



PERFORMANCE AUDIT REPORT

**CDDOs: Reviewing Issues Related To The
Funding of Community Services**

Executive Summary ***with Conclusions and Recommendations***

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
October 2003

Legislative Post Audit Committee

Legislative Division of Post Audit

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To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, together with a summary of our recommendations and the agency responses, from our completed performance audit, *CDDOs: Reviewing Issues Related to the Funding of Community Services*.

The report also contains appendices showing how much county mill and discretionary State aid the CDDOs shared with their service providers, how CDDOs distributed targeted case management moneys, and information on CDDO Administration expenditures per client.

The report includes several recommendations for both SRS and the legislature. We would be happy to discuss these recommendations and the audit findings presented in this report with any legislative committees, individual legislators, or other State officials. These findings are supported by a wealth of data, not all of which could be included in this report because of space considerations. These data may allow us to answer additional questions about the audit findings or to further clarify the issues raised in the report.

If you would like a copy of the full audit report, please call our office and we will send you one right away.

A large, elegant handwritten signature in black ink that reads "Barbara J. Hinton".

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Overview of Kansas' System for Providing Services to People with Developmental Disabilities

In 1995, the Legislature reformed the developmental disability service system to emphasize providing services to clients in their communities, rather than in institutional settings. page 3
By law, CDDOs may provide some or all services themselves, or they may contract with other community service providers. As "gatekeepers" of their region, CDDOs also are responsible for overseeing and monitoring the activities of service providers they contract with.

Developmental disability services are funded with federal, State, and local moneys. page 4
In fiscal year 2003, Kansas spent more than \$250 million in tax dollars to provide those services, with more than three-fourths of that from Medicaid Service funds. The Department has established a Statewide uniform rate structure to fund most community services for people with developmental disabilities; some services are reimbursed based on the client's level of disability, others are reimbursed on a flat rate.

Question 1: How Has Funding for CDDOs and Other Community Service Providers Changed in Recent Years, and Does the Amount a Provider Receives Generally Correspond With the Severity Level of its Clients?

Public funding for the State's Developmental Disabilities system has increased 15% over the last 4 years. page 7
Funding went from almost \$221 million to slightly more than \$254 million, with most of this increase coming from Medicaid waiver funds and targeted case management. This funding, along with non-Medicaid service funds, pays a specific rate per service provided.

82% of the public funding is distributed based on client severity. page 8
Funding for the Medicaid waiver and non-Medicaid services is distributed based on the number of clients and their severity level. In 2000, 84% of public funds were distributed by severity, but this proportion decreased slightly by 2003, largely because of the increase in funding for targeted case management. Community service providers serve more of the most difficult clients, but the reimbursement system generally pays more for such clients. CDDOs may be serving the less severe clients within some tiers based on their average behavior and functional ability, but they seem to serve clients with more health problems.

The proportion of funds going to CDDOs and community service providers has changed slightly.page 11
Service providers' share of Medicaid waiver funds increased from 61% to 64% between 2000 and 2003. They also received a larger share of State Aid (from 25% to 35%) and county mill levy funds (from 20% to 26%). State Aid and county mill levy funds are known as discretionary funds because CDDOs get to decide how these funds will be used. Between 1999 and 2003, the number of CDDOs sharing discretionary funds doubled, although most of the additional money came from just 3 CDDOs. In 2003, \$5.3 million out of the \$19.2 million in discretionary funds was shared.

Only 22% of new federal funds were distributed to providers in 2003 based on client severity. page 15
The 2001 Legislature directed SRS to maximize State and local funds to bring in new federal funding. These new funds were to be used to supplement direct care services for clients on the developmental disability waiver. For fiscal year 2002, the temporary plan SRS developed for distributing the new federal funds was based on increasing federal funding for CDDO Administration. Under this plan, CDDOs received \$6.8 million in new federal funds, 91% of which was distributed to direct service providers throughout the State based on the number and severity of clients they served.

For fiscal year 2003, the more permanent plan SRS developed involved targeted case management services, and allowed CDDOs to decide how to distribute the new federal funds. Only \$1.8 million of the \$8 million in new federal funds drawn down in 2003 was distributed based on client severity. CDDOs received 50% of the new federal funding available in 2003 compared to 39% they received in 2002, in large part because of the distribution methods they selected were more favorable to them.

Question 1 Conclusion. page 19
Community service providers are receiving an increasing share of the total public funding available to the State's developmental disability system, and most of those moneys are being distributed on the basis of clients' needs. However, legitimate questions persist about whether CDDOs are keeping more than their fair share of the available moneys. Under SRS' 2003 plan for maximizing federal funds by raising case management rates, CDDOs have been put a position to control a fairly significant piece of the funding that's distributed to community service providers.

