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Mr. Clarence H. Carter
Director
Department of Economic Security
1717 West Jefferson
Phoenix, AZ 85005

Dear Mr. Carter:

Burns & Associates, Inc. has been asked by the Division of Developmental Disabilities to examine the "adequacy and appropriateness" of the reimbursement rates for the Division's service providers for SFY 2013. This examination is in partial fulfillment of the Division's responsibilities under A.R.S. 36-2959.[1,2]

Our analysis shows that during SFY 2012, despite the implementation of a 5% rate reduction in October 2011 and a previous 10% rate reduction in May 2009, the network appears to have a sufficient number and mix of providers, and therefore we conclude that the reimbursement rates are adequate and appropriate as we interpret the statute.

This letter summarizes our examination for SFY 2013 and builds upon the examinations we have performed since SFY 2010. In performing the analysis we compiled the Division's claims data in a manner to examine client, service and provider characteristics and found that in SFY 2012: the Division is serving more clients, is providing more units of service, and is delivering more units of service per client compared to both our baseline year of SFY 2009 and to SFY 2011. While there has been a decline in the number of providers against these two metric years, this decline is concentrated in a segment of the provider network that does not jeopardize the delivery system's integrity.

In as much as there is no definition of *adequate and appropriate* as used in A.R.S 36-2959 and the Division is a Medicaid Managed Care Organization (MCO), we have used the federal criteria contained in Section 1932 of the Social Security Act and its associated regulation in 42 CFR 438.206 as a barometer of "adequacy and appropriateness". These two federal standards relate to

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[1] Burns & Associates has also assisted the Division in the development of reimbursement rates for selected home and community based services, both as a separate firm and as part of the Consultant Work Group that rebased those rates.

[2] Section 36-2959 subsection A reads in part: The department shall contract with an independent consulting firm for an annual study of the adequacy and appropriateness of title XIX reimbursement rates to service providers for the developmentally disabled program of both the Arizona long-term care system and the state only program. The consultant shall also include a recommendation for annual inflationary costs. Unless modified in response to federal or state law, the independent consulting firm shall include, in its recommendation, costs arising from amendments to existing contracts.

requirements for Medicaid MCOs to maintain a sufficient number, mix, and geographic distribution of providers and services.

We present our analysis of the Division's provider network in the following four discussions: introduction, clients, payments and providers. Following the discussions is our summary and accompanying this letter is an Analysis Package that contains additional tabular data from both a Total Funds and a Title XIX perspective.

Introduction to the Analysis

In evaluating the Division's provider network we compared the compilation of SFY 2012 client, payment and provider data to both a base year (SFY 2009) and to the previous year (SFY 2011). SFY 2009 was selected as the base year because it largely preceded the first of the two rate reductions that the Division has implemented: in May of 2009 the Division implemented a 10% rate reduction and in October of 2011 an additional 5% rate reduction was put into place. The objective of our analysis was to measure changes in the number and amount of services delivered as well as the number of providers delivering services.

The evaluation was based on the Division's claims files for SFYs 2009, 2010, 2011 and 2012. These files include the claims of all contracted service providers. The particular files used in the analysis were generated in the month of August following each fiscal year and included all fiscal year claims except for a small number of "lagged" claims that had yet to be billed.

The files were "cleaned" (reconciling claims, zero pay claims, parsing the files into service categories and funding sources, etc.) and then processed to derive the following summary data for each service for each fiscal year:

- The number of unique clients receiving the service,
- The number of unique providers billing the service,
- The number of units,
- The amount of payments,
- The average rate paid by the Division ,
- The average units provided to each client receiving the service,
- The average units billed by the providers supplying the service, and
- The average payment to providers supplying the service.

We note that there are six in-home services that the Division permits "independent" providers to provide to its clients. These independent providers have no employees and are employed by the individual receiving services. These independent providers must submit claims through a fiscal agent that pays the claims, and the fiscal agent then submits the claims to the Division. In our analysis we did not count or track the number of independent providers although we did count and track the number of clients served, the units provided, and the amount of payments to these providers.

