

**QUALITY ANALYSIS & SOLUTIONS**

**INDEPENDENT REPORT ON  
COSTS OF STATE LICENSURE OF  
HOME CARE AGENCIES  
JANUARY 28, 2011**

**HEALTH FACILITIES AND  
EMERGENCY MEDICAL SERVICES DIVISION**

**DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT**

*The December 29, 2010, Final Report was revised as necessary because of changes in the numbers of HCAs that will undergo renewal surveys.*

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# **INDEPENDENT REPORT ON COSTS OF STATE LICENSURE OF HOME CARE AGENCIES**

## **INTRODUCTION**

### **COST STUDY PURPOSE AND SCOPE**

Quality Analysis & Solutions (QA&S) was contracted by the Health Facilities and Emergency Medical Services Division (hereinafter referred to as Division) of the Colorado Department of Public Health and Environment (Department) to conduct a cost study that is required by Colorado Statute Title 25 Article 27.5 Home Care Agencies<sup>1</sup> (HCA). The Statute requires that no later than January 1, 2011, the Department shall issue an independent report detailing the direct and indirect costs associated with the administration of home care agency licensure.

The purpose of our cost study was to issue a report on the costs of the newly enacted initiative to regulate HCAs providing home care in Colorado through a licensure program. To accomplish the study, we performed the study from October 28 through December 21, 2010. We also used the costs incurred and revenues received from the Division's licensure program beginning in May 1, 2009 through September 30, 2010. The purpose of the study was not to determine or evaluate the efficiency or effectiveness of the Division's licensure processes or to evaluate the internal controls and accuracy of the financial information provided to us. Therefore, we relied on the reported information provided by the Division. For details about the methodology used by QA&S, see the Appendix.

### **BACKGROUND OF THE HCA LICENSURE PROGRAM**

On August 5, 2008, the state of Colorado enacted Statute Title 25 Article 27.5 Home Care Agencies that required HCAs providing home care services in Colorado to be licensed. The Department designated the Division as the state agency responsible for licensing HCAs as well other types of health care facilities. The Statute establishes some standards for operation of HCAs and provides the Department with authority to implement licensure standards through Board of Health Rule, along with authority to charge licensure fees to fund the related costs. HCA licensure costs are entirely cash funded through these fees; no state General Fund monies were appropriated for this purpose. The Statute also required that licenses are to be renewed annually.

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<sup>1</sup> Home care agencies are businesses that provide medical and/or personal care to individuals in their place of residence.

By May 1, 2009, after a nine month regulation development process conducted with the Home Care Advisory Committee, the Department proposed and the Board of Health adopted rules that provided the minimum standards of operations for HCAs in Colorado. By June 1, 2009, all medical/skilled HCAs (Class A) were required to have applications for licensures submitted to the Division and licenses to be issued by December 31, 2009. The Statute also stated that a certified<sup>2</sup> HCA that applied for a license by June 1, 2009, was exempt from licensure inspection prior to issuance of an initial license. Additionally, by December 31, 2009, applications from nonmedical/personal care HCAs (Class B) had to be submitted to the Division and licenses issued by December 31, 2010. Community Centered Boards<sup>3</sup> and services agencies that provide direct care to the developmentally disabled population are required to have applications submitted by March 1, 2011, and licenses issued by September 1, 2011.

The Statute required a tiered licensure fee structure that was defined in the Department's Rules 6 CCR 1011-1 Standards for Hospitals and Health Facilities (promulgated by the State Board of Health), Chapter XXVI Home Care Agencies. In addition, monies received or expended in performing HCAs certification activities following the Colorado Department of Health Care Policy and Financing and the Federal Centers for Medicare and Medicaid of the U.S. Department of Health and Human Services criteria is not receipted or directly charged to the to the HCA Cash Fund<sup>4</sup>.

Generally, the initial and renewal license fees were \$525 plus 0.10% of a provider's reported wages that were greater than \$150,000 for certified HCAs, but not to exceed \$1,500; and \$525 plus 0.15% of a provider's reported wages that were greater than \$150,000 for non-certified HCAs, but not to exceed \$8,000. In addition, the Division offers a performance incentive refund of 10% of an HCA's renewal fee, if an HCA has no deficiencies that have negatively affected, or have the potential to negatively affect, its consumers; an acceptable plan of correction is submitted; and correction of the deficient practice(s) is implemented and verifiable by the respective due dates. Also, the Division can charge a revisit fee of 50% of an HCA's initial or renewal fee if the Division performs a second survey/inspection revisit or subsequent revisits pertaining to the same deficiency. Further, the Division can assess a late fee equal to the renewal fee if an HCA does not submit its application and fee within 30 days before its licensure expiration date.

