>1.78</u> |
| Total | | 16.26 |
| Application of 75-percent cost projection (12.3% x 75% x \$16.26) | | <u>1.50</u> |
| Daily rate as projected | | <u>\$17.76</u> |

Return on investment

For proprietary homes the State includes in the final payment rate an additional 10 percent on the net equity capital of the nursing homes as a return on investment. The State defines equity capital as the net worth of the home adjusted for those assets and liabilities not related to providing patient care.

Rates in effect at June 30, 1970

Our analysis of payment rates at June 30, 1970, showed that about half the 543 nursing homes participating in the Medicaid program in New York were paid daily rates ranging from \$7.03 to \$20 and that about half were paid from \$20.01 to \$68.17, as shown in the following table.

| <u>Range of daily rates</u> | <u>Number of nursing homes</u> |
|-----------------------------|--------------------------------|
| \$ 7.03 to \$20.00 | 296 |
| 20.01 " 40.00 | 244 |
| 40.01 " 68.17 | <u>3</u> |
| Total | <u>543</u> |

The method followed in New York in establishing payment rates contains, from the aspect of cost control, certain features designed to ensure equity and reasonableness; namely, cost certification by independent accountants and establishment of ceilings on the costs allowable for certain items, such as administrators' compensation. In addition, using the operating costs of homes grouped by similar characteristics, such as number of beds and location, for the purpose of setting a ceiling on the daily rate appears to be more equitable than establishing a ceiling not related to operating costs. Similar to the situation in Colorado (see p. 14), the lack of HEW guidance as to the type and amount of allowances to be included in the rates, such as inflation and return on investment, permits wide discretion in making rate determinations which may or may not be equitable.

Oklahoma

In Oklahoma a separate daily payment rate is established for each of four classifications of nursing homes. The rates are determined through negotiation between the Department of Public Welfare¹ and the Oklahoma Nursing Home Association. The rate for a nursing home is dependent upon its classification. The rates are not related to the costs of operating individual nursing homes but are updated periodically to recognize increased costs as a result of minimum-wage laws and cost-of-living increases. As of June 30, 1970, the following payment rates were established in Oklahoma.

| <u>Classification of nursing homes</u> | <u>Daily payment rate</u> |
|--|---------------------------|
| Type I | \$7.83 |
| Type II | 6.67 |
| Type III | 5.83 |
| Type IV | 5.17 |

Classification is voluntary; however, unclassified homes are reimbursed for nursing care provided to Medicaid patients at a lower rate of payment (\$4.53 per patient day). Applications for classification ratings are made to the Oklahoma State Board of Nursing Homes, whose membership consists of the State Commissioner of Health and the Director of Public Welfare, or their designees, and of seven persons from the nursing home profession who are appointed by the Governor.

After a home has applied for classification, it is visited by a survey team consisting of four persons, who individually report their findings to the board for final decision on classification. The survey team consists of a representative from the State Department of Health, a representative from the State Department of Public Welfare, and two persons actively engaged in the nursing home profession.

¹Subsequent to our fieldwork, this department was renamed the Department of Institutions, Social and Rehabilitative Services.

Each classification rating is effective for a 1-year period, beginning the first of the month following the date of survey. As of June 30, 1970, Oklahoma had classified 373 nursing homes through the assignment of points under preestablished categories and 22 nursing homes had not been classified. The categories in which each home was evaluated and the total maximum points allowable in each category were as follows:

| <u>Category</u> | <u>Maximum point allocation</u> |
|--|---|
| Nursing personnel and other employees | 260 |
| Physical facility, housekeeping and safety | 250 |
| Nursing services and equipment | 145 |
| Administration | 135 |
| Medical information | 100 |
| Dietary services | 60 |
| Liasion with other groups, such as religious and civic groups | <u>50</u> |
| Total | <u>1,000</u> |