The summary of the data reviewed from the claims file are presented in the following Table:

Summary Results – All Fund Sources

Year	Service Code	Svc Provs	Clients	Units	Payments	Average Rate	Average units per client	Average units per provider	Average dollars per provider
2012	TOTAL	738	26,384	29,737,865	$ 678,902,764	$22.83	1,127	40,295	$919,922.44
2011	TOTAL	803	25,740	28,963,121	$ 685,392,418	$23.66	1,125	36,069	$853,539.75
2010	TOTAL	951	25,371	27,702,472	$ 660,894,403	$23.86	1,092	29,130	$694,946.80
2009	TOTAL	1,081	24,530	25,975,265	$ 691,171,553	$26.61	1,059	24,029	$639,381.64

The themes revealed in the Summary Results Table are repeated throughout the analysis:

- There has been a steady decline from year to year in number of providers.
- There has been an increase from year to year in:
  - The number of individuals receiving services,
  - The number of units delivered,
  - The average number of units per individual,
  - The average units per provider, and
  - The average dollars per provider.
- Payments have "see-sawed" over the years with declines in the years of rate reductions (SFY 2010 and SFY 2012) and an increase in the one year on the Table that followed a rate decrease (SFY 2011).
- The average rate reflects the two rate reductions over the time period with the SFY 2010 rate falling to reflect the 10% rate reduction in May 2010 and the SFY 2012 rate reflecting the 5% reduction in October 2011.

The attached Analysis Package presents tabular information that displays various data compilations on both a total funds and a Title XIX funds basis for all services and for the ten largest services in each of the four years reviewed. The balance of the information in this letter concentrates on the Division's largest ten services measured in terms of SFY 2012 total funds payments.

Most of the following tables identify services by the Division's service codes. A translation of the ten largest service codes is presented in the Table below. A complete translation of all the Division's service codes is contained in the Analysis Package.

Service Code Definitions

Service Code	Service
ATTR	Attendant Care
DHVA	Developmental Home - Adult
DTAA	Day Treatment - Adult
HABA	Group Home
HAHR	Habilitation
HAID	Habilitation, Independently Designed Living Arrangement - Daily
NURS	Nursing - Short Term
OTHA	Processing Group for Misc Services - No Rates Set
RRBB	Room and Board - Group Home
RSPR	Respite - Hourly

The top ten SFY 2012 services represent more than 75% of the units and approximately 81% of the payments for the Division's services.

The OTHA service code is used in this analysis to collect numerous miscellaneous service codes that are not included in the Division's more formal rate setting process. Among the services collected under this service code are ICF/MR (institutional) services, counseling, medical and psychological consultations, home modifications as well as other rarely used services.

The Table below reveals that Group Home (HABA) service makes up the single largest component of the Division's services, pays the third highest average rate (of the Top Ten services) and generates the highest average dollar payment to providers. When combined with Room and Board (RRBB) the complete Group Home service represents almost 30% of all Division payments while serving approximately 10% of the Division's clients. The services on this list are relatively unchanged from our last review with only the service of Day Treatment – Intensive (DTAI) being replaced with Miscellaneous Services (OTHA).

Top Ten Service Codes by Payments – Total Funds
SFY 2012

Service Code	Svc Provs	Clients	Units	Payments	Average Rate	Average units per client	Average units per provider	Average dollars per provider
HABA	88	2,624	869,110	$ 183,583,883	$211.23	331	9,876	$ 2,086,180
RSPR	210	13,224	5,456,414	$ 73,313,426	$13.44	413	25,983	$ 349,112
DTAA	147	5,836	6,980,661	$ 69,923,948	$10.02	1,196	47,487	$ 475,673
HAHR	184	9,044	3,754,650	$ 66,495,177	$17.71	415	20,406	$ 361,387
ATTR	164	3,276	3,213,406	$ 44,536,823	$13.86	981	19,594	$ 271,566
DHVA	31	966	301,059	$ 28,843,759	$95.81	312	9,712	$ 930,444
NURS	14	566	812,916	$ 27,411,070	$33.72	1,436	58,065	$ 1,957,934
HAID	44	286	93,384	$ 19,835,447	$212.41	327	2,122	$ 450,806
RRBB	84	2,493	850,251	$ 17,878,868	$21.03	341	10,122	$ 212,844
OTHA	97	2,668	53,441	$ 17,548,103	$328.36	20	551	$ 180,908
Sub-Total			22,385,292	$ 549,370,504	$24.54			
TOTAL	738	26,384	29,737,865	$ 678,902,764	$22.83	1,127	40,295	$ 919,922

As we did in our review last year, we present a series of tables that compare the year in review to the previous Fiscal Years. The tables are generally divided into client, payment, and finally, provider aspects of the data.

Clients

The following three tables present information relating to clients: the number of clients receiving each of the top ten services over the review period, the number of units delivered and the average number of units per client that received services.

