



Legislative Fiscal Bureau

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March 14, 2012

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Health Services: Section 13.10 Request to Replace Contracted Staff in the Office of the Inspector General with State Positions -- Agenda Item VI

REQUEST

The Department of Health Services (DHS) requests that the Committee approve the transfer of \$840,300 GPR in 2012-13 from the DHS appropriation that supports contracted services for programs administered by the Division of Health Care Access and Accountability (DHCAA) to the Division's general program operations appropriation to support 15.75 GPR additional positions, beginning in 2012-13.

Approval of this request would permit DHS to use state staff in the DHS Office of the Inspector General (OIG) to perform auditing activities that would otherwise be conducted by contracted staff employed by HP Enterprise Services (HP). DHS estimates that replacing contracted staff with state staff would reduce GPR costs by \$307,700 GPR in 2012-13 and \$615,300 GPR annually thereafter. DHS intends to use these GPR savings to help meet its share of state agency lapse requirements enacted under 2011 Wisconsin Act 32 (the 2011-13 biennial budget act).

BACKGROUND

Office of the Inspector General. DHS administers several of the state's largest public assistance programs, including the state's medical assistance program (MA), the FoodShare program, the supplemental security income (SSI) program, and the special supplemental nutrition program for women, infants, and children (WIC). The Department's administrative functions include certain oversight activities relating to these programs, including fraud and abuse detection activities performed by OIG.

DHS created OIG in October, 2011, by combining staff from the former Bureau of Program Integrity in DHCAA with DHS staff that performed auditing and fraud prevention functions for other programs, adding 19.0 state staff positions and funding for contracted services that was provided in Act 32 (beginning in 2012-13) for this purpose, and attaching the unit to the DHS Office of the Secretary. As a result of this reorganization and the additional resources provided in Act 32, OIG will be staffed with 106.13 positions (66.13 state positions and 40.0 HP contracted positions), beginning in 2012-13. In 2011-12, the estimated annual cost of supporting the 40.0 contracted positions is \$4,591,800 (\$2,295,900 GPR and \$2,295,900 FED).

Under the Department's request, 15.75 GPR positions would be created in 2012-13 by transferring GPR funding budgeted for contracted services to an appropriation that supports state staff. Under authority provided in s. 16.50(3) and s. 16.54 of the statutes, the administration would transfer \$1,274,900 from a federal appropriation that supports DHCAA contracted services to a federal appropriation that supports state staff to support 24.25 FED positions, beginning in 2012-13. Consequently, all 40 HP contracted positions that were budgeted in Act 32 to perform auditing functions for the MA program would be replaced with state staff.

History of Contracted Auditing Services. During the past several years, DHS has increased the amount of contracted auditing activities provided by HP. In cost estimates prepared for DHS, HP estimated that the cost of supporting approximately 40 contracted staff added incrementally from December, 2008, to December, 2011, would total approximately \$1.5 million in calendar year (CY) 2010, \$2.9 million in CY 2011, \$4.1 million in CY 2012, and \$4.1 million in CY 2013, or approximately \$12.6 million (all funds) for the four-year period.

The Department's decisions to increase funding for contracted auditing functions were based on several factors, including: (a) increased legislative interest in improving program integrity in the state's public assistance programs, as demonstrated by the creation and work of the recent Legislative Council on Public Assistance Program Integrity; (b) the Department's prioritizing auditing, fraud detection and investigation efforts; and (c) initiatives enacted as part of both the 2009-11 and 2011-13 biennial budgets that directed DHS to reduce MA benefits costs

With respect to reductions in MA benefit costs, some of the MA savings plans prepared by DHS, both in the 2009-11 and 2011-13 biennium, relied on increased auditing activities to realize savings. In the current biennium, DHS estimates that it will reduce MA benefits costs by \$14.9 million GPR by adding 10 auditor positions to increase the state's ability to prevent, detect, and recoup improper or fraudulent payments. In addition, DHS estimates that it will reduce MA benefits costs by \$3.0 million GPR in the current biennium by contracting for private recovery audit services to assist in recovering funds paid inappropriately to health care providers.

Some of the Department's previous decisions to increase funding for contracted services relating to the administration of the MA program, including auditing services, have not always been explicitly approved as part of the state budget. In its December, 2011, evaluation of the MA program, the Legislative Audit Bureau (LAB) concluded that DHS had not always considered its available spending authority when making contracting decisions. Further, DHS may have viewed increasing its contract with HP as the only practical option to address staffing needs due to the state

employee hiring freeze in place from January 2008 through December, 2010.

The LAB recommended that DHS review its existing contracted services to identify whether cost savings could be achieved by using state employees rather than vendors for the same function. The Department's request reflects this LAB recommendation.