Under this system the homes at June 30, 1970, were classified as follows:

| <u>Class of home</u> | <u>Point range</u> | <u>Number of homes in class</u> |
|----------------------|--------------------|-------------------------------------|
| Type I | 893 to 1,000 | 351 |
| Type II | 750 to 892 | 20 |
| Type III | 610 to 749 | - |
| Type IV | 0 to 609 | <u>2</u> |
| Total | | <u>373</u> |

As noted earlier the daily rates paid to the four classes of nursing homes were not related to the cost of providing care in individual homes but were negotiated group rates, arrived at through the bargaining process between the State and the Nursing Home Association. Oklahoma's method of establishing daily payment rates is similar to Michigan's (see p. 16) in that both use a flat rate,

based on negotiation. Michigan's rate, however, is state-wide for all skilled nursing homes, whereas Oklahoma has four classes of homes, with a different rate for each class. Therefore, as in Michigan's case, the use of a flat-rate method fails to recognize differences in costs of providing care in individual homes, caused by such factors as location, size, efficiency, and quality of care.

Oklahoma, through its point system, attempts to relate the capability of the homes to provide quality care with the amounts paid for such care. When the actual costs of providing care are in excess of amounts allowable, however, economic pressures are generated to reduce costs, at the sacrifice of the quality or level of care provided.

- - - -

The Director, Oklahoma Department of Institutions, Social and Rehabilitative Services, in commenting on the matters discussed in a draft of this report stated that, for the most part, the report was objective in dealing with Oklahoma. He disagreed, however, with our statement that, when the actual costs of providing care were in excess of amounts allowed, economic pressures were generated to reduce costs at the sacrifice of the quality or level of care provided. The Director explained that spending more money, or, in effect, relating reimbursement to the amount spent, did not automatically ensure better care.

It is not our intention to imply that basing reimbursement on the amount spent for nursing home care will, in itself, automatically ensure better care. We are simply pointing out that failing to consider the actual costs incurred in providing care may create inequities which we believe could be minimized by considering costs of operation when making reimbursement.

HEW'S EVALUATION OF PAYMENT RATES

A determination as to whether a payment method used by a State is acceptable is made by HEW through certain review processes. The review processes, directed toward evaluating the Medicaid program, consist of (1) audits by the HEW Audit Agency, (2) program review and evaluation project (PREP) reviews conducted by HEW regional offices,¹ and (3) special task force studies. The special task force studies have not included reviews of the methods of paying for nursing home care.

Audit Agency reviews

Prior to November 1969 Audit Agency reviews of the Medicaid program did not specifically cover an examination into nursing home rate determinations. In November 1969, however, the Audit Agency began a multistate review of the Medicaid nursing home program. One of the objectives of the review was to ascertain whether costs reimbursed to nursing homes were reasonable, by reviewing and evaluating the methods used by the States in establishing payment rates for such care.

As of December 1971 the HEW Audit Agency had issued 31 reports on nursing home activities under the Medicaid program in 29 States.² Of these reports, 17 contained findings relating to the method of establishing nursing home rates.³ In one of these 17 reports, the Audit Agency

¹The Medical Services Administration--the agency within SRS directly responsible for administering the Medicaid program--delegated PREP review responsibility to the regional offices in July 1970. The regional offices are required to submit fiscal year reports--the first report covering fiscal year 1971--relating to the management of the Medicaid program.

²HEW Audit Agency reviews were conducted twice in two States.

³None of the HEW Audit Agency reports covered the four States--Colorado, Michigan, New York, and Oklahoma--visited by GAO.

questioned the flat-rate method of payment for nursing home care by pointing out that a flat-rate payment might result in

- hardships on nursing homes with high operating costs,
- lack of incentive for nursing homes to improve the quality of care,
- higher charges to non-Medicaid patients in an effort to recover costs, and
- payments to nursing homes in excess of their operating costs.

The Audit Agency recommended to the State that it establish realistic payment rates on the basis of the costs of providing nursing care.