Number of Clients Receiving Each of SFY 2012 Top Ten Services
SFY 2009 through SFY 2012

	Clients				% Change	% Change
Service Code	2009	2010	2011	2012	'11 to '12	'09 to '12
HABA	2,569	2,600	2,585	2,624	1.5%	2.1%
RSPR	10,161	11,404	12,421	13,224	6.5%	30.1%
DTAA	4,037	4,368	4,618	5,836	26.4%	44.6%
HAHR	7,507	8,065	8,536	9,044	6.0%	20.5%
ATTR	2,821	2,921	3,070	3,276	6.7%	16.1%
DHVA	586	739	849	966	13.8%	64.8%
NURS	483	514	545	566	3.9%	17.2%
HAID	284	291	294	286	-2.7%	0.7%
RRBB	2,426	2,463	2,449	2,493	1.8%	2.8%
OTHA	4,219	3,503	3,052	2,668	-12.6%	-36.8%
TOTAL	24,530	25,371	25,740	26,384	2.5%	7.6%

This Table illustrates the increase over the period in the number of clients receiving services from the Division's provider network: an overall growth of 7.6% since SFY 2009, and a 2.5% growth over the past year.

For the '09 to '12 time period, nine of the top ten services experienced increases in clients served, ranging from 0.7% in Habilitation, Independently Designed Living Arrangement (HAID) to 64.8% in Developmental Home – Adult (DHVA). The only service experiencing a decrease over the time period was Miscellaneous Services (OTHA) of -36.8%.

The most striking phenomena illustrated in the percentage change '09 to '12 column of the Table is the number of services that have added clients at a substantially greater rate than the overall client population growth – six of the 10 services are growing at a double digit rate. This indicates that overall, most clients are accessing more services – at least more top ten services – in SFY 2012 than they were in SFY 2009.

The '09 to '12 column also reflects a few of the Division's policies:

- The relatively anemic growth of clients in Group Home (HABA) and the associated Room and Board (RRBB) service reflects the Division's long standing policy of limiting access to 24 hour residential care in favor of services delivered in the home.
- The significant growth in vendor supported Developmental Homes (DHVA) – also referred to as adult foster care – reflects the Division's transfer of the management of developmental homes from the State (state supported Developmental Homes – DHSA which is not a top ten service) to vendors.
- The growth in Day Treatment – Adult (DTAA) client participation reflects – but only to a limited extent – the Division's utilization review activity for Day Treatment – Intensive (DTAI, not a top ten service) and the transfer of clients into the less expensive Day Treatment service.

The percentage change ’11 to ’12 column reflects the same phenomena of more clients accessing more services as does the ’09 to ’12 column with the 26% growth in Day Treatment services being the most outstanding example of this trend.

The next Table illustrates the total number of units provided through the Division’s network. As was the case with the client Table above, the number of units delivered through the provider network has increased each year, with 14.5% more units being delivered in SFY 2012 than in SFY 2009. The growth in units roughly parallels the growth in clients with all of the top ten services, excepting one, having unit growth over the time period. The only top ten service to experience a decrease was Miscellaneous Services (OTHA), which has been decreasing since SFY 2010.

Number of Units Provided for Each of SFY 2012 Top Ten Services
SFY 2009 through SFY 2012

	Units				% Change	% Change
Service Code	2009	2010	2011	2012	'11 to '12	'09 to '12
HABA	848,497	857,670	867,215	869,110	0.2%	2.4%
RSPR	4,177,905	4,984,376	5,551,706	5,456,414	-1.7%	30.6%
DTAA	4,699,678	5,127,189	5,509,462	6,980,661	26.7%	48.5%
HAHR	3,297,138	3,525,501	3,639,304	3,754,650	3.2%	13.9%
ATTR	2,839,557	2,909,216	3,036,210	3,213,406	5.8%	13.2%
DHVA	176,377	222,097	268,738	301,059	12.0%	70.7%
NURS	687,630	764,872	821,492	812,916	-1.0%	18.2%
HAID	91,248	92,173	95,059	93,384	-1.8%	2.3%
RRBB	825,794	835,741	844,465	850,251	0.7%	3.0%
OTHA	101,882	144,499	77,103	53,441	-30.7%	-47.5%
TOTAL	25,975,265	27,702,472	28,963,121	29,737,865	2.7%	14.5%

Two observations of particular note in the preceding Table are:

- The decrease from SFY 2011 to SFY 2012 in Respite – Hourly (RSPR) is at least partially attributable to the reduction to the annual maximum limit on this service (from 720 to 600 hours per year per client) that became effective on October 1, 2011, and
- The reduction in Nursing – Short Term (NURS). In as much as this service is generally provided to clients that are medically fragile and the number of clients accessing this service increased between SFY 2011 and SFY 2012, the small reduction in total units during the last year is of note and perhaps indicates a need for monitoring.

