



**COLORADO**  
Department of Health Care  
Policy & Financing

1570 Grant Street  
Denver, CO 80203

Date June 8, 2020

Dianne Ray  
State Auditor  
State Services Building  
1525 Sherman St., 7th Floor  
Denver, CO 80203

**RE: Response to OSA Sampling & Extrapolation for FY 2018-19 Statewide Audit**

Ms. Ray,

As discussed during the FY 2018-19 Statewide Audit, the Department has significant concerns with the sampling and extrapolation approach employed by the Office of the State Auditor. To review these concerns, the Department requested that our contracted, third-party actuary review the sampling and extrapolation approach used by the Office of the State Auditor as part of the audit of eligibility determinations for the Department's Medicaid benefits. Based on the concurrence of the Department's views and the contracted third-party actuary, the Department continues to believe that the findings of the report do not reflect the performance of all sixty four counties and a selection of medical assistance sites who perform this function on behalf of the Department.

As provided in the attached, third-party actuaries share the Department's concern with the inappropriateness of the sampling and extrapolation approach used in the audit, both from a technical and conceptual perspective. The concerns include the following:

- A small sample size of 125 individuals selected in the OSA audit was extrapolated to the entire Medicaid population. Common statistical practices suggest the ideal use of a sample size is one that gets as close as possible to a 3% margin of error, with a 95% confidence interval. This would require a sample size of more than 1,000 individuals. While the 3% margin may not always be achievable, expanding the margin of error to at least 4-5% would result in the use of a sample size of 384 to 600 individuals, still far over the limited sample size of 125 individuals that was used in the referenced audit.
- The auditor over sampled individuals with high-cost paid claims, and then extrapolated those findings across the Medicaid population. These concurrent methodologies overestimate the auditor's "questioned costs".



- To be consistent with the federal guidance provided to state actuaries for assessing Medicaid risk, the sampling and extrapolation should be population specific, not over the entire Medicaid population. The auditor's selected sample does not account for the differences in risk and characteristics of the various subpopulations within Medicaid.
  - This item is critical, since the Medicaid program covers a broad array of individuals. The requirements and pathway to eligibility vary between these populations. This nuance is important in particular for this audit since the findings are based upon a review of individual eligibility files and a determination of whether applicable documentation or processes were completed in determining eligibility. (The audit did not determine whether the individual was eligible, just if the processes and documents were available upon audit.) The auditor's sampling technique implies - as an example - that observed costs from a Nursing Home resident may be extrapolated to a population with drastically different risk characteristics and expected costs. That methodology was applied by the auditor even though the eligibility requirement for Nursing Home residents are not all applicable to most Medicaid recipients. Further, populations receiving coverage for Long-Term Services and Supports, such as Nursing Homes, comprise only a small percent of members (about 5%) with costs far above the average Medicaid member.
- The applied methodologies were inconsistent with federal guidance, which is to extrapolate only across like populations, not the entire Medicaid population.

It is important to highlight that OSA's findings are classified as "questioned costs" and do not reflect an overpayment by the State and the Federal government. *The Department requests that any public communications clarify this critical point, especially given the fact that the methodologies used are inconsistent with federal guidance.*

As noted by the third-party actuary, these "questioned costs" should not be interpreted as inappropriate payments, as five out of the seven identified members had errors resulting from information missing within their documentation, *which does not necessarily mean that the members would have been ineligible had the documentation been provided during the application process.* In fact, after the Department reviewed the identified errors and re-determined eligibility, the vast majority of members remained eligible for Medicaid. It should be noted that the actual error rate of members not eligible for services was 3%, which is within the allowable federal error rate threshold.

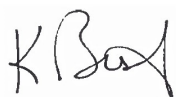
The auditor recommends process improvements be made to the member eligibility application and documentation processes performed by the counties and other medical



assistance sites on behalf of the Department. The Department agrees with that and is working diligently in collaboration with the counties on numerous initiatives to drive performance improvement. *The Department requests that any auditor communications intended for broad, public consumption refrain from claiming a specific amount of overpayment within the Medicaid program associated with extrapolated figures calculated by the auditor as the findings do not reflect overpayment.*

The Department requests that the OSA take into consideration the observations and recommendations in the attached report. As previously offered, the Department offers its staff experts and third-party contractors to work with the OSA to create sampling and extrapolation methodology that accurately reflect the differences in risk and characteristics of the various subpopulations within Medicaid as well as regional differences within the State. This change would bring the process in alignment with best practices and federal guidance customized to recognize the unique attributes of the programs we administer. It would also provide a more accurate reflection of the performance of the Departments valued, critical county partners and medical assistance site contractors. We look forward to this discussion.

Sincerely,



Kim Bimestefer  
Executive Director

Enclosure: OSA Extrapolation Report by Optumas