The Audit Agency was critical of the negotiated method of establishing payment rates in six of the 17 reports. In summary these six reports pointed out that this method of payment might result in costs to the Medicaid program that were greater than the reasonable cost of nursing home care or, conversely, might result in costs to the program that were less than the reasonable cost of nursing home care, with the home thereby providing marginal or submarginal care. Examples of this problem as reported by the HEW Audit Agency follow.

1. In one State 75 percent of the rates negotiated between the nursing homes and the 87 county welfare boards were established without financial data to support the rates. Also in other cases where financial reports had been received, no audit had been made to determine the accuracy and completeness of the information furnished.
2. In commenting on the negotiated method in another State, the Audit Agency stated that the method did not contribute to sound and economical management of the Medicaid program. For example, in negotiating payment rates with nursing homes, such rates were negotiated with homes not certified as able to

provide skilled nursing care. In other cases patients were placed in nursing homes and classified as being in need of the level of care which would support the payment rate rather than being placed in homes according to their actual level-of-care needs.

3. In a third State the Audit Agency pointed out that rates had been negotiated, without supporting cost data, on the basis of cost-of-living adjustments and of economic pressure generated by nursing home operators. The Audit Agency concluded that the lack of cost data supporting the basis used in establishing payment rates left doubt as to the reasonableness of payments made for nursing home care.

Audit reports in four States noted weaknesses in the States' classification methods of reimbursing nursing homes. Under these methods payments are dependent upon either the level of care needed by the patient (patient classification) or the level of care provided by the home (home classification). In one State that followed a patient-classification system, the Audit Agency pointed out that the absence of uniform instructions had caused the inconsistent application of the classification throughout the State, with the result that payments made for patient care in homes designed to provide a lesser level of care had been greater than payments made for patient care in homes designed to provide a higher level of care. Consequently there was no assurance that the payments made represented the reasonable cost of providing patient care. In another State that followed a home-classification system, the Audit Agency pointed out that, because the State did not require audits of nursing home costs, payment rates which had been established were not supported by operating cost data to ensure that such rates were not in excess of reasonable cost.

In six States the Audit Agency reported that the States were using some type of cost method in establishing nursing home rates under Medicaid. In all six States the Audit Agency reported that the States were including unreasonable costs in arriving at the nursing home rates. For example, such costs included excessive depreciation charges on assets acquired through merger, mortgage payments on a nursing

home owner's personal residence located adjacent to the nursing home, and excessive salaries paid to three corporate officers of eight nursing homes owned by a single corporation.

The Audit Agency, in the 17 reports discussed above, made recommendations to the responsible State agencies for corrective actions on the problems noted during its reviews. We believe that the problems pointed out by the Audit Agency on the States' methods of establishing payment rates could be reduced through HEW's formulation and issuance of criteria and guidelines to assist the States in establishing such rates.

PREP reviews

PREP reviews are designed to obtain a quick (usually within 1 week) overall analysis of the administration of a State's Medicaid program and are made by HEW headquarters and field personnel. On July 1, 1970, the primary responsibility for conducting these reviews was shifted from the Medical Services Administration to the 10 HEW regional offices. Among the objectives of the reviews are identifying problem areas in States' administration of their programs and assessing States' actions in recognizing problems and working towards their solution. The results of the reviews are made known to State agency administrators. An official of the Medical Services Administration advised us that PREP review teams usually considered States' methods of payment for nursing home care during their reviews.

As of April 1971, 36 PREP reports had been issued concerning Medicaid programs in 34 States.¹ Of these reports, 18 included some comments on the methods used in arriving at payment rates for nursing home care; however, the extent of detail given in the reports with respect to the methods varied considerably. As discussed below our examination of the 18 PREP reports showed that the review team evaluated payment rate methods in only three States in terms of their effect on the Medicaid program.

In a State that established its payment rate on a negotiated basis, the review team stated that such a method did not ensure proper treatment of patients and availability of nursing home beds. The review team suggested that the State pay reasonable costs which it believed would provide this assurance. We noted that the State since had changed its method to reasonable cost.