Having examined the history of both clients and units delivered, the following Table combines these indicators in a presentation of Average Units per Client.

Average Units per Client for Each of SFY 2012 Top Ten Services
SFY 2009 through SFY 2012

	Average Units per Client				% Change	% Change
Service Code	2009	2010	2011	2012	'11 to '12	'09 to '12
HABA	330	330	335	331	-1.3%	0.3%
RSPR	411	437	447	413	-7.7%	0.4%
DTAA	1,164	1,174	1,193	1,196	0.3%	2.7%
HAHR	439	437	426	415	-2.6%	-5.5%
ATTR	1,007	996	989	981	-0.8%	-2.6%
DHVA	301	301	317	312	-1.5%	3.5%
NURS	1,424	1,488	1,507	1,436	-4.7%	0.9%
HAID	321	317	323	327	1.0%	1.6%
RRBB	340	339	345	341	-1.1%	0.2%
OTHA	24	41	25	20	-20.7%	-17.1%
TOTAL	1,059	1,092	1,125	1,127	0.2%	6.4%

This Table illustrates that the provider network has responded to the increase in the number of clients by delivering sufficient additional units of service to, most recently, hold the average units per client stable (between SFY 2011 and SFY 2012), and when measured over the longer term – increase the units per client.

The long term system performance saw a 6.4% overall increase in the number of units provided per client, with negative growth in three services: Habilitation (HAHR), Attendant Care (ATTR) and Miscellaneous Services (OTHA). Setting aside the Miscellaneous Services which are a hodge podge of services, it is noteworthy that the other two services experienced growth in both clients served and total units, with growth in clients outpacing growth in units. Therefore the drop in Average Units per Client for these services could indicate that new clients may not have support needs to the same extent as the SFY 2009 client population.

Examining the change in units per client in the short term reveals that seven of the top ten services (excluding OTHA) had reductions in the metric. Four of these services do not raise any concern either because the reduction can be traced to a policy change (the reduction of the annual limits in Respite - Hourly (RSPR)), or are merely data anomalies (the residential services of Group Home (HABA), Room and Board (RRBB) or Developmental Home (DVHA)).

The reduction in Nursing (NURS) was discussed above as a service that should be monitored because of the reduction of total units. However, to put the reduction of units per client into perspective, it should be noted that the average weekly total of nursing units per client is approximately 29 hours, and the reduction of 71 units per year per client translates to a reduction of about 1.25 units (1 hour 15 minutes) of service per week, not a tremendous change, but one that should be monitored in the future.

Applying a similar analysis to the short term reduction in Habilitation (HAHR) and Attendant Care (ATTR) units per client renders a comparable benign result: both services declined by less than 15 minutes a week per client with the SFY 2011 average weekly units per client being approximately 8 hours for Habilitation and 19 hours for Attendant Care. These reductions could

not be considered significant by most measures and, could in fact, reflect lower than average support needs for the new clients receiving these services in SFY 2012.

Payments

The following tables contain information regarding payments for the top ten service categories.

Total Payments for Each of SFY 2012 Top Ten Services
SFY 2009 through SFY 2012

	Payments				% Change	% Change
Service Code	2009	2010	2011	2012	'11 to '12	'09 to '12
HABA	$ 195,879,599	$ 182,051,376	$ 185,895,093	$ 183,583,883	-1.2%	-6.3%
RSPR	$ 63,590,793	$ 69,300,490	$ 77,250,685	$ 73,313,426	-5.1%	15.3%
DTAA	$ 49,283,277	$ 48,872,459	$ 52,410,813	$ 69,923,948	33.4%	41.9%
HAHR	$ 66,556,171	$ 64,756,186	$ 66,907,216	$ 66,495,177	-0.6%	-0.1%
ATTR	$ 44,804,805	$ 41,771,455	$ 43,638,341	$ 44,536,823	2.1%	-0.6%
DHVA	$ 19,248,478	$ 22,045,923	$ 26,691,436	$ 28,843,759	8.1%	49.8%
NURS	$ 26,334,359	$ 26,597,233	$ 28,758,688	$ 27,411,070	-4.7%	4.1%
HAID	$ 23,106,371	$ 20,715,444	$ 21,060,054	$ 19,835,447	-5.8%	-14.2%
RRBB	$ 19,189,019	$ 17,589,653	$ 17,715,762	$ 17,878,868	0.9%	-6.8%
OTHA	$ 19,393,222	$ 17,715,383	$ 17,342,939	$ 17,548,103	1.2%	-9.5%
TOTAL	$ 691,171,553	$ 660,894,403	$ 685,392,418	$ 678,902,764	-0.9%	-1.8%

The Total Payment Table above illustrates the payments made for the top ten services and total services for the last four fiscal years. While overall payments have dropped during periods where rates have been lowered, i.e. SFY 2010 versus SFY 2009 and SFY 2012 versus SFY 2011, these decreases were less than the nominal rate reductions would have suggested.

