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March 5, 2015

Dr. Larry Latham, Assistant Director
Department of Economic Security/Division of Developmental Disabilities (DES/DDD)
1789 W. Jefferson, 4th floor
Phoenix, AZ 85007

RE: Corrective Action Plan – Net Cost of Institutional Care

Dear Dr. Latham:

This letter documents the Arizona Health Care Cost Containment's System's (AHCCCS) concerns and requirement for DES/DDD to submit a Corrective Action Plan (CAP) regarding DES/DDD's determination of the institutional rate/cost used in calculating the Cost Effectiveness Study (CES) for AHCCCS members enrolled with DES/DDD. Compliance with CES is specified in the ALTCS-DDD contract YH12-0001 as well as the AHCCCS Section 1115 Waiver and AHCCCS policy.

The terms of the AHCCCS Medicaid - 1115 Demonstration Waiver 11-W-00275/9, section II, paragraph 22. F. 3. "HCBS Expenditures" provide:

Expenditures for individual members are limited to an amount that does not exceed the cost of providing care to the eligible individual in an institutional setting. Exceptions are permitted including when the need for additional services is due to a change in condition that is not expected to last more than 6 months.

AHCCCS expands upon this requirement in the AHCCCS Medical Policy Manual Section 1620-C "Cost Effectiveness Standard" (AMPM) which further delineates that:

2. A CES must be completed for Developmentally Disabled (DD) members under the following circumstances:
 - a. Every three months for any DD member whose service costs exceed 80% of the cost of the appropriate institutional setting for the member
 - b. When the service costs of a DD member whose service costs previously exceeded 80% of the cost of the appropriate institutional setting are subsequently reduced to below 80% and/or
 - c. When discharge is contemplated for any member residing in an Intermediate Care Facility (ICF).

AMPM Policy 1620-C identifies the requirements for calculating the net cost of institutional care for each member under paragraph 4:

4. Placement in an HCB setting is considered appropriate if the cost of Home and Community Based Services (HCBS) for a specific member does not exceed 100% of the net cost of institutional care for that member and HCBS will meet the member's needs.

The net cost of institutional care for each member takes into consideration the specific member's assessed Level of Care, the contracted or approved institutional rate for that Level of Care and the amount of the specific member's "CES Share of Cost".

If the member has needs that would necessitate a specialized rate in an institutional setting (for example, Alzheimer's or behavioral unit, residential treatment center, extensive respiratory care), this cost must be used in calculating the cost effectiveness of HCBS.

In addition, the policy further requires that:

If the Net HCBS Cost is more than the Net Institutional Cost, then home care services at that level are not "cost effective" and cannot be provided unless the HCBS costs are expected to decrease to less than the cost of institutional care within six months. The member must be provided a written notice that explains any decision to not provide services at the level requested/needed by the member/representative and given an opportunity to file an appeal if s/he does not agree with the decision.

AHCCCS has determined that DES/DDD's practices are inconsistent with these requirements. During a February 24, 2015 meeting, representatives from AHCCCS and DES/DDD met to discuss DES/DDD's practices for calculating and updating the net cost of institutional care. The information that was presented by DES/DDD confirmed that DES/DDD has not implemented institutional rate/cost adjustments (increases or decreases) utilizing its annual financial assessments and determinations of actual institutional costs for care. DES/DDD's use of institutional rates that do not reflect the actual cost of institutional care in calculating the CES for members fails to ensure authorization of the appropriate level of HCB services and does not provide for overall cost effectiveness of the ALTCS program. This practice does not comply with the terms of the AHCCCS Section 1115 Waiver, the ALTCS-DDD contract, and AMPM requirements.

To come into compliance, it is imperative that DES/DDD promptly develop and submit to AHCCCS by **COB Wednesday, March 18, 2015** a CAP that addresses the following:

1. The development of a process that evaluates the net cost of institutional care that meets the requirements of the AMPM. This process must include:
 - a. Calculation of DES/DDD's institutional costs to set institutional rates stratified for levels of care and specialized needs.
 - b. Annual re-assessment and adjustment of the institutional rates based upon changes in costs associated with the assessed levels of care and specialized needs.

- c. Implementation of processes consistent with the AMPM, for determination and evaluation of CES for each member and processes for resolution of cases where the Net HCBS Cost exceeds the Net Institutional Cost.
 - d. Completion of a financial assessment which includes an estimate of fiscal impact due to increased and decreased utilization of HCB services.
 - e. Completion of an assessment of the impact on members, including
 - i. An estimate of the number of members likely to be impacted for each service level.
 - ii. An estimate of the likely impact on the authorized hours and service utilization for those members.
2. A timeline for the development of policies and procedures for AHCCCS' review that document this process.
 3. A plan for implementation of the new institutional rates/cost structure for use in calculating the CES as follows:
 - a. Implementation to begin no later than April 1, 2015.
 - b. Identification of all members with a current CES at or above 80%.
 - c. Review and recalculation of CES for those members identified with a current CES at or above 80% to be completed no later than May 15, 2015.
 - d. Completion of the review and recalculation process of current CES for all members with CES below 80% no later than June 30, 2015.

This Corrective Action Plan must be submitted to Jay Dunkleberger at Jay.Dunkleberger@azahcccs.gov. If you have any questions concerning this correspondence, please contact Jay at 602-417-4249 or via email.

Sincerely,

Ginny Rountree

Virginia Rountree
Operations Administrator
AHCCCS Division of Health Care Management

Cc: Sherri Wince, AHCCCS Liaison
Dr. Laura Love, Deputy Assistant Director
Kari Price, Assistant Director, DHCM
Shelli Silver, Assistant Director, DHCM
Debbie Reichow, Medical Management Manager, DHCM
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