

AUDIT PROPOSAL

Evaluating the Impacts of Medicaid Add-On Payments on Kansas Nursing Facilities

SOURCE

This audit proposal was requested by Representative Angela Stiens.

BACKGROUND

Medicaid pays for health care for low-income individuals using a combination of state and federal funds. The federal government matches part of what states spend on eligible Medicaid services, including care in nursing facilities. Across the country, Medicaid is the largest single payer for nursing facility care, covering about two-thirds of all residents.

Facilities that serve many Medicaid patients often struggle financially because Medicaid payment rates have historically been lower than the actual cost of care. Recent studies show that, on average, Medicaid payments only cover about 82 cents of every dollar facilities report spending on Medicaid residents. When payments fall short, it may affect the financial stability of facilities and reduce the number of beds available to Medicaid recipients as facilities shift their focus to private-pay residents.

Kansas has approximately 300 licensed nursing facilities that serve a mix of private-pay and Medicaid residents. In 2023, testimony before the Special Committee on Nursing Facility Reimbursement Rate Methodology indicated that low Medicaid reimbursement rates may have contributed to roughly 50 facilities closing or reducing Medicaid services in recent years. In response, the Kansas Legislature began providing additional Medicaid “add-on” payments in fiscal year 2024. The add-on payments support facilities caring for Medicaid residents by helping to cover care costs not reimbursed by Medicaid. In fiscal year 2026, the add-on was about \$20 per Medicaid resident per day.

Legislators want to know whether the Medicaid add-on payments are working as intended and are an effective use of state funds. Specifically, they are interested in whether these payments help maintain access to care for Medicaid residents and prevent avoidable nursing facility closures.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objective listed below is the question we would answer through our audit work.

The steps listed for the objective convey the type of work we would do. These may change as we learn more about the audit issues.

Objective 1: Have Medicaid add-on payments increased the financial stability of nursing facilities and increased the availability of care for Medicaid recipients in Kansas?

Our tentative methodology would include the following:

- Interview Kansas Department for Aging and Disability Services (KDADS) and Kansas Department of Health and Environment (KDHE) officials and review relevant state law to understand the Medicaid nursing facility rate structure (including base and add-on payments), including how add-on payments work, their purpose, and the eligibility

criteria for getting them. Also determine what data KDADS collects from facilities (e.g., cost reports, private-pay and Medicaid rates, and Medicaid bed capacity/occupancy). As a part of this, assess the reliability of private-pay rate data reported to KDADS to determine whether it is useful for comparing private-pay and Medicaid rates.

- Analyze several years of statewide facility cost report data from KDADS. Compare facilities' reported allowable costs to base Medicaid payment rates and to total Medicaid payments (including the add-on) to determine whether Medicaid payments cover the cost of care and how much the add-on helps close any funding gaps.
- Compare several years of statewide private-pay and Medicaid payment rates from KDADS, accounting for differences in covered services and resident needs when possible, to determine how much more (or less) private-pay residents pay for similar care compared to how much Medicaid pays.
- Review several years of available nursing facility data to identify any notable trends or patterns from before and after Medicaid add-on payments were implemented in fiscal year 2024. For each year, identify how many facilities were operating; which facilities received add-on payments and how much they received; facilities' Medicaid occupancy rates and bed capacity; and whether facilities were in rural or urban areas.
- As needed, conduct a multivariate analysis to determine whether add-on payments were associated with changes in Medicaid bed capacity and financial stability, and whether any effects differed between rural and urban facilities or based on Medicaid to private-pay resident ratios. If possible, control for any complementary effects of other incentives such as quality or value-based payments.
- Talk to KDADS, other state agency officials, and a sample of facilities to understand the possible reasons for any notable trends or patterns and how Medicaid add-on payments may be relevant to those trends.

ESTIMATED RESOURCES

We estimate this audit would require a team of **3 auditors** for a total of **5 months** (from the time the audit starts to our best estimate of when it would be ready for the committee).