The review team reported in another State that the State's flat-rate method of payment--paying all homes at the same rate--resulted in lack of quality care being provided to Medicaid patients because there was no incentive to nursing

¹PREP reviews were conducted twice in two States.

homes to provide the required nursing services. We noted that at June 30, 1970, the State was continuing to use the flat-rate method in establishing payment rates.

In the third State the review team, although not specifically commenting on the method, stated that, because of low payment rates, some nursing homes were refusing to accept Medicaid patients even though there were waiting lists of Medicaid patients.

- - - -

We believe that HEW's evaluation--Audit Agency and PREP reviews--of payment rates has sufficiently identified problems in certain methods used by States in establishing payment rates, indicating a need for a comprehensive review and evaluation of all State methods. HEW has the responsibility for ensuring proper and efficient administration of State Medicaid programs. As stated in our October 1967 report to the Congress, a practical way for the agency to have fulfilled part of that responsibility would have been to require that States' plans included descriptions of methods to be used in establishing payment rates, because States' plans were subject to HEW review and approval.

SRS, in its administration of the Medicaid program, is considering a simplified State-plan system to reduce the amount of detailed information to be included in State plans. In discussing this matter SRS headquarter officials agreed that it would be advisable to have a method by which periodic review of nursing home payment rates could be carried out. These officials agreed further that a practical method for periodic review would be for States to maintain detailed descriptions of the methods followed in establishing rates of payment and to furnish this information to the HEW regional offices periodically.

In May 1971 officials of the Medical Services Administration informed us that guidelines to assist States in establishing the upper limit on payment rates were being developed. In February 1972 they advised us that the guidelines were expected to be issued by April 1, 1972.

These officials emphasized the difficulty in bringing about constructive change in the State-administered Medicaid programs because of differing State-budget considerations and differing State emphasis placed on the program. They acknowledged, however, that SRS guidelines on establishment of payment rates for nursing home care would provide State administrators with additional leverage in working with State legislatures.

CHAPTER 3

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The administration of the Medicaid nursing home program can be significantly improved through HEW's issuance of definitive criteria to guide States in establishing payment rates. This criteria should consider such matters as frequency of rate setting, use of audited cost data, allowability of items to be included in the rate, limitations on allowances for inflation and profit, desirability of home-by-home rate setting, and recognition of differences caused by demographic characteristics when group rates are used.

Many of the States allowed a fixed rate or used a rate that was not related to costs of operation. It appears to us that allowing a nursing home a fixed amount which does not consider the actual costs of operation may generate economic pressure on the nursing home (1) to reduce costs by sacrificing the quality or level of care provided or (2) to avoid incurring the increased costs necessary to improve the level or quality of care. This economic pressure, which would vary from nursing home to nursing home depending on the part of its patient population that consisted of Medicaid recipients, would stem from the fact that, irrespective of the amount of costs actually incurred--for example, for the services of nursing personnel--the amount of compensation would remain the same. In these circumstances the nursing home operator has no financial incentive to improve the level of care but does have an incentive to keep costs as low as possible.

There is a need for SRS regional officials to periodically review the manner in which rates are established by States, to help ensure that the objective of equity to concerned parties is being met. One way in which the periodic review could be carried out would be for State agencies periodically to submit information on methods used to HEW regional offices.

Although we reported to the Congress in October 1967 on the need for HEW to provide guidance to States concerning rates for nursing home care and HEW agreed with our report, such guidance has not been provided, except for the development of guidelines to assist States in interpreting existing regulations. We recognize that many factors, such as inflation and profit, must be considered and fully evaluated in the development of appropriate criteria for guiding States in establishing payment rates, if such criteria are to be consistent with the proper and efficient administration of the Medicaid program. Nevertheless HEW has had sufficient time to consider and evaluate these factors because (1) it had been making payments for nursing home care for several years prior to enactment of the Medicaid program and (2) over 4 years have passed since corrective action was promised on our earlier report.