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<sup>2</sup> A "certified" HCA means an agency that is certified by either the U.S. Department of Health and Human Services' Federal Centers for Medicare and Medicaid or the Colorado Department of Health Care Policy and Financing to provide skilled home health or personal care services. To be certified, health care businesses choose to accept Medicare and/or Medicaid clients.

<sup>3</sup> Community Centered Boards that are required to be licensed are included as part of the HCA universe.

<sup>4</sup> The HCA Cash Fund is a unique fund specifically for the revenue and expenditures supporting the HCA licensure program.

## HCA LICENSURE PROGRAM REVENUES, COSTS, AND PROCESSES

### REPORTED LICENSURE REVENUES AND COSTS

Receipt of license fee payments and expenses incurred for the HCA licensure program began May 1, 2009. Revenues and expenses for fiscal years<sup>5</sup> 2009 through September 30, 2010 of fiscal year 2011 as reported in the Colorado Financial Reporting System were:

<b>HCA Licensure Program Revenues and Expenses by Fiscal Year</b>			
	<b>2009</b> <i>(May 1- June 30, 2009)</i>	<b>2010</b> <i>(July 1, 2009 – June 30, 2010)</i>	<b>2011</b> <i>(July 1 – September 30, 2010)</i>
Revenues	\$282,766	\$407,745	\$135,019
Expenses	\$ 35,559	\$487,380	\$207,821

Division activities occurring or anticipated that related to the above revenues and expenses during the period included:

- Fiscal year 2009 - These costs covered the initial reviews of the applications but not all of the costs for the entire process for licensure issuance.
- At the end of fiscal year 2010 - 353 HCAs were licensed.
- As of October 31, 2010 - 434 HCAs were licensed, 85 HCA applications were pending licensure and 200 new applications for licensure were anticipated.

Also, the HCA licensure program in the Division includes providing technical assistance to potential HCA applicants as well as reviewing letters of intent through the issuance of a license to HCAs. Not all technical assistance and letters of intent result in a licensure fee.

### LICENSURE PROCESSES AND COSTS

To carry out the HCA licensure program, personnel costs are the Division's largest expense. Also, the Division has established for the HCA licensing program processes for providing technical assistance to potential HCAs, accepting and processing licensure applications, conducting surveys/inspections, reporting and tracking deficiencies, issuing licenses, investigating complaints, and following up on agency-reported occurrences. Based on information provided, the Division had the following direct personnel (salary

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<sup>5</sup> A fiscal year begins on July 1 and ends June 30 for the Colorado state government.

and benefits) costs in processing HCA licenses from May 1, 2009 through September 30, 2010,<sup>6</sup> the initial 17 months that the HCA licensure program has been in operation. The table below describes these processes and the direct personnel costs attributed to these main HCA licensure processes.

<b>HCA Licensure Processes and Total Division Personnel Costs</b>				
<b>May 1, 2009 through September 30, 2010</b>				
<i>(17 months of HCA licensure program operations)</i>				
<b>Process</b>	<b>Fiscal Year</b>			<b>Total Personnel Costs</b>
	<b>2009</b>	<b>2010</b>	<b>2011</b>	
<b>Preliminary Interest and Initial and Renewal Applications</b> <ul style="list-style-type: none"> <li>• Providing technical assistance to potential HCAs and licensure applicants regarding the licensure process and requirements</li> <li>• Reviewing letters of intent</li> <li>• Reviewing initial and renewal applications as well as changes in HCA name or ownership including fitness reviews of submitted background information and other required documents</li> </ul>	\$ 6,495	\$ 94,628	\$ 28,369	\$129,492
<b>Surveys of HCA Applicants</b> <ul style="list-style-type: none"> <li>• Providing technical assistance regarding interpretation and applicability of licensure regulations and standards of care</li> <li>• Performing initial and renewal surveys/inspections</li> <li>• Performing any needed survey revisits</li> </ul>	\$10,050	\$243,054	\$114,329	\$367,433
<b>Reporting and Tracking Deficiencies</b> <ul style="list-style-type: none"> <li>• Preparing deficiency lists</li> <li>• Tracking corrective actions</li> <li>• Storing all application and related documents</li> </ul>	\$ 860	\$ 9,292	\$ 5,322	\$ 15,474
<b>Printing and Mailing Licenses</b>	\$ 138	\$ 298	\$ 460	\$ 896
<b>Post Licensure and Ongoing Activities</b> <ul style="list-style-type: none"> <li>• Reviewing and approving Quality Management Plans</li> <li>• Monitoring occurrences</li> <li>• Investigating complaints</li> </ul>	\$ 771	\$ 7,469	\$ 5,422	\$ 13,662

