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## FISCAL IMPACT REPORT

SPONSOR Lopez DATE TYPED 3/3/05 HB \_\_\_\_\_

SHORT TITLE Audit Health Care Appropriations & Revenue SB SJM 70/aSRC

ANALYST Hanika-Ortiz

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
			\$0.1 Significant	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Human Services Department (HSD)

Health Policy Commission (HPC)

Department of Vocational Rehabilitation (DVR)

### SUMMARY

#### Synopsis of SRC Amendment

The Senate Rules Committee amendment adds the Legislative Finance Committee to the task force responsible for the audit of FY06 appropriations for health care in New Mexico.

#### Significant Issues

The Legislative Finance Committee is responsible for the performance audit program which reviews the costs, efficiency and effectiveness of the activities of state agencies.

#### Synopsis of Original Bill

SJM 70 requests the HPC in cooperation with the Department of Finance and Administration (DFA) be requested to convene a task force to audit fiscal year state appropriations for health care and to determine how that spending is allocated. Included in this audit is the identification of dollars not used for direct patient care including the administrative expenses of the Medicaid managed-care organizations, potential revenue sources available for the state matching funds,

and costs of any commission, task force and committee associated with health care.

### Significant Issues

SJM70 notes that “the state reduced Medicaid spending by forty million dollars this year, and anticipates a need for an additional thirteen million dollars in reductions next year, which may require cutting benefits and possibly reducing eligibility; and the Legislature and the State Executive Branch have worked tirelessly for several years to identify and implement cost-saving initiatives in the Medicaid program, leaving little room for additional reductions without reducing access to health care.”

The audit would review other sources of revenue used for health care including revenue from the Tobacco Settlement Fund and other class action lawsuits, research grants, foundations, and taxation earmarked or otherwise dedicated to health support, such as cigarette and alcohol taxes.

The audit asks that special funds with health-related purposes be identified and accounted for, including accounts of professional boards, undesignated funds in the Risk Management Division of the General Services Department that are above actuarial estimates of solvency, health-related State Investment Council funds, and the funds of the Insurance Division of the Public Regulation Commission.

SJM70 asks that the audit identify appropriations made to state entities that are expended outside of the state, and that the results of the audit be presented to the Legislative Health and Human Services Committee and the Legislative Finance Committee at the October 2006 meetings.

### **PERFORMANCE IMPLICATIONS**

The task force will have representation from the Department of Health, Aging and Long-Term Services Department, Children Youth and Families Department, Human Services Department, New Mexico Corrections Department, General Services Department, Commission on Higher Education, Vocational Rehabilitation Division of the Public Education Department, and Taxation & Revenue Department as well as any other department with experience and knowledge of health care.

### **FISCAL IMPLICATIONS**

SJM does not contain an appropriation for the task. Agencies report various costs associated with this memorial and would need additional information to ascertain a valid cost structure. HSD reports that they alone will need an additional \$780 thousand for salaries, benefits and equipment to participate in these audit functions.

The HPC would take a lead role in this memorial. The audit would be a significant resource task for the HPC which would require accounting and legal assistance from other agencies to adequately complete this audit.

The amount to fund task force members and possible RFP's for expanded analysis is not included, and it is not clear how much of an impact this particular task force's findings would have on the Medicaid program. Depending on the amount, this would be seen as money that could go to direct medical costs for covered individuals under the Medicaid program.

## **ADMINISTRATIVE IMPLICATIONS**

Due to the intensity of this requested audit, staff from each of these agencies will need to be dedicated to this project.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

HSD reports that SJM 70 may duplicate audits that currently occur. HSD contracts with Managed Care Organizations require conducting external audits, and Medicaid is part of the HSD's yearly external audit. In addition, both the LFC and the Center for Medicare and Medicaid Services perform targeted audits on Medicaid health care expenditures. HSD also contracts with audit agents to audit cost reports for health care facilities, residential treatment centers, hospitals, clinics and home health agencies to determine allowable costs to the Medicaid Program. The Division of Insurance of the Public Regulatory Commission also requires submission of both audited and nonaudited information on a regular basis from every health insurer providing health care in New Mexico.

The DVR suggest the Medicaid Advisory Committee (MAC) form a subcommittee to obtain information related to direct and administrative costs of Medicaid services and make recommendations through this Memorial. Any agency not represented in the MSC could be invited to participate.

## **TECHNICAL ISSUES**

These audit requirements duplicate audit functions already being performed. The HPC may not be the appropriate place for audit functions. There are other agencies such as the State Auditor and LFC that perform these functions.

Given the large number of funds and agencies involved, it may be difficult to complete the work prior to the October meeting of the Health and Human Services Committee.

## **OTHER SUBSTANTIVE ISSUES**

The HPC reports the Medicaid problem will not be getting any easier over time, primarily because of the rising costs of health care making more people uninsured, the federal budget deficit reduction efforts and the reductions that have already been reviewed and put in place since 2001 at the state level in New Mexico. On the national level, for first time, Medicaid exceeds education in state budgets.

The federal Health and Human Service Director wants to ensure that any activities that are inappropriately using, or fraudulently using, federal funds be targeted for possible civil legal action and recovery. Numerous abuses of leveraging have been identified in recent years and will be targeted. An example of a successful leveraging and revenue maximization for federal matching dollars occurred in New Mexico in the sole community provider program for hospitals in the state which has grown from \$15 million in 1997 to \$110 million in 2004 through intergovernmental transfers from counties to the state for the Medicaid match.

**ALTERNATIVES**

SJM 70 requires analysis of the FY06 appropriation. An alternative may be to use a prior calendar or fiscal year data that has been expended.

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?**

The state's current auditing structure will remain in place.

**AHO/lg:yr**