The Federal share of Medicaid payments for nursing home care during fiscal year 1970 represents about 27 percent of all Federal expenditures under the Medicaid program. HEW's establishment of criteria to assist States in establishing payment rates, combined with periodic reviews of the methods being used, would help to ensure the proper and efficient administration of this significant aspect of the Medicaid program.

RECOMMENDATIONS TO THE SECRETARY
OF HEALTH, EDUCATION, AND WELFARE

In view of the substantial amounts expended for nursing home care under the Medicaid program; the importance of establishing methods of compensation to nursing homes, consistent with the objective of adequate care and treatment of nursing home patients; and the absence of HEW criteria and guidelines to assist States in establishing payment rates for such care following inception of the Medicaid program, we recommend that the Secretary, HEW,

- instruct SRS to expedite the formulation and issuance of appropriate criteria and requirements for guiding States in the establishment of payment rates for nursing home care under the Medicaid program,

- require that States furnish detailed descriptions periodically of the methods followed in establishing payment rates to HEW's regional offices for review, and
- require that SRS periodically review States' implementations of the prescribed criteria to help ensure the proper and efficient administration of the Medicaid nursing home program.

CHAPTER 4

AGENCY COMMENTS

By letter dated March 17, 1972, HEW furnished us with its comments on our findings and recommendations (see app. II) together with comments from the States of Colorado, Michigan, New York, and Oklahoma. HEW informed us that, although these States took no exception to the facts concerning their methods of computing payment rates, some objections were raised; however, the objections did not affect HEW's actions on our recommendations. We have considered the States' comments in the report when applicable.

HEW advised us that the report presented a factual picture of the various methods used by States in establishing rates of payment for nursing home care and that it was generally consistent with the findings of SRS.

HEW agreed with our recommendation for expediting the formulation and issuance of appropriate criteria and requirements for guiding the States in the establishment of payment rates for nursing home care. HEW advised us that comments had been received from States on draft guidelines for implementation of the nursing home reimbursement regulation and were being studied. HEW advised us also that, on the basis of this study and further review, the guidelines were being put into final form and were expected to be issued to States by June 15, 1972. In addition, HEW informed us that it was preparing proposals for short-range, intermediate-range, and long-range studies on nursing home costs. HEW pointed out that the results of these studies would have a significant bearing on future departmental policy governing reimbursement for skilled nursing home services and would lead to guides which would assist the States in adopting general reimbursement principles.

HEW commented that, within the framework of existing policy--States adopting methods for establishing payment rates within prescribed upper limits--States had naturally been influenced by the availability of State funds and such conditions of State Government as biennial legislative or budget sessions. We recognize the existence of these

limitations, and, as pointed out on page 31 of the report and as acknowledged by Medical Services Administration officials, Federal guidelines on the establishment of payment rates for nursing home care would provide State administrators with additional leverage in working with State legislators.

HEW concurred in our recommendations concerning periodic review by SRS of the States' implementation of the prescribed criteria for establishing nursing home rates and requiring States to furnish detailed descriptions periodically of the methods followed in establishing such rates to HEW regional offices for review.

HEW advised us that SRS has established long-term-care activities as its number one priority in program monitoring and that, as part of this priority, emphasis would be placed on reimbursement methods. HEW also informed us that it intended to make program reviews in each State on a continuing basis and that, as an ongoing policy, States would be required to furnish detailed descriptions periodically of methods followed in establishing payment rates to HEW regional offices for review.