<sup>6</sup> September 30, 2010, cost information was used because direct personnel costs for the month of October 2010 for each individual in the sections of the Division that perform HCA processes were not provided.

During the 17-month period other direct costs, such as travel, temporary personnel services, and office supplies, were incurred and totaled \$58,182<sup>7</sup>. Other Division costs that were directly charged to the licensure program were also incurred for activities, such as information technology support, special projects (including regulation development), clerical support, and fiscal office support, and totaled \$44,065.

Indirect costs are assessed by the Department to cover overhead and administrative costs such as building lease, utilities, and department-wide shared functions. Indirect costs are calculated and charged to each funding source, at standard rates, as a percentage of direct expenditures. The indirect costs charged to the Division for the HCA licensure program for the 17-month period were \$101,556.

## **ESTIMATED FUTURE COSTS FOR THE HCA LICENSURE PROGRAM**

We believe a fully functioning licensure program will begin in fiscal year 2013. The estimated total costs for a fully functioning licensure program could not be adequately projected out to fiscal year 2013 because beginning in that fiscal year more HCAs will be required to undergo more comprehensive surveys than were conducted during fiscal years 2009 through 2011 up to October 31, 2010. However, projected costs for fiscal year 2011 and 2012 could be reasonably projected. Our estimates for the projected costs were based on the data provided by the Division related to: (1) the costs incurred as recorded for the processes described above; (2) the numbers of HCAs licensed identified by the Division as of October 31, 2010; and (3) estimates of the HCA applications anticipated to be in various stages of the licensure processes during these fiscal years. The table below identifies the numbers of HCAs that had been licensed by type and class.

<b>Numbers of HCAs Licensed As of October 31, 2010</b>			
<b>Type</b>	<b>Class A</b>	<b>Class B</b>	<b>Total</b>
Certified	150	118	268
Non-Certified	58	108	166
Total Licensees	208	226	434

In addition, the Division identified 85 HCA applications that were pending licensure. Also the Division estimated that about 200 Community Center Boards and service agencies will require licensure processing and about 20 new HCAs will be submitting applications annually during fiscal years 2011 and 2012.

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<sup>7</sup> Based on the information provided, the other direct costs could not be directly attributed to the specific HCA licensure program processes.

## ASSUMPTIONS

To determine the estimated projected costs, we used the Division's estimated numbers of HCA applications that could be processed for licensure during the fiscal years 2011 and 2012 as well as the requirements for the Division to have HCAs licensed by specific dates. The following table summarizes the actual licenses submitted and in the various stages of the licensure process beginning May 1, 2009 through October, 31, 2010 and assumptions related to the numbers of estimated applications submitted and the processes these applications will be in during the remainder of fiscal year 2011 and fiscal year 2012.

<b>Actual and Estimated Numbers of Applications Received, Surveyed, and Licensed by Fiscal Year</b>				
	<b>Fiscal Years</b>			
	<b>2009</b> <i>(May 1 – June 30, 2009)</i>	<b>2010</b> <i>(July 1, 2009 – June 30, 2010)</i>	<b>2011</b> <i>(July 1, 2010 – June 30, 2011)</i>	<b>2012</b> <i>(July 1, 2011 – June 30, 2012)</i>
Initial applications	231	266	238	20
Renewal applications			353	526
Initial Survey		168	170	120
Renewal Survey			164	174
License issuance		353	526	746

In addition we also expect that during 2011 and 2012:

- Initial applications will generally have deficiencies that will require plans of correction and possibly one or two revisits.
- Renewal inspections will require almost double the effort as that of an initial inspection.
- Minimal increases in the numbers of changes of ownership applications.
- A renewal survey/inspection for each HCA will occur once every 3 years starting in fiscal year 2012.
- Salaries and benefits will remain about the same.
- The Department's indirect cost rate of 21.4 percent will remain about the same rate as that charged in fiscal year 2011.

