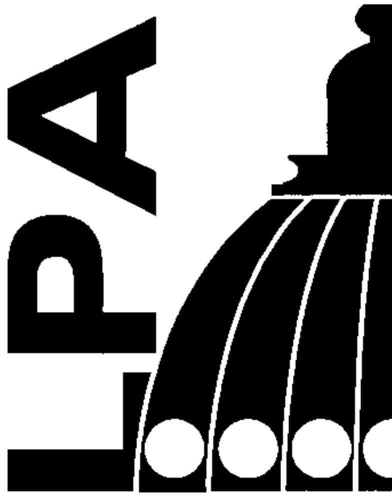


# Legislative Post Audit Performance Audit Report Highlights

## Medicaid: Comparing Health Care Provider Tax Revenues to Increased Provider Reimbursement Rates

September 2018 ● R-18-010

### Background Information

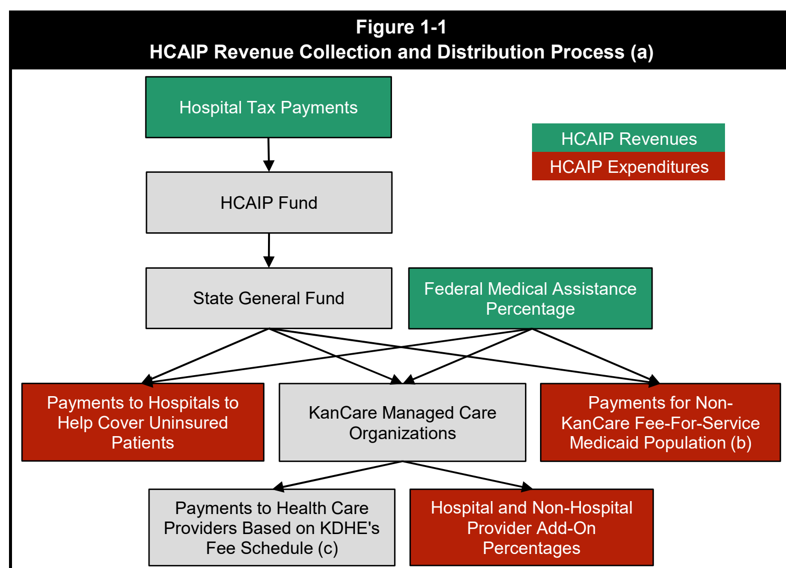
*Medicaid is a jointly funded government medical and long-term care plan for low income children and families, pregnant mothers, the elderly, and individuals with disabilities. In fiscal year 2018, the federal government covered about $2 billion (55%) of Kansas' Medicaid costs through its cost-share arrangement, called the Federal Medical Assistance Percentage (FMAP).*

*In 2013, Kansas implemented KanCare—a managed care model that involves numerous federal, state, and private entities. The Kansas Department of Health and Environment (KDHE) administers KanCare with the oversight of the federal Centers for Medicare and Medicaid Services. KDHE contracts with three managed care organizations to compensate the private health care providers who treat Medicaid beneficiaries.*

### ***QUESTION 1:** Does the Revenue Generated by the State's Hospital Tax Offset the State's Cost of Increased Medicaid Reimbursements?*

- In 2004, Kansas created the Health Care Access Improvement Program (HCAIP) to increase funding for Medicaid (p. 5).
  - *HCAIP requires most Kansas hospitals to pay an annual tax equivalent to 1.83% of the net inpatient revenue earned in 2010.*
  - *This tax is combined with federal matching funds to increase the Medicaid payment rates for health care providers.*
  - *KDHE pays the increased rates using state general funds, which the agency is then supposed to reimburse using HCAIP funds.*
- HCAIP has increased Medicaid payments to health care providers as intended (p. 7).
  - *Hospital tax revenues are returned to health care providers primarily through an add-on to the payments in KDHE's Medicaid rate schedule.*
  - *KDHE expects HCAIP to generate about $108.9 million in additional Medicaid funding during calendar year 2018, including about $61 million in federal matching funds.*

**Figure 1-1**
**HCAIP Revenue Collection and Distribution Process (a)**




(a) Not shown is the fourth type of HCAIP expenditure--annual payments made to the University of Kansas Medical Center for medical education scholarships. There are no Federal Medical Assistance Percentage matching funds associated with these payments.
(b) A small portion of Medicaid beneficiaries are not in managed care. Fee-for-service payments for this population include both payments based on KDHE's fee schedule and HCAIP add-on percentages.
(c) Provider payments based on KDHE's fee schedule are funded using state general funds and Federal Medical Assistance Percentage funds, not HCAIP funds.
Source: LPA review of K.S.A. 65-6208, et seq., and information provided by the Kansas Department of Health and Environment.

- However, two recent consultant studies found the HCAIP fund does not cover the state's share of HCAIP's increased Medicaid payments (p. 9).
  - *Two studies commissioned by KDHE show that in calendar years 2016, 2017, and 2018, about $13 million in state general funds used to pay Medicaid providers was not reimbursed by HCAIP funds. This appears to violate the Legislature's intent to have the HCAIP fund cover the state's share of HCAIP expenses.*
- In addition, HCAIP funds were not distributed as required by state law in calendar year 2016 (p. 10).
  - *One study commissioned by KDHE shows during calendar year 2016 HCAIP did not comply with the requirement that KDHE distribute no less than 80% of HCAIP funds to hospitals and no more than 20% to non-hospital providers.*
- KDHE only recently became aware of the magnitude and underlying causes of HCAIP's overspending and distribution issues, which will require legislative or HCAIP panel action to resolve (p. 12).
  - *Because of historical actuarial and accounting errors, KDHE only recently became aware of the underlying causes of the HCAIP fund's problems.*
  - *However, the agency does not have the authority to independently ensure HCAIP revenues cover HCAIP expenditures. This is because the Legislature sets the formula for determining HCAIP revenues, and the HCAIP panel determines how these revenues are spent.*
  - *The HCAIP panel is currently working to correct these problems.*
- Finally, we noted Michigan, Missouri, and Tennessee's hospital taxes generate significantly more revenue than Kansas' hospital tax because they have higher tax rates and tax a greater portion of providers' income (p. 14).

*KDHE administers HCAIP under the oversight of a stakeholder panel.*

## SUMMARY OF RECOMMENDATIONS

We recommended KDHE work with the HCAIP panel to modify and proactively monitor how HCAIP funds are distributed to ensure they align with statute. We also recommended KDHE work with the Legislature to determine whether HCAIP is intended to be supplemented with state general funds. If not, KDHE and the HCAIP panel should develop a plan to ensure state general funds are fully reimbursed each year and present this plan to the Legislature by July 1, 2019 (p. 17).

## AGENCY RESPONSE

The Kansas Department of Health and Environment agreed with our findings and conclusions and agreed to implement our recommendations (p. 19).

The Health Care Access Improvement Program panel did not disagree with our findings but provided additional context. We made a minor wording change based on their response.

**HOW DO I REQUEST AN AUDIT?**

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the division must be directed by the Legislative Post Audit Committee. Any legislator who would like to request an audit should contact the division directly at (785) 296-3792.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