- - - -

The actions taken or promised by HEW should strengthen the administration of the Medicaid program. Considering the substantial Federal and State expenditures under this program, prompt attention should be given to the implementation of administrative actions promised.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100

BASIS OF ESTABLISHING PAYMENT RATES FOR
SKILLED NURSING HOME CARE UNDER MEDICAID
AS OF JUNE 30, 1970

| State or jurisdiction | Number of skilled nursing homes | Method used in establish- ing payment rates | GAO classi- fication as shown on page 12 | Range of daily rates paid to homes within States or jurisdictions (notes a and b) | |
|--------------------------|--|---|---|---|---------|
| | | | | Low | High |
| Alabama | 76 | Reasonable cost with dollar limitation of \$9 | 1b | \$ 5.00 | \$ 9.00 |
| Arkansas | 25 | Flat rate | 4 | 11.00 | 11.00 |
| California | 1,300 | Reasonable cost with dollar limitation of \$14 | 1b | (c) | 14.00 |
| Colorado | 179 | Actual costs up to \$11 for proprietary homes and to \$10.82 for nonproprietary homes | 3 | 6.50 | 11.00 |
| Connecticut | 236 | Reasonable payment and nursing home classification | 1c | 10.00 | 16.50 |
| Delaware | 13 | Reasonable cost using title XVIII criteria | 1a | 17.00 | 41.00 |
| District of Columbia | 16 | Actual cost for State facilities and negotiated basis for private facilities | 6 | 14.00 | 25.75 |
| Florida | 217 | Flat rate | 4 | 10.00 | 10.00 |
| Georgia | 218 | Classification by level of care | 5 | 7.67 | 9.33 |
| Guam | (d) | - | - | - | - |
| Hawaii | 19 | Reasonable cost using title XVIII criteria | 1a | 12.00 | 29.00 |
| Idaho | 56 | Reasonable cost with dollar limitation of \$9.13 | 1b | 6.67 | 9.13 |
| Illinois | 128 | Classification by level of care | 5 | 4.77 | 7.99 |
| Indiana | 90 | Usual and ordinary charges | 6 | 10.00 | 34.99 |
| Iowa | 69 | Reasonable cost using title XVIII criteria | 1a | (e) | - |
| Kansas (note f) | 75 | Actual cost up to \$11 | 3 | 9.63 | 11.00 |
| Kentucky | 86 | Reasonable cost using title XVIII criteria | 1a | 5.00 | 32.00 |
| Louisiana (note f) | 154 | State-wide negotiated | 2a | 6.83 | 7.50 |
| Maine | 28 | Reasonable cost using title XVIII criteria | 1a | 8.60 | 30.00 |
| Maryland | 124 | Actual cost up to \$13.50 | 3 | 5.00 | 13.50 |
| Massachusetts | 373 | Reasonable cost using title XVIII criteria | 1a | 5.00 | 24.99 |
| Michigan | 213 ⁸ | State-wide negotiated | 2a | 14.48 | 14.48 |
| Minnesota | 200 | Reasonable cost using title XVIII criteria | 1a | 9.20 | 14.50 |
| Mississippi | 70 | Actual cost up to \$7.67 | 3 | 5.00 | 7.67 |
| Missouri | 115 | State-wide negotiated | 2a | 5.00 | 15.89 |
| Montana | 60 | Reasonable cost without dollar limitation | 1c | 8.24 | 14.86 |
| Nebraska | 24 | County negotiated up to \$10 | 2b | (c) | 10.00 |
| Nevada | 19 | Negotiated with individual home | 2c | 16.00 | 18.50 |
| New Hampshire | 11 | Reasonable cost using title XVIII criteria | 1a | 15.00 | 39.00 |
| New Jersey | 226 | Reasonable cost with dollar limitation of \$19.50 | 1b | 8.33 | 19.50 |
| New Mexico | 28 | Actual cost up to \$15 for private facilities | 3 | 5.00 | 19.99 |