For SFY 2010, the total payments were only reduced by 4.4% - significantly less than the 10% rate reduction, and in SFY 2012, total payments were only reduced by .9% - again significantly below the 5% rate reduction. The reason lay in the increase in units delivered during these two rate reduction years. While the two nominal rate reductions would have produced a 14.5% reduction in payments over the four year period, the rate reductions were applied to an overall increase in units of 14.5% - thus producing the rather modest reduction of 1.8% in payments. Similarly, the 5% rate reduction for SFY 2012 was confronted by a 2.7% overall growth in units, resulting in the less than 1% reduction in payments.

The three services that had the greatest growth in units over the time period (Respite – Hourly (RSPR), Day Treatment and Training – Adult (DTAA) and Developmental Home – Adult (DHVA)) also had net *increases* in payments.

In addition to the growth in units there is at least one other reason the total amount of payments did not fall as much as would have been expected given the rate decreases. The following Table presents the Average Rate by service over the time period.

Average Rate for Each of SFY 2012 Top Ten Services
SFY 2009 through SFY 2012

	Average Rate				% Change	% Change
Service Code	2009	2010	2011	2012	'11 to '12	'09 to '12
HABA	$ 230.85	$ 212.26	$ 214.36	$ 211.23	-1.5%	-8.5%
RSPR	$ 15.22	$ 13.90	$ 13.91	$ 13.44	-3.4%	-11.7%
DTAA	$ 10.49	$ 9.53	$ 9.51	$ 10.02	5.3%	-4.5%
HAHR	$ 20.19	$ 18.37	$ 18.38	$ 17.71	-3.7%	-12.3%
ATTR	$ 15.78	$ 14.36	$ 14.37	$ 13.86	-3.6%	-12.2%
DHVA	$ 109.13	$ 99.26	$ 99.32	$ 95.81	-3.5%	-12.2%
NURS	$ 38.30	$ 34.77	$ 35.01	$ 33.72	-3.7%	-12.0%
HAID	$ 253.23	$ 224.75	$ 221.55	$ 212.41	-4.1%	-16.1%
RRBB	$ 23.24	$ 21.05	$ 20.98	$ 21.03	0.2%	-9.5%
OTHA	$ 190.35	$ 122.60	$ 224.93	$ 328.36	46.0%	72.5%
TOTAL	$ 26.61	$ 23.86	$ 23.66	$ 22.83	-3.5%	-14.2%

All other things being equal, it would be expected that the average change in rates in the SFY 2009 to SFY 2012 time period would be a 14.5% reduction. Relatively minor deviations are to be expected because of the timing of when the rate reductions were implemented, and by and large the Table reflects a double digit percentage reduction for most of the top ten services and for the average overall rate. However, there are three services (excluding OTHA) where average rates fell by less than 10%. These services include Group Home (HABA) at -8.5%, Day Treatment – Adult (DTAA) at -4.5%, and Group Home Room and Board (RRBB) at -9.5%. Room and Board (RRBB) was exempted from the 5% rate reduction in October 2011.

The rate structures for these three services adjust based on client to staff ratios – the greater the number of clients to the number of staff, the lower the rate. The fact that the average rates for these services were reduced by an amount significantly less than the expected 14.5% reduction indicates that these services were delivered in SFY 2012 with more intensive staffing than these services were delivered in both the SFY 2009 and SFY 2011 comparison years.

Providers

The final area of our analysis focused on the providers for each of the top ten services: how many there are, the average number of units delivered and the payments received, how the number of providers have changed based on size, and the recent history of the top twenty providers ranked by SFY 2012 payments received.

The first Table below presents the number of providers by service for each year of the review period.

Number of Service Providers for Each of SFY 2012 Top Ten Services
SFY 2009 through SFY 2012

	Number of Service Providers				% Change	% Change
Service Code	2009	2010	2011	2012	'11 to '12	'09 to '12
HABA	88	90	88	88	0.0%	0.0%
RSPR	174	200	204	210	2.9%	20.7%
DTAA	116	123	137	147	7.3%	26.7%
HAHR	167	180	183	184	0.5%	10.2%
ATTR	139	149	156	164	5.1%	18.0%
DHVA	24	27	29	31	6.9%	29.2%
NURS	12	14	14	14	0.0%	16.7%
HAID	40	40	43	44	2.3%	10.0%
RRBB	83	86	84	84	0.0%	1.2%
OTHA	420	284	164	97	-40.9%	-76.9%
TOTAL	1,081	951	803	738	-8.1%	-31.7%

The data in the Table reveals three obvious things: there has been an overall decrease of 343 providers over the review period, there was a decrease of 65 providers in the last year, and finally, that the attrition of providers can be almost exclusively attributed to the Miscellaneous (OTHA) category of services.

