OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Medicaid Home and Community-Based Waiver Services for Persons With Mental Retardation or Related Conditions

February 18, 2004

Major Findings:

- During the past 12 years, total spending on Minnesota's five Medicaid Home and Community-Based Waiver programs grew at an average annual rate of 23 percent, far higher than inflation and population growth. Caseload growth was the primary factor driving costs.

- Average annual costs per recipient for services under the Mental Retardation or Related Conditions (MR/RC) Waiver program have consistently been lower than costs per recipient for institutional care. But, savings achieved by shifting recipients from institutions to the MR/RC Waiver program have been more than offset by increased spending due to large caseload growth in the waiver program.
- The large number of children currently enrolled in the MR/RC Waiver program and the numbers of people waiting for MR/RC Waiver services will likely add pressure for increased spending.
- The Department of Human Service's method for setting counties' MR/RC Waiver budgets creates incentives for counties to spend to their budget limits and only partially reflects the needs of waiver recipients, which raises equity concerns that funds are not targeted to counties in proportion to their caseloads' needs.
- The Department of Human Services lacks sufficient controls over Consumer-Directed Community Supports, leading to questionable purchases, inequitable variation in administration, and unmet prospects for cost efficiencies.
- Counties generally follow state rules on determining and updating MR/RC Waiver recipients' needs in a timely way and ensuring the availability of services, but there are exceptions.

The Department of Human Services should improve its method of allocating funds for the Mental Retardation or Related Conditions Waiver program.

Recommendations:

- The Department of Human Services should modify its method of allocating MR/RC Waiver funds to 1) avoid incentives that encourage counties to spend to their budget limits and 2) improve the distribution of funding to counties by better reflecting the needs of waiver caseloads.
- The department should set additional controls to ensure appropriate spending of Consumer-Directed Community Support funds. Before expanding Consumer-Directed services statewide, the department should first evaluate how well its proposed controls work.
- When the department reviews how counties administer Medicaid Waiver programs, it should evaluate county compliance with state rules governing the MR/RC Waiver program.

Report Summary

Expenditures for Medicaid Waiver programs grew rapidly as state policies encouraged community alternatives to institutions.

Medicaid Home and Community-Based Waiver programs, which are granted by the federal government, allow the state to use Medicaid money to fund services in alternative settings for people who would otherwise receive care in hospitals, nursing facilities, or intermediate care facilities. Minnesota has five waiver programs targeted to separate populations: the Mental Retardation or Related Conditions Waiver, the Community Alternative Care Waiver, the Community Alternatives for Disabled Individuals Waiver, the Traumatic Brain Injury Waiver, and the Elderly Waiver. Minnesota's Department of Human Services oversees the waiver programs, but counties administer them. The waiver programs allow recipients to receive medical and nonmedical services beyond those covered by traditional Medicaid.

Expenditures for Minnesota's five waiver programs totaled $1 billion in fiscal year 2003, which is about 21 percent of all Medicaid spending in the state. About 79 percent of waiver expenditures were for the Mental Retardation or Related Conditions (MR/RC) Waiver program. Minnesota spends more per capita than most other states on waiver programs and institutional care for persons with mental retardation or related conditions.

Average annual costs of the MR/RC Waiver program have been less than those for institutional care, but caseload increases have more than offset savings.

The MR/RC Waiver program has changed substantially in the last few years. In 1998, the state introduced "Consumer-Directed Community Supports" in certain counties. This option allows recipients and their families to select their services and employ informal care providers such as friends and family members. In addition, the MR/RC Waiver program's caseload jumped more than 50 percent in 2001 following an "open enrollment" period used to reduce the program's long waiting list. However, due to that surge in program enrollment and subsequent state budget problems, the department reduced the rate of growth in counties' MR/RC Waiver budgets in 2003. The department also changed the way it allocates waiver funds to counties, by basing budgets on prior-year spending. Lawsuits filed in early 2003 limited counties' options for cutting spending, making it more difficult to manage tighter budgets.

Medicaid Waiver Expenditures Grew Far Faster Than Inflation

Expenditures for the state's Medicaid waiver programs increased from $82 million in fiscal year 1991 to about $1 billion in 2003, an average increase of 23 percent per year. This far exceeds an average inflation rate of 3 percent and general population growth of 1 percent. The rapid growth reflects state policies that promote community alternatives to institutional care.

Caseload growth was the primary cost driver. Enrollment growth rates for the five programs over the past 12 years ranged from 7 to 30 percent annually. Average costs per waiver recipient grew slower than caseloads but faster than inflation for all but the smallest of the waiver programs (Community Alternative Care Waiver). For the MR/RC Waiver program, average costs per recipient outpaced inflation due in part to increases in average provider reimbursement rates and an expansion of services.

MR/RC Waiver Caseload Growth Has More Than Offset Savings From Replacing Institutional Care

Each year since the MR/RC Waiver program began, its average costs per recipient have been less than costs per recipient for institutional care. For example, in fiscal year 2002 the average annual cost of medical services and group residential housing was $55,449 per MR/RC Waiver recipient, while the average cost of institutional care for persons with mental retardation or related conditions was $76,977 per recipient. To the extent that waiver programs replaced institutional care, the state saved money. However, these savings were more than offset by cost increases resulting from rapidly expanding MR/RC Waiver enrollments. The growth in waiver caseloads exceeded the decline in institutional caseloads by a ratio of 4 to 1 between fiscal years 1991 and 2003.