APPENDIX I

| State or jurisdiction | Number of skilled nursing homes | Method used in establishing payment rates | GAO classification as shown on page 12 | Range of daily rates paid to homes within States or jurisdictions (notes a and b) | |
|-----------------------|---------------------------------|---|--|---|---------|
| | | | | Low | High |
| New York | 543 | Actual cost | 3 | \$7.03 | \$68.17 |
| North Carolina | 110 | Reasonable cost using title XVIII criteria | 1a | 5.01 | 25.00 |
| North Dakota | 48 | Reasonable cost with dollar limitation of \$12.33 | 1b | 9.83 | 12.33 |
| Ohio | 305 | Flat rate | 4 | 9.00 | 14.00 |
| Oklahoma | 395 | State-wide negotiated | 2a | 4.53 | 7.83 |
| Oregon | 102 | Reasonable cost with dollar limitation of \$9.60 | 1b | 8.08 | 9.60 |
| Pennsylvania | 120 | Reasonable cost using title XVIII criteria for public facilities and a flat rate of \$11 per day for private facilities | 6 | 5.00 | 19.99 |
| Puerto Rico | 4 | Reasonable cost using title XVIII criteria--no Federal funds are claimed | 1a | 14.00 | 14.00 |
| Rhode Island | 62 | Reasonable cost with dollar limitation of \$13 | 1b | 8.15 | 13.00 |
| South Carolina | 86 | State-wide negotiated up to \$13.40 | 2a | 5.00 | 13.40 |
| South Dakota | 49 | Actual cost up to \$11.50 | 3 | 6.50 | 11.50 |
| Tennessee | 50 | Reasonable cost with dollar limitation of \$15 | 1b | 5.00 | 15.00 |
| Texas | 390 | State-wide negotiated | 2a | 12.00 | 12.00 |
| Utah | 28 | State-wide negotiated | 2a | 8.68 | 10.65 |
| Vermont | 22 | Reasonable cost using title XVIII criteria | 1a | 5.00 | 34.99 |
| Virgin Islands | (d) | - | - | - | - |
| Virginia | 56 | Reasonable cost using title XVIII criteria | 1a | 5.00 | 29.99 |
| Washington | 248 | Classification by level of care | 5 | 6.44 | 10.79 |
| West Virginia | 26 | Reasonable cost using title XVIII criteria | 1a | 9.37 | 50.54 |
| Wisconsin | 290 | State-wide negotiated | 2a | 5.00 | 24.99 |
| Wyoming | 18 | State-wide negotiated | 2a | 10.33 | 10.33 |

^aMonthly rates established in nine States were converted by GAO to daily basis using a 30-day month.

^bThe low and high rates shown may represent payments to one or to relatively few homes and, in some cases, tend to present an extreme picture. For example, the \$68.17 shown as the high under the actual cost classification (3) was paid to one specialized home in New York. Also, the \$4.53 low rate shown under the negotiated classification (2a) was paid to only 22 of 395 homes in Oklahoma; 351 of these homes were paid \$7.83.

^cCalifornia and Nebraska reported the average daily rate for all nursing homes in their States as \$13.62 and \$9.19, respectively.

^dGuam does not have any nursing homes. In the Virgin Islands patients receive nursing home care under the home health care program or in a hospital.

^eNot available.

^fInformation was reported as of July 1, 1970, rather than June 30, 1970.

^gInformation was reported as of January 1, 1970, rather than June 30, 1970.

BEST DOCUMENT AVAILABLE



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

MAR 17 1972

Mr. John D. Heller
Assistant Director, Civil Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Heller:

The Secretary has asked me to respond to the draft report on the GAO review of Problems in Providing Guidance to States in Establishing Rates of Payment for Nursing Homes Under the Medicaid Program. Enclosed are the Department's comments on the findings and recommendations in your report.

We appreciate this opportunity to comment prior to issuance of the final report and also appreciate your continuing interest in the Medicaid Program.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. B. Cardwell".

James B. Cardwell
Assistant Secretary, Comptroller

Enclosure

APPENDIX II

COMMENTS ON GENERAL ACCOUNTING OFFICE DRAFT REPORT - PROBLEMS IN PROVIDING GUIDANCE TO STATES IN ESTABLISHING RATES OF PAYMENT FOR NURSING HOME CARE UNDER THE MEDICAID PROGRAM

The draft report of the General Accounting Office presents a factual picture of the various methods used by the States in establishing rates of payment for nursing home care. It is generally consistent with findings of the Social and Rehabilitation Service (SRS) on these points.