The following Table presents summary information for the OTHA category of services.

OTHA Service Information
SFY 2009 through SFY 2012

SFY	Service Code	Service Providers	Clients	Units	Payments
2012	OTHA	97	2,668	53,441	$17,548,103
2011	OTHA	164	3,052	77,103	$17,342,939
2010	OTHA	284	3,503	144,499	$17,715,383
2009	OTHA	420	4,219	101,882	$19,393,222

As previously indicated the Miscellaneous service category includes various services that are not included in the Division's formal rate setting process, and includes services such as ICF/MR (institutional) services (representing approximately $14 million in annual payments), counseling, medical and psychological consultations, and home modifications. While the loss of 323 providers from this service may seem significant as a raw number, further analysis indicates that most of the providers that were lost only delivered non-Title XIX services – there was a reduction of only 5 providers of Title XIX services (out of the 55 that were delivering these services in SFY 2009) – and the attrition only resulted in a payment reduction of $1.8 million.

We do not believe the loss of Miscellaneous service providers over the time period evaluated is significant.

We also reviewed the service delivery metrics of the providers that stopped billing for services during the review period. These providers accounted for approximately 810,000 units per year; given the fact that the SFY 2012 unit count was 29.7 million units, combined with our finding

that providers that were new to the system during the review period delivered more than 1.5 million annual units, our conclusion of the insignificance of the provider attrition was confirmed.

In looking at the average number of units per provider per year, we found that the patterns discussed above relating to the number of units by service held true for this metric with one exception: the average number of units per provider for Miscellaneous services skyrocketed. This was caused by the exodus of providers from the service with a minimal change in total units delivered. This information is presented in the Table below.

Average Units per Provider for Each of SFY 2012 Top Ten Services
SFY 2009 through SFY 2012

	Average Units per Provider				% Change	% Change
Service Code	2009	2010	2011	2012	'11 to '12	'09 to '12
HABA	9,642	9,530	9,855	9,876	0.2%	2.4%
RSPR	24,011	24,922	27,214	25,983	-4.5%	8.2%
DTAA	40,514	41,684	40,215	47,487	18.1%	17.2%
HAHR	19,743	19,586	19,887	20,406	2.6%	3.4%
ATTR	20,428	19,525	19,463	19,594	0.7%	-4.1%
DHVA	7,349	8,226	9,267	9,712	4.8%	32.1%
NURS	57,302	54,634	58,678	58,065	-1.0%	1.3%
HAID	2,281	2,304	2,211	2,122	-4.0%	-7.0%
RRBB	9,949	9,718	10,053	10,122	0.7%	1.7%
OTHA	243	509	470	551	17.2%	127.1%
TOTAL	24,029	29,130	36,069	40,295	11.7%	67.7%

The following Table presents the Average Dollars per Provider over the review period. Similar to the connection between total units and average units by provider in the preceding Table, the Average Payments per Provider Table indicates the strong linkage between the Total Payments Table that was presented earlier in this analysis – not surprising given the stability of the number of providers in the top ten services (excluding Miscellaneous) and the growth in payments.

Average Payments per Provider for Each of SFY 2012 Top Ten Services
SFY 2009 through SFY 2012

	Average Payments per Provider				% Change	% Change
Service Code	2009	2010	2011	2012	'11 to '12	'09 to '12
HABA	$ 2,225,905	$ 2,022,793	$ 2,112,444	$ 2,086,180	-1.2%	-6.3%
RSPR	$ 365,464	$ 346,502	$ 378,680	$ 349,112	-7.8%	-4.5%
DTAA	$ 424,856	$ 397,337	$ 382,561	$ 475,673	24.3%	12.0%
HAHR	$ 398,540	$ 359,757	$ 365,613	$ 361,387	-1.2%	-9.3%
ATTR	$ 322,337	$ 280,345	$ 279,733	$ 271,566	-2.9%	-15.8%
DHVA	$ 802,020	$ 816,516	$ 920,394	$ 930,444	1.1%	16.0%
NURS	$ 2,194,530	$ 1,899,802	$ 2,054,192	$ 1,957,934	-4.7%	-10.8%
HAID	$ 577,659	$ 517,886	$ 489,769	$ 450,806	-8.0%	-22.0%
RRBB	$ 231,193	$ 204,531	$ 210,902	$ 212,844	0.9%	-7.9%
OTHA	$ 46,174	$ 62,378	$ 105,750	$ 180,908	71.1%	291.8%
TOTAL	$ 639,382	$ 694,947	$ 853,540	$ 919,922	7.8%	43.9%