Pressures for Increased Spending Will Continue

Limiting access to the MR/RC Waiver program helps control spending but creates equity concerns.

The Legislature controls overall spending on the MR/RC Waiver program by setting the number of new openings the program will have each year. In addition, the Department of Human Services controls spending when it sets counties' MR/RC Waiver budgets, which counties may not exceed unless they pay for the excess.

Pressures to increase spending on the MR/RC Waiver program are likely to continue for two reasons. First, as the large numbers of children currently enrolled in the waiver reach an age when they may leave the care of their families, there will be pressure to accommodate their more independent (and costly) living arrangements. Second, growing waiting lists will continue to exert pressures to expand access to the program.

Addressing these budget pressures poses difficult policy choices. Appropriating more money to a program that has recently experienced significant spending growth would be difficult. But alternatives, such as spending less per recipient by limiting the array of services that the MR/RC Waiver program covers, could result in unmet needs for some waiver recipients.

The Method for Allocating MR/RC Waiver Funds Needs Improvement

The Department of Human Services' method for allocating MR/RC Waiver funds to counties is based on prior-year spending, which creates an incentive for counties to spend to the maximum level. Plus, it does not fully reflect the relative needs of waiver recipients, raising concerns that the method does not distribute funds to counties in proportion to their caseloads' needs.

When recipients fill new openings in the waiver program, the department assigns the recipients one of four "profiles" based on criteria such as their functioning level and behavioral challenges. Each of the four profiles has a different funding amount. But the profiles do not account for large cost differences between living at home and in foster care; nor do they account for other factors that clearly influence costs.

The Department of Human Services should change its method of allocating MR/RC Waiver funds to counties to better reflect characteristics of caseloads and differences in key factors, such as living arrangement, that drive costs. Waiver recipients' age correlates strongly with living arrangement and could be used in the methodology. In addition, the method should avoid incentives to spend to the limit and reduce administrative burdens on counties.

Consumer-Directed Community Supports Need Additional Controls

Services funded through Consumer-Directed Community Supports vary among counties offering them.

The Department of Human Services lacks sufficient controls over Consumer-Directed Community Supports, a component of the MR/RC Waiver program that gives recipients and their families greater control over their choice of services and care providers. Presently, only 33 counties offer Consumer-Directed services to MR/RC Waiver recipients, although the department has submitted a proposal to the federal government to expand the program statewide and cover the other four Medicaid Waiver programs.

Not all Consumer-Directed purchases in the past year appeared justified when we reviewed case files in 12 counties. For example, we found instances in which Consumer-Directed funds paid for questionable items, such as Internet connectivity fees and tickets to Minnesota Wild games. In our review, we noted purchases that were unusual by type or amount, and although most items were related to needs articulated in individual service plans, about 11 percent were not connected to any stated recipient need.

Lacking sufficient state controls, counties' administration of Consumer-Directed services has varied around the state. Some items allowed in one county are forbidden in another, which raises equity concerns.

The department should set additional controls to ensure appropriate spending of Consumer-Directed funds.

Also, recipients and their families in many counties decide whether to use Consumer-Directed services, but in some counties, they are involved very little, if at all, in deciding to use the program, which undermines an objective of consumer direction. Five of the counties offering Consumer-Directed services reported that they do not have policies to terminate use when problems occur. In addition, even though the Consumer-Directed option offers opportunities for achieving efficiencies, we found that MR/RC Waiver spending on Consumer-Directed participants was higher than spending on other MR/RC Waiver recipients with similar characteristics.

The Department of Human Services should set additional controls to ensure equitable and appropriate spending of Consumer-Directed funds. Although the department's pending proposal to change Consumer-Directed services does offer more guidance, additional questions are likely to arise, including what factors counties should consider when deciding among various proposed expenses. Once the department receives federal approval to revise the program, it plans to phase in implementation, starting with the counties that currently offer Consumer-Directed services. The department should evaluate its proposed controls for Consumer-Directed Community Supports in these counties before implementing the program statewide.

Counties Generally Follow State Rules for the MR/RC Waiver Program, But There Are Exceptions

State rules require counties to take certain steps when determining and updating waiver recipients' needs. For instance, although the state requires counties to update each recipient's individual service plan annually, we estimated that 6 percent of the case files in 12 counties we visited lacked an up-to-date service plan or similar document. State rules also require case managers to visit each waiver recipient at least semiannually. In the counties we visited, 40 percent of the waiver recipients or their families had fewer than two face-to-face visits with case managers in the past year, and 17 percent had no meeting.

In 2004, the Department of Human Services plans to formally review how counties administer the Medicaid Waiver programs. In conducting the reviews, the department should specifically evaluate county compliance with practices required in state rules for the MR/RC Waiver program.

The full evaluation report, *Medicaid Home and Community-Based Waiver Services for Persons With Mental Retardation or Related Conditions* (#pe04-03), includes the agency's response and is available at 651/296-4708 or:

www.auditor.leg.state.mn.us/ped/2004/pe0403.htm

Agency Response:

In a brief letter dated February 6, 2004, Commissioner of Human Services Kevin Goodno wrote:

"Thank you for the opportunity to review and comment on your report, 'Medicaid Home and Community-Based Waiver Services for Persons with Mental Retardation or Related Conditions.'

The Department of Human Services agrees with the findings of your report and is pursuing those recommendations."