Under existing law and regulation, the upper limit of Federal financial participation for skilled nursing homes under title XIX is not to exceed the reimbursement made for similar services in extended care facilities under title XVIII. Therefore, the cost principles established under title XVIII for extended care facilities would be the upper limits for guidance to the State agencies. So long as the various State agencies do not exceed these upper limits, they may establish the most equitable basis to meet their responsibility and to insure that a sufficient number of providers are available so that eligible persons can receive medical care and services.

Within this framework, States have adopted their own policies and methods for establishing skilled nursing home rates. In doing so, they have naturally been influenced by limitations on State funds and such conditions of State Government as biennial legislative or budget sessions.

As requested by GAO, we furnished copies of their draft report to the responsible State agencies in Colorado, Michigan, New York, and Oklahoma for their review and comment. Generally, the four States took no exception to the facts concerning their methods of computing skilled nursing home reimbursement rates. While some objections were raised, they were not of a nature to affect our decisions on the actions we are taking on GAO's recommendations. Copies of those comments received are attached.

The draft report initially recommends [p. 34] that the Secretary of HEW instruct SRS to expedite the formulation and issuance of appropriate criteria and requirements for guiding the States in the establishment of payment rates for nursing home care under the Medicaid program.

We agree with the GAO recommendation. As the draft report acknowledges, draft guidelines for implementation of the nursing home reimbursement regulation were issued to the States in preliminary form for comment. Comments have been received and are being studied. On the basis of this study and further review, the guidelines are being put into final form and are expected to be issued to the States by June 15, 1972. Departmental staff are preparing proposals for short-range, intermediate range, and long-range studies on nursing home costs. The results of these studies would have a significant bearing on future Departmental policy governing reimbursement for skilled nursing home services and lead to guides which would assist the States in adopting general reimbursement principles.

The draft report also recommends [p. 34] that the Secretary require SRS to periodically review the State's implementation of the established criteria to help ensure the proper and efficient administration of the Medicaid nursing home program. In such administration, GAO recommends that the States be required to periodically furnish detailed descriptions of the methods followed in establishing payment rates to the HEW Regional Offices for review.

We concur in this recommendation. Concerning the first part of the recommendation, SRS has established long-term care activities as its number one priority in program monitoring. As part of this priority, we shall include reimbursement methods as a major function. We intend that the reviews will encompass each State on a continuing basis.

Concerning the second part of the recommendation, we will require as an ongoing policy that the States periodically furnish detailed descriptions of the methods followed in establishing payment rates to the HEW Regional Offices for review.

GAO note: Page number references in this appendix have been changed to correspond to the pages of this report.

APPENDIX III

PRINCIPAL OFFICIALS OF THE
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
RESPONSIBLE FOR
THE ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

| | <u>Tenure of office</u> | |
|--|-------------------------|------------|
| | <u>From</u> | <u>To</u> |
| SECRETARY OF HEALTH, EDUCATION, AND WELFARE: | | |
| Elliot L. Richardson | June 1970 | Present |
| Robert H. Finch | Jan. 1969 | June 1970 |
| Wilbur J. Cohen | Mar. 1968 | Jan. 1969 |
| John W. Gardner | Aug. 1965 | Mar. 1968 |
| ADMINISTRATOR, SOCIAL AND RE- HABILITATION SERVICE: | | |
| John D. Twiname | Mar. 1970 | Present |
| Mary E. Switzer | Aug. 1967 | Mar. 1970 |
| COMMISSIONER, MEDICAL SERVICES ADMINISTRATION: | | |
| Howard N. Newman | Feb. 1970 | Present |
| Thomas Laughlin, Jr. (acting) | Sept. 1969 | Feb. 1970 |
| Dr. Francis L. Land | Nov. 1966 | Sept. 1969 |

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

Copies are provided without charge to Members of Congress, congressional committee staff members, Government officials, members of the press, college libraries, faculty members and students. The price to the general public is \$1.00 a copy. Orders should be accompanied by cash or check.