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February 21, 1978

Letter Report 738

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully forwards the Auditor General's letter report on the methodology for calculating cost-of-living increases for SSI/SSP recipients in nonmedical out-of-home care and the cost impact of proposed community care regulations.

The auditors are Harold L. Turner, Audit Manager; and Robert E. Christophel.

Cordially,

MIKE CULLEN
Chairman



Joint Legislative Audit Committee

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February 16, 1978

Letter Report 738

Honorable Mike Cullen
Chairman, and Members of the
Joint Legislative Audit Committee
Room 5144, State Capitol
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to a resolution of the Joint Legislative Audit Committee and under the authority vested in the Auditor General by Section 10527 of the Government Code, we have reviewed the methodology for calculating cost-of-living increases for Social Security Income--State Supplemental Payment (SSI/SSP) recipients in nonmedical out-of-home care. We have also reviewed selected portions of the draft regulations affecting community care facilities.

Background

Community care facilities are maintained and operated to provide nonmedical care and services to children and adults. There are at least 46,000 community care facilities with licenses in force or pending in the State. Community care facilities include residential and day care facilities for adults and children. As of January 31, 1978, there were approximately 48,600 SSI/SSP recipients of nonmedical out-of-home care. The average monthly reimbursement for this type of care is approximately \$12.3 million.

The Department of Health's Licensing and Certification Division is responsible for inspecting community care facilities and developing regulations to assure safe and competent care of their residents before issuing or renewing the facilities' state licenses.

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The Department of Benefit Payments is responsible for calculating SSI/SSP payment standards for recipients residing in community care facilities as outlined in Section 12201 of the Welfare and Institutions Code and amended by Chapter 348, Statutes of 1976 (AB 2601).

We visited six community care facilities and spoke with several provider organizations. We also interviewed representatives from the Departments of Benefit Payments and Health who are responsible for community care facilities.

Our review disclosed that:

- Certain portions of the proposed community care regulations will increase facility operating costs by an undetermined amount
- There is a lag of 6 to 18 months between the time prices change and the time the adjustment for such price changes is received by SSI/SSP recipients.

Undetermined Cost Impact of Proposed Community Care Regulations

The Licensing and Certification Division of the Department of Health is responsible for developing regulations which will insure that the facilities providing community care are adequate, safe and sanitary. The Department is drafting new regulations relating to family foster homes (six beds or less) and adult residential care (any bed capacity). The Department has not yet analyzed these regulations to determine the financial burden they will place on community care operations.

We reviewed an early draft of the community care regulations. The most recent draft was in the Department's review process and unavailable to us. However, Department of Health officials said that the following provisions of the current draft regulations could increase facility operating costs:

- Implementation of guidelines for enforcing quality care to community care residents by imposing penalties against facilities that are not in compliance with regulations
- Implementation of restaurant-level standards for kitchens in facilities with over 15 residents

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- Requirement for a full-time activities director and a part-time dietitian in facilities with over 50 residents
- Requirement for in-service training of facility operators and staff. (This training is provided by Regional Centers and the Department of Health's Continuing Care Services, upon request.)

The regulations for family foster homes are less stringent than the regulations for adult residential facilities. For example, menus do not have to be posted for facilities having six residents or less.

A Department official's most recent estimates for implementation of these regulations are as follows:

<u>Action</u>	<u>Estimated Completion Date</u>
Legal review	January 1978
Submission to Community Care Advisory Committee	February 1978
Submission to Department of Finance	March 1978
Public Hearings	Not yet established
Regulations become effective	September 1978

Conclusion

According to Department of Health officials certain portions of the proposed community care regulations will increase operating costs by an undetermined amount. The full extent of the financial burden these regulations will place on community care operations may not be determined until the regulations have been through the complete review process.

Recommendation

We recommend that the Department of Health, or the appropriate agency under the reorganization implemented by Chapter 1252 of the Statutes of 1977 (SB 363), provide the Legislature with an analysis of the fiscal impact these new regulations will have on community care operations and with recommendations to offset any additional costs. The fiscal analysis should be presented prior to issuing the regulations.

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SSI/SSP Payments to Recipients
in Community Care Facilities

Effective July 1, 1977, the SSI/SSP payment standard for nonmedical out-of-home care was \$343 a month. Payments are made to the recipient or his or her designated representative, who then pays the facility for providing room, board and care. Of the current SSI/SSP payment standard (\$343 per month), the allowance for room, board and care shall not exceed \$303 a month, and the allowance for the resident's personal and incidental needs, such as clothing, personal hygiene items, snacks and transportation shall not be less than \$40 a month.