As a basis for projecting costs for fiscal years 2011 and 2012, we used the Division's reported HCA licensure costs for fiscal years 2009 and 2010. These combined fiscal years depicted most of the processes that can be performed by the Division for the HCA licensure program as well as aligning revenues received with application submissions with the expenditures incurred in processing the applications. In addition, Division management personnel who had been directly charged to the HCA licensure program were allocated to each of the processes based on total personnel costs charged to the licensure processes and included as other direct costs.

## ESTIMATED PROJECTIONS

Based on our assumptions of the numbers of license applications received and anticipated, we estimated that the Division's effort for fiscal year 2011 licensure program will be more than double that of fiscal years 2009 and 2010 combined. During fiscal year 2012, the Division will have approximately 746 HCA licenses issued. The fiscal year 2012 level of effort is expected to include (1) about 174 HCA renewals that will undergo all of the licensure processes including renewal surveys/inspections and (2) about 100 applications that had not been processed in fiscal year 2011 plus an estimated 20 new applications that will undergo initial surveys/inspections. Based on this information, we estimate that the total costs for fiscal year 2012 will be about \$1.2 million. We believe that fiscal year 2013 costs will increase as the Division will be its second year of its 3-year cycle in performing renewal surveys/inspections, which are more comprehensive surveys/inspections, of approximately 240 HCAs that received licenses during the prior fiscal years. These surveys/inspections will be more than determining HCAs' ability to provide care and comply with regulations as performed during part of the initial surveys/inspections. These comprehensive surveys/inspections will focus on consumer care outcomes through consumer interviews, home visits, and a review of a sample of consumer care records augmented by a review of specific policies and procedures based on the consumer results. These more comprehensive surveys/inspections may increase other process costs as well, such as reporting and tracking deficiencies. In addition, during the period we reviewed there were minimal costs incurred for litigation which may be incurred beginning in fiscal year 2013.

The table below shows the HCA licensure program total estimated projected direct and indirect costs associated with the expected numbers of HCA applications undergoing various stages of the licensure program as described in the *Actual and Estimated Numbers of Applications Received, Surveyed, and Licensed by Fiscal Year* table on page 6.

<b>Reported and Estimated HCA Licensure Program Process Costs by Fiscal Years</b>			
<b>HCA Licensure Processes</b>	<b>2009 and 2010</b>	<b>2011</b>	<b>2012</b>
	<i>(May 1, 2009 – June 30, 2010)</i>	<i>Cost amounts were rounded to the nearest \$500</i>	
<b>Preliminary Interest and Initial Renewal Applications</b>			
Direct Division Personnel	\$ 96,874	\$115,000	\$ 106,500
Other Division Direct*	23,373	28,000	25,500
Indirect**	18,038	30,500	28,000
<b>Initial Surveys/Inspections of Applicants</b>			
Direct Division Personnel	227,560	230,500	163,000
Other Division Direct*	85,850	87,000	61,500
Indirect**	42,518	68,000	48,000
<b>Renewal Surveys/Inspections of Applicants</b>			
Direct Division Personnel		389,000	412,500
Other Division Direct*		114,000	156,000
Indirect**		108,000	122,000
<b>Reporting and Tracking Deficiencies</b>			
Direct Division Personnel	9,675	26,500	21,000
Other Division Direct*	2,387	5,000	3,000
Indirect**	1,933	7,000	6,000
<b>Process Licenses</b>			
Direct Division Personnel	388	500	1,000
Other Division Direct*	123	0	500
Indirect**	0	0	0
<b>Post Licensure Activities</b>			
Direct Division Personnel	8,240	12,500	17,500
Other Division Direct*	4,692	7,000	10,000
Indirect**	1,288	4,000	6,000
<b>Total Costs</b>	<b>\$522,939</b>	<b>\$1,232,500</b>	<b>\$1,188,000</b>

\* Other Division Direct costs includes Section Chiefs that oversee the HCA licensure processes, the Division Director, Fiscal Office, Chief Medical Officer and staff, travel, office supplies, information technology, and other miscellaneous items.

