



Scope Medicaid Rate Setting

July 2021

Background

In March 2021, the Joint Legislative Oversight Committee directed us to evaluate the process for setting reimbursement rates for Medicaid providers.

Medicaid is a program jointly funded by states and the federal government that pays for medical care, services, and supports for almost 400,000 Idahoans. In Idaho, the Division of Medicaid within the Department of Health and Welfare administers the program. For fiscal year 2022, the Legislature appropriated \$3.7 billion to the Division of Medicaid, and about \$770 million is from the general fund. In 2019, voters approved an initiative to expand Medicaid eligibility.

The per-participant Medicaid spending in Idaho has increased at a higher rate than the national average. Between 2016 and 2020, Idaho's average rate of increase was 5.9 percent compared to 1.9 percent nationally.¹ To control costs while ensuring quality, the Division of Medicaid has started to transition away from methods of payment based on provider costs to those based on the value of services provided. Beginning July 2021, the division will compensate hospitals and nursing homes using these new methods.

In the recent past, providers have approached legislators with two concerns about the Division of Medicaid. First, providers raised concerns about the frequency of rate reviews. Either the division had not recently reviewed specific reimbursement rates, or the division conducted a rate review but then took no action.

The second concern presented by providers was about management within the division. Our office has conducted two studies within the past five years because of these concerns. In our 2016 report, *Design of the Idaho Behavioral Health Plan*, we found that providers were frustrated by the inadequate communication of choices the division made to control spending increases for psychosocial rehabilitation services. We recommended that when significant program design changes are implemented, like the current shift from fee for service to value-based payments, the division should develop a plan to:

- describe the expected changes,
- account for new requirements in staff expertise, data analysis, or other department resources,
- project how the program will perform, and
- determine how to compare actual utilization data with projections.

In 2019 we released a management letter about administrative issues with Medicaid non-emergency medical transportation services. We found that the division had not conducted the analysis necessary to predict whether program changes would be successful. We recommended that the division use findings of past evaluations from our office and other consultants to make management improvements to the program.

This study was requested to help ensure that the division's rate review process allows stakeholders, including the Legislature, to plan for changes and have confidence in the process. Legislators and stakeholders have praised recent division leadership. The division appears to have made

1. Rate of increase do not include the impact of Medicaid expansion.

progress on issues identified in our reports. Provider concerns did not drive this study request. However, as the division implements a shift in payment strategies, now is an opportune time to review the division's practices to learn how they have incorporated past findings and recommendations. The Legislature would like OPE to review the division's process to ensure that the management of provider rates is systemic and systematic.

Scope

Guided by the findings of past evaluations conducted by our office and other consultants, we will evaluate the management process used by the Division of Medicaid to set provider reimbursement rates and develop budget requests. We will assess how well the division's management practices promote the primary Medicaid goals found in Idaho Code § 56-251 and federal law of providing access to quality services in a way that is economical, efficient, and avoids unnecessary costs. These management practices include the following:

- Administration of the provider rate setting process
- Stakeholder communication
- Budget forecasting and monitoring
- Performance monitoring regarding service access, quality, efficiency, and economy

Projected completion date: 2022 legislative session