The three services that showed growth in average payments per provider (and thus were counter intuitive given the two rate decreases) had a serious imbalance between the change in providers and the change in either units or payments, or both. For example:

- Day Treatment – Adult (DTAA) for the review period experienced a significant increase in the number of units (48.5%) while the increase in the number of providers was more modest (2.7%).
- Developmental Home - Adult (DVHA) for the review period experience a significant increase in the number of units (70.7%) while the network has an increase of seven (7) providers, from 24 to 31.
- Miscellaneous Services (OTHA) experienced the greatest absolute reduction in providers (from 420 to 97, a decline of 76.9%) while only reducing the payments to providers by just over $1.8 million (-9.5%).

We also examined the change in the number of providers stratified into two groups – above and below annual payments of $100,000 per year. The results are presented in the following Table.

Number of Providers Receiving Payment Above and Below $100,000 Per Year
SFY 2009 through SFY 2012

Provider Size	Units	Payments	Svc Provs
FY 2012			
Providers Greater Than $100,000 in Payments	29,454,472	$ 668,346,938	363
Providers Less $100,000	283,085	$ 10,553,052	372
Total	29,737,557	$ 678,899,990	735
FY 2011			
Providers Greater Than $100,000 in Payments	28,582,290	$ 672,779,127	354
Providers Less $100,000	380,831	$ 12,613,291	449
Total	28,963,121	$ 685,392,418	803
FY 2010			
Providers Greater Than $100,000 in Payments	27,287,928	$ 646,628,028	352
Providers Less $100,000	414,544	$ 14,266,375	599
Total	27,702,472	$ 660,894,403	951
FY 2009			
Providers Greater Than $100,000 in Payments	25,546,768	$ 674,213,102	342
Providers Less $100,000	428,497	$ 16,958,451	739
Total	25,975,265	$ 691,171,553	1,081

As has been the case for the last three fiscal years, the Division's services are being provided primarily by organizations who receive payments of more than $100,000 per year. The Table illustrates a loss of 367 providers from those with less than $100,000 in annual payments from SFY 2009 to SFY 2012 – a change that is greater than the overall loss of 343 providers.

The final examination of providers performed was a compilation of the top twenty providers based on total payments for SFY 2012. The results are presented in the following Table.

Top Twenty Providers Determined by Total Funds Payments
Displayed by SFY 2012 Ranking
SFY 2009 through SFY 2012