\*\* The indirect cost rate for our projections was based on the fiscal year 2011 rate reported by the Division.

## COST STUDY METHODOLOGY

Quality Analysis & Solutions (QA&S) was contracted on October 26, 2010, by the Health Facilities and Emergency Medical Services Division (Division) of the Colorado Department of Public Health and Environment to conduct a cost study and provide a report by December 30, 2010, on the costs of the Health Care Agencies (HCA) licensure program including projected costs for a fully-functioning licensure program. We conducted this study from October 26 through December 29, 2010. To accomplish the study, we considered the need for the HCA licensure program to have sufficient fees to ensure that the statutory requirements are met as well as keeping the license fees reasonable. To perform the study and develop estimated projected costs of the HCA licensure program, we interviewed Division management and staff and reviewed and analyzed the documentation provided to us. We also attained an understanding of the HCA licensure program processes. The following are key areas we reviewed as part of the cost study:

- Statute and rules governing the HCA licensure process in effect at the time of the study.
- The Division's Time and Effort system in capturing direct personnel costs for the various process activities involved in the HCA licensure program.
- Flow of financial information between the Division and the state of Colorado's financial system.
- Processes within key sections of the Division involved in the HCA licensure program.

To perform our analysis, we reviewed the following documentation that was provided to us by the Division:

- Personnel costs by position of Division personnel who charged direct time to the HCA licensure program during fiscal years 2009, 2010, and 2011 through September 30, 2010.
- Expenditures by object code for costs directly and indirectly charged to the HCA licensure program during fiscal years 2009, 2010, and 2011 through September 30, 2010.
- Salary and benefit amounts for Division staff involved directly or indirectly with the HCA licensure program.
- Revenue and expense summaries for fiscal years 2009, 2010, and 2011 through September 30, 2010.
- Number of HCAs licensed by Class as of October 31, 2010 as well as the number of applications in the licensure process and anticipated to be received.

The direct personnel hours for performing HCA licensure program activities is processed through the Division's Time and Effort system and the information was considered to be reasonably reported. The allocation of indirect costs related to individuals within the

Division such as the Fiscal Office may have been minimized but we did not make a determination as to the impact on the total costs of the HCA licensure program.

We also met with HCA providers, some of whom were members of the HCA Advisory Committee, to gain an understanding of their concerns about the HCA licensure program costs and fees. We relied on the financial records that were provided to us by the Division. We did not evaluate the internal controls over the financial transaction accounting processes or evaluate the efficiency and effectiveness of the HCA licensure processes.

The study covered the period of May 1, 2009 through October 31, 2010. To perform our analysis of estimated projected costs, we used reported costs and revenues from May 1, 2009 through September 30, 2010. In addition, we based our projections on the number of HCA licenses issued, in process, or anticipated as of October 31, 2010. We did not reduce revenues or increase costs of the licensure program for HCAs that may receive performance incentives or may incur additional charges for survey revisits and for any late submission of annual renewal applications.

In developing the projected status of licenses in the various stages of the HCA licensure program processes, we also used the dates required for HCAs to be licensed as stated in Colorado Statute Title 25 Article 27.5 Home Care Agencies for the types of HCAs. Based on these dates we used actual and estimated numbers of applications that had licenses issued, were in survey, or in application review.

To estimate the projected costs for the licensure processes we used the total reported costs for the fiscal years 2009 and 2010 and applied these costs based on the number of HCA applications in each of the licensure program processes. We estimated that the level of effort to perform renewal surveys/inspections would be about 1.75 times that of an initial survey/inspection. In addition, although two of the section chiefs in the Division who were part of the HCA licensure process directly charged time to the processes during fiscal years 2009 and 2010, in our projections we did not include these costs as direct personnel costs, but included the costs as part of the other direct division costs. We applied the other direct division costs based on the total personnel costs of each of the processes as well as applying the indirect costs as assessed to the Division and applied to the HCA program at the fiscal year 2011 rate of 21.4 percent.