Some of their plans for distributing those moneys appeared to unfairly benefit CDDOs over other providers. And because CDDOs now get to decide how much case management providers will be paid per month, providers across the State are being paid anywhere from \$110 to \$237 for providing case management services. SRS has been hesitant to be more specific or provide greater guidance to CDDOs about how these new federal funds are distributed, but in our opinion it needs to take a stronger stand to ensure that all service providers are treated more equitably and fairly.

Question 2: How Have Funding and Expenses for CDDO Administration Changed in Recent Years, and to What extent Are the CDDOs Paying CDDO Administration Costs with Moneys that Otherwise Could Be Used for Purposes such as Direct Service?

Over the last 4 years, CDDO Administration costs have increased by about 17%, and the majority of the funding is now federal. *State funding decreased by 20%, while CDDO funding and federal funding increased by 35% and 50%, respectively. The majority of funding for CDDO Administration has now shifted from State to federal sources: the proportion of CDDO Administration expenses paid with State funds decreased from 43% in 2000 to 30% in 2003, while expenditures paid with federal funds increased from 38% to 49%.* page 20

CDDO Administration expenditures have grown faster than spending on direct services. *While total CDDO expenditures grew by 17% over the last 4 years, State and federal spending on direct services grew by only 12%. Two reasons for this: Some CDDOs have categorized more of their expenditures as CDDO Administration, and reimbursement rates for Medicaid services weren't increased.* page 22

CDDO Administration costs per client vary widely, in part because of economies of scale. *The average cost per client in fiscal year 2003 was \$852, and varied from about \$480 at ComCare to more than \$2,300 at Futures Unlimited. Economies of scale play a role in these variations, in addition to variations caused by inconsistent categorization and reporting of costs. Currently, CDDOs aren't required to record administrative expenditures on a consistent basis.* page 23

Question 2 Conclusion. *CDDOs' costs for administering the State's developmental disability system have been the source of legislative concern for years. In both this audit and our 1999 audit, legislators have wondered how much was being spent on CDDO Administration, and whether CDDOs were using the State funds allocated to administer the system in an efficient manner. During this audit, we found that CDDO Administration accounts for only about 2% of the publicly funded expenditures for the system, but that individual CDDOs' costs range from about \$480 to \$2,300 per client. Some of those cost differences may be justifiable, but no one can really tell given the information that's currently available. SRS doesn't require CDDOs to compute their CDDO Administration costs on a uniform basis, or to report those expenditures back to SRS. Without such information, SRS is unable to analyze and assess the reasonableness of CDDO Administration costs, or to address the legitimate questions that persist.* page 25

Question 3: Do CDDOs That Also Provide Services to Clients Have Conflicts of Interest Related to the Ways They Distribute Funds or Refer Clients to Other Providers, and if so, How Could Those Conflicts Be Resolved?

The structure of the current system creates an inherent conflict of interest for CDDOs that provide services. page 26
In addition to making CDDOs “gatekeepers” of the States’ developmental disability system, the Reform Act allowed CDDOs to continue providing services themselves. Currently, 22 of the 28 CDDOs provide services themselves in competition with the community service providers they contract with.

Conflict of Interest issues can arise in the areas of client referrals, contract terms, funding distributions, and quality assurance. page 27
In those areas we found:

Client referrals for services: Because of their gatekeeping role, CDDOs that are also service providers are in a position to steer clients to or away from their services. Parents and guardians we surveyed generally thought they were being informed about all service providers in their areas, but community service providers were less certain.

Contract negotiations: Community service providers think they are disadvantaged in the contract process in several ways, and raised specific concerns about several contract provisions. page 29

Funding issues: Community service providers feel disadvantaged that they don’t have access to the discretionary State aid and county tax moneys CDDOs receive. In addition, when SRS made CDDOs responsible for distributing case management moneys in 2003, many CDDOs developed distribution plans that benefitted them more than their service providers. Further, many community service providers we surveyed were upset with the way case management moneys are being distributed. Finally, another area of funding the CDDOs have authority over is extraordinary funding for extremely disabled clients. page 32

Quality assurance role of CDDOs: In our view, it’s an inherent conflict of interest for CDDOs to be given regulatory responsibility to perform quality assurance over their own providers. In at least 1 situation, there was confusion and concern about the actions one CDDO took against a service provider as a result of a quality assurance review. page 34

Prohibiting CDDOs from providing direct services would address most of the inherent conflict of interest issues in the State’s developmental disability system. page 36
In addition, the discretionary State aid CDDOs receive could also be distributed on a totally different basis. If CDDOs were limited to the gatekeeper role, it could also make sense for them to become sole providers of case management services.....page 36

Question 3 Conclusion. *An inherent conflict of interest arose within the State’s developmental disability system when CDDOs were given responsibility for determining clients’ eligibility and referring them for services, while still being allowed to provide services in competition with other service providers. This conflict of interest can be managed somewhat; however, recent decisions that gave CDDOs more control over the funds distributed to service providers—and the ways in which some CDDOs chose to distribute those funds—clearly demonstrate this conflict of interest will never be eliminated under the current structure. As we pointed out in our 1999 audit, the only way to accomplish that is to separate client intake and referral from client treatment and care services.* page 38

Question 4: How Could CDDOs Be Organized To Maximize the Amount of Funding Available To Provide Services for the Disabled?