	2009			2010			2011			2012		
Provider	Clients	Units	Payments	Clients	Units	Payments	Clients	Units	Payments	Clients	Units	Payments
A	545	665,015	$ 31,573,017	581	695,910	$ 30,642,938	567	704,872	$ 32,756,243	548	687,260	$ 32,653,538
B	1,141	897,065	$ 31,176,523	825	881,664	$ 29,929,499	829	902,589	$ 32,253,647	833	918,114	$ 32,121,926
C	1,242	1,067,653	$ 19,253,556	1,570	1,410,636	$ 22,658,881	1,864	1,690,878	$ 26,951,704	2,029	1,813,591	$ 27,905,667
D	1,394	618,858	$ 30,771,378	1,292	627,757	$ 28,386,492	1,161	605,160	$ 28,471,583	1,081	607,345	$ 27,403,998
Various	2,381	2,284,114	$ 30,341,270	2,200	2,090,953	$ 25,479,095	2,027	1,881,381	$ 23,203,691	1,895	1,713,195	$ 20,371,015
F	378	421,700	$ 18,405,953	375	426,984	$ 16,838,777	379	430,899	$ 17,048,699	369	438,665	$ 16,677,825
G	354	68,318	$ 14,427,985	391	65,314	$ 13,635,797	344	64,259	$ 14,278,389	293	64,548	$ 14,441,127
H	343	458,976	$ 12,641,699	327	446,617	$ 11,688,659	300	441,308	$ 11,974,450	288	448,897	$ 11,780,521
I	959	449,784	$ 13,501,807	1,023	526,987	$ 13,708,758	966	516,885	$ 13,366,996	809	459,921	$ 11,668,391
J	692	652,004	$ 11,433,299	680	683,365	$ 11,218,412	688	686,721	$ 11,534,143	706	685,582	$ 11,593,774
K	154	220,594	$ 12,197,326	161	221,434	$ 11,013,237	160	230,546	$ 11,237,390	161	227,468	$ 11,016,497
L	443	432,023	$ 12,986,250	312	425,170	$ 10,961,045	317	433,818	$ 10,667,689	299	430,646	$ 9,961,297
M	414	534,223	$ 10,230,265	414	547,732	$ 9,646,186	397	541,168	$ 9,501,291	429	566,270	$ 9,474,211
N	840	774,666	$ 14,667,513	723	699,675	$ 11,884,547	627	630,248	$ 10,515,022	603	567,088	$ 9,172,388
O	476	397,311	$ 6,834,414	568	475,543	$ 7,440,947	626	519,229	$ 8,093,023	727	570,906	$ 8,605,154
P	638	285,461	$ 9,571,735	564	294,392	$ 8,564,469	429	284,662	$ 8,609,819	397	274,205	$ 8,289,994
Q	104	56,919	$ 3,583,724	187	100,674	$ 4,882,099	318	187,276	$ 6,876,252	372	235,513	$ 7,930,658
R	133	75,472	$ 9,792,499	127	74,303	$ 8,558,418	127	72,904	$ 8,504,346	121	69,866	$ 7,919,067
S	212	375,635	$ 8,042,863	229	386,228	$ 7,578,802	216	384,164	$ 7,711,561	234	405,205	$ 7,847,418
T	681	584,085	$ 9,950,563	699	635,489	$ 9,740,100	662	590,340	$ 9,149,770	510	474,471	$ 7,091,638
Top Twenty Total		11,319,875	$ 311,383,638		11,716,826	$ 294,457,160		11,799,306	$ 302,705,709		11,658,754	$ 293,926,103
Gand Total		25,975,265	$ 691,171,553		27,702,472	$ 660,894,403		28,963,121	$ 685,392,418		29,737,865	$ 678,902,764
Top Twenty Share		43.6%	45.1%		42.3%	44.6%		40.7%	44.2%		39.2%	43.3%

The "take-aways" from this presentation include:

- The top twenty providers account for more than 39% of the annual units delivered and received over 43% of all payments for SFY 2012,
- Although there are evident shifts in relative position among the individual providers, there is relative stability within the group over time: eighteen of the providers were on the Top Twenty list for the entire review period,
- The provider labeled "Various" is the fiscal agent for independent providers and is not an actual provider. This value represents the summation of the several thousand independent providers that bill through the fiscal agent, and
- Provider G accounts for a significant amount of the ICF/MR (institutional) services purchased by the Division and the reimbursement rates paid for this service are derived outside of this established published rate process.

The Table also provides insight into the differing operating strategies among the Division's providers. For example:

- Providers C, O and Q experienced the largest growth in clients, units and payments.
- Providers D, L and T experienced significant decline in clients, units and payments.
- A review of the ratio of clients to payments for each provider reveals that providers A, L and R have significantly fewer clients and higher service payments than do providers C, D and "Various".

Summary

Based on the evaluations, analyses and reviews that were performed, we believe the Division's provider network has responded to the recent rate reductions as would be expected by any dynamic, market driven group of suppliers – some providers are aggressively pursuing market opportunities while others are not, with the result being that demand for services is being met at an overall reduced per unit cost.

Our analysis shows that during SFY 2012, despite the 5% rate reduction, the network responded positively – services are being provided to generally match the growth of enrollment, with the result being a slightly increased average number of units per client. While there has been a decline in the number of providers, this decline is concentrated in a segment of the network that does not jeopardize the delivery system's integrity.

In short, we believe the Division's provider network meets the test of maintaining a sufficient number and mix of providers, and therefore the provider service rates are adequate and appropriate.

However, we wish to continue to emphasize the advisability of the Division installing an organized network monitoring structure. We observe that the Division has undertaken some steps to this end, but we recommend a more extensive investment to develop information and metrics relating to the providers' financial health, the clients' access to services, and the quality of care delivered. Our SFY 2011 review included some suggested starting points, i.e. the systemic monitoring and tracking of the financial metrics the largest and/ or critical service providers. We believe active network monitoring should be a hallmark of all managed care organizations.

Finally, we note that the Qualified Vendor Agreements which expired in December 2010 were renewed and reissued without significant provider loss. These new contracts included the reduced rates that went into effect in May 2009. Additionally, the Division reports no amendments to the renewed Agreements and therefore we do not find any "costs arising from amendments to existing contracts" for us to report on as specified by A.R.S. 36-2929.

If this letter or its attachments leave you with any questions, please feel free to contact us

Sincerely,

Peter Burns

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