ANALYSIS

Cost Savings Estimate. By comparing the cost of contracted staff with the cost of state positions to perform the same functions, the estimated annual GPR savings of the DHS proposal would be approximately \$615,300. It is assumed that DHS will realize approximately 50% of these savings in 2012-13 (\$307,700 GPR).

These GPR savings of this proposal are expected to occur for two reasons. First, the estimated all funds costs of supporting state staff would be less than the current contracted rates DHS pays HP for these positions.

Second, converting this function to state staff would enable the state to claim enhanced federal funds for some of these activities. Most administrative costs relating to the MA program are funded 50% with state funds and 50% with federal funds. However, federal funds support 75% of the costs of state staff with specialized medical expertise. Currently, the costs of HP audit positions with medical expertise are supported 50% with state funds and 50% with federal funds because they are contracted staff, rather than state staff. Of the 40 total positions in the request, 17 require specialized medical expertise (16 nursing consultants and one therapy consultant). Nursing consultants are registered nurses who design and perform audits and reviews of MA providers, and review requests for prior authorization of certain services. These activities qualify for 75% federal cost-sharing if performed by state staff. Based on the higher federal cost sharing the state receives to support state positions with specialized medical expertise, the total federal cost for these positions would increase by an estimated \$126,900 FED in 2012-13, with an ongoing annual increase of \$253,800 FED.

This cost comparison uses the estimate of the average salary for state staff in the classifications created under the request, the supplies and services costs associated with the new state positions, and the total amount DHS would pay to HP if all the positions were filled by contracted staff in 2012-13. The funding amount that DHS requests be transferred to the state operations appropriation (\$840,300) represents one-half of the total estimated costs of supporting the state positions (\$1,680,600), as the Department believes it could not fully fill these positions until January 2013, due to the specialized expertise and competitive private sector wages for similar positions. If DHS fills some portion of the positions prior to that date, the total amount of GPR savings, and the total amount needed in the general program operations appropriation for state staff would be higher than in the estimate. If DHS determined it needed additional funds for state staff due to earlier-than-anticipated filling of the positions, it could request an additional transfer of funds from the contracts appropriation under s. 13.10 of the statutes.

The current request would maintain the total amount of GPR budgeted in DHS, as the

Department plans to use any GPR savings generated under this request to satisfy agency lapse requirements included in the biennial budget. Act 32 required a total of \$174.3 million of lapses from state agencies in the 2011-13 biennium. In February, 2012, the Committee approved a lapse plan of \$123.9 million for 2011-12, which included \$18.6 million in DHS lapses. The \$307,700 GPR savings identified in this request could be used to meet the remaining statewide lapse of \$50.4 million in 2012-13.

The Committee could approve the Department's request, based on the Department's effort to identify savings, the LAB recommendations regarding contracted staff, and DHS' desire to use these savings to meet lapse requirements in Act 32. Under this option, there would be no net decrease in GPR budgeted in DHS, and the net GPR savings of this proposal would be available for DHS to allocate to its lapse requirements. The Committee approved a similar request in September, 2011, converting contracted positions at the Centers for Career Development, Employment and Training at the University of Wisconsin-Oshkosh, and allowing DHS to retain the GPR savings to satisfy lapse requirements. [Alternative 1]

Alternatively, the Committee could approve the Department's request to increase position authority and transfer funds, but also reduce the GPR contract appropriation by the amount of the expected savings that would otherwise be applied to the lapse requirement. This would result in a reduction of \$307,700 GPR, the expected half-year of savings achieved in 2012-13, and benefit the general fund of the same amount. Under this alternative, DHS could not use these anticipated savings to apply to the agency's lapse requirement. However, adopting this alternative may discourage state agencies from seeking Committee approval of cost savings to meet future lapse requirements. [Alternative 2]

Finally, if the Committee does not wish to increase authorized state positions, it could deny the DHS request. Under this alternative, DHS would likely continue the current contract with HP to perform the audit activities, but at a higher cost than if the position authority was provided. [Alternative 3]

ALTERNATIVES

1. Approve the Department's request. In 2012-13, transfer \$840,300 GPR from the DHCAA contracts appropriation [s. 20.435(4)(bm)] to its general program operations appropriation [s. 20.435(4)(a)], and authorize 15.75 GPR positions, beginning in 2012-13, to replace contracted HP staff with DHS staff in the OIG.

2. Approve the Department's request, as described in Alternative. In addition, reduce the DHS GPR contracts appropriation [20.435(4)(bm)] by \$307,700 GPR in 2012-13, so that this funding would not be available for DHS to apply to the Act 32 lapse requirements.

3. Deny the request.

Prepared by: Sam Austin