Reorganizing and consolidating CDDOs isn’t likely to significantly increase federal funding for services. *The Alliance for Kansans with Developmental Disabilities, a group representing 11 community service providers in Kansas, created a proposal that attempts to bring in additional federal funds by pooling CDDOs’ unmatched local funds.* page 39

The Alliance’s proposal is based on 2 assumptions, both of which are questionable. The first assumption is that SRS will be able to further increase the case management reimbursement rate, while the second assumption is that counties would continue to provide the same amount of current mill levy funding to consolidated CDDOs. Even if all the Alliance’s assumptions held true, its proposal would bring in only about \$6 million in new federal funds, not the \$10.7 million the Alliance reported.

Consolidating CDDO regions could result in other savings and non-financial advantages. *Consolidating CDDOs may reduce their CDDO Administration costs and may reduce SRS’ administrative overhead expenses. Further, consolidating CDDOs may make the delivery of services more uniform across the State.* page 43

Many stakeholders also cited disadvantages to consolidating CDDO regions. *Disadvantages we heard about were a loss of local control, concerns about weakening the connection between the CDDO and other organizations in the area, problems with transportation, and deterioration of quality and quantity of services. Some of them could be significant problems, while others aren’t. Another concern was that services to non-Medicaid clients would be eliminated, although that wasn’t part of the Alliance’s consolidation proposal. Lastly, stakeholders were concerned that the cost of consolidation would take money away from services, which could be a valid, but probably temporary, concern.* page 44

Question 4 Conclusion. *The Alliance’s proposal didn’t specify how new federal funds could be drawn down by consolidating CDDOs, but its assumptions are based on significantly increasing the targeted case* page 44

management rate again. That proposal could bring in significantly less new money than originally estimated, largely because of a calculation error, but also because of very real concerns that SRS couldn't justify another large increase in these rates, and that the counties which would lose CDDOs may not be willing to provide the same level of funding.

Collapsing the number of CDDO regions to gain other efficiencies, or to create a more uniform way of delivering services across the State, is a policy decision the Legislature should consider regardless of additional federal funding streams. While significant changes in the current structure might be disruptive at first, in the long run they could result in more efficient administration of the system and a more effective provision of services.

Recommendations page 45

The Legislature should:

- amend the law to separate the functions of client intake and service referral from client treatment and care services in the State's developmental disability system
- amend the law to allow all service providers in the State's system—CDDOs and other community service providers—to receive discretionary State aid funds.
- receive testimony from SRS and other stakeholders on the feasibility and desirability of making CDDOs the sole providers of case management.
- receive testimony from representatives of CDDOs and the community service providers as to the one-time and recurring additional costs and cost savings of consolidating CDDO regions.

SRS should:

- further analyze the patterns of CDDOs serving less severely disabled clients within some tiers.
- develop contract language that limits the amount of administrative fees that CDDOs can charge and either require CDDOs to provide the remainder of the funds to the provider of case management services, or require each CDDO to develop a formal plan for how the remaining funds will be distributed and submit that plan to SRS for approval.
- develop guidelines for the types of distribution plans that are acceptable.
- identify the types of costs that are allowable for CDDO Administration, and should require CDDOs to compute and report their expenditures on a consistent, uniform basis so that the information can be analyzed
- inform all CDDOs of the types of contract provisions that have caused problems, and should provide them with guidance on how to avoid such provisions, if CDDOs are allowed to continue providing services to clients in competition with other service providers.
- amend its regulations to require its own staff to take the lead role in performing quality assurance reviews of CDDOs' service providers.

In its response, SRS generally agreed with our recommendations. However, it did not indicate it would be making any changes in the area of quality assurance, and it did not specifically address all parts of the recommendation regarding improving the consistency and reporting of CDDO Administration costs.

We also received a consolidated response based on the input of 24 CDDOs, as well as individual responses from 24 CDDOs. The responses expressed numerous concerns, the most overriding of which were that the report was biased, did not include adequate input from CDDOs, and portrayed CDDOs as acting in a financially self-serving manner. In addition they questioned our interpretation of client assessment scores, defended their use of discretionary moneys, contended that the report unjustifiably criticized them for not distributing new federal moneys on the basis of client severity, failed to adequately highlight that the cost of administering the system is reasonable and, by focusing on inherent conflict of interest, implied that the current system was not functioning well.

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This audit was conducted by Katrin Osterhaus, Scott Frank, and LeAnn Schmitt. Cindy Lash was the audit manager. If you need any additional information about the audit's findings, please contact Ms. Osterhaus at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.