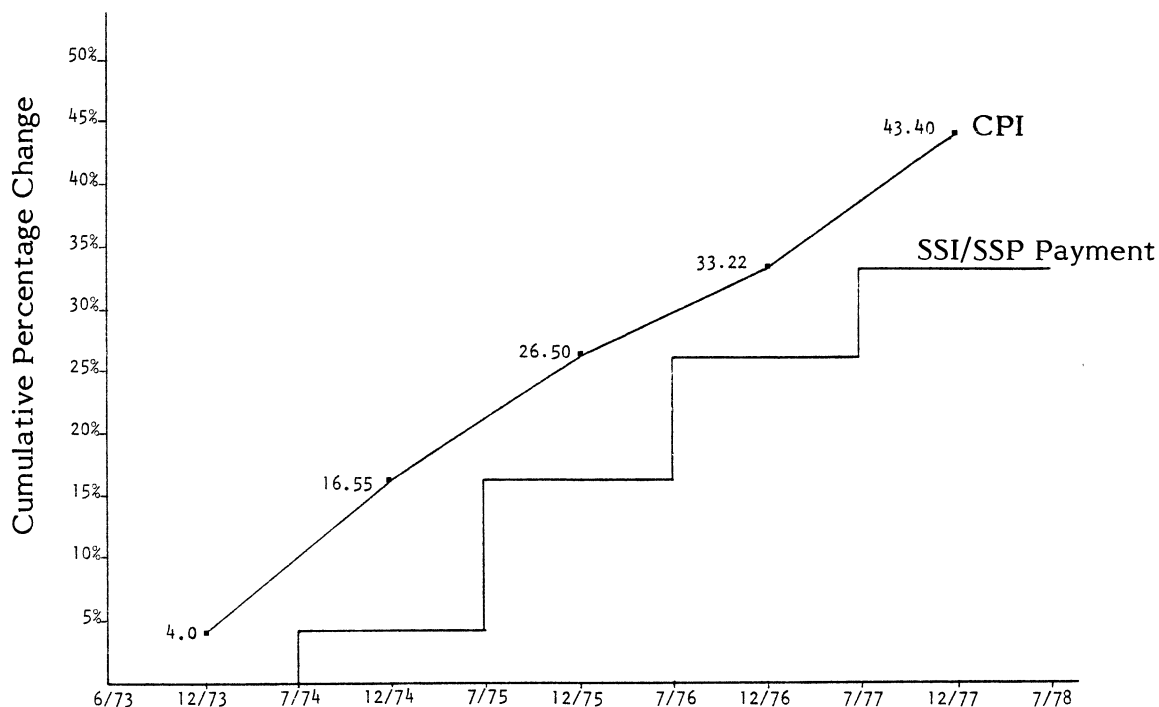
The formula for calculating the SSI/SSP payment standard for nonmedical out-of-home care is set forth in Section 12201 of the Welfare and Institutions Code, as amended by Chapter 348, Statutes of 1976 (AB 2601). The payment equals the sum of the initial payment standard of \$283 per month established on January 1, 1974, plus a yearly cost-of-living adjustment based upon changes in the Consumer Price Index (CPI), plus any federal cost-of-living adjustments to the SSI portion of the payment. The computation of the SSI/SSP payment standard of \$343 for fiscal year 1977-78 is presented in Appendix A.

The Consumer Price Index calculated by the U. S. Bureau of Labor Statistics, is a statistical measure of changes in prices of goods and services bought by urban wage earners and clerical workers, including families and single persons. The index includes about 400 items selected objectively to compose the "market basket" for current pricing. Items are grouped under the following categories: food, housing, apparel, transportation, health and recreation. The index includes real estate taxes on owned homes, but excludes income or personal property taxes.

The cost-of-living adjustment is based on changes in the average of the CPIs for Los Angeles-Long Beach and San Francisco-Oakland. The SSI/SSP payment standard effective July 1, 1977 was based upon the cumulative change in the average CPIs from June 1973 to December 1976. This means that the cost-of-living adjustment received during the fiscal year commencing July 1, 1977 is based upon the change in prices from June 1973 to December 1976. Consequently, increased prices occurring during fiscal year 1977-78 will not be reflected in the SSI/SSP payment until the fiscal year beginning July 1, 1979 (see chart below). This results in a lag of 6 to 18 months between the time prices change and the time the adjustment for such price changes is received by SSI/SSP recipients.

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CUMULATIVE CHANGES IN THE CPI
FROM JUNE 1973 THROUGH DECEMBER 1977
COMPARED TO COST-OF-LIVING ADJUSTMENT
RECEIVED BY SSI/SSP RECIPIENTS



Conclusion

SSI/SSP cost-of-living adjustments for recipients of nonmedical out-of-home care for each fiscal year are based on changes in the CPI that occurred through the end of the preceding calendar year. This results in a lag of 6 to 18 months between changes in prices and the receipt of a compensating cost-of-living adjustment by SSI/SSP recipients.

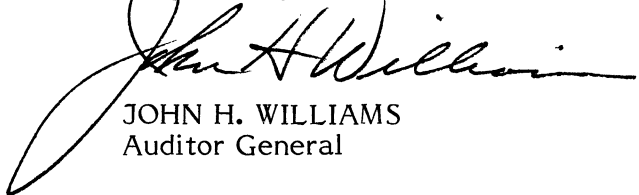
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Recommendation

Should the Legislature wish to accelerate the SSI/SSP cost-of-living adjustment to more closely reflect the changes in current prices, the change in the CPI could be projected to the beginning of each fiscal year and the cost-of-living factor adjusted accordingly. Such a change would require legislation.

Had the SSI/SSP payment for fiscal year 1977-78 been adjusted to reflect the change in the CPI through July 1, 1977, instead of through December 31, 1976, we estimate that SSI/SSP payments to nonmedical out-of-home care recipients would have increased by approximately \$4 million with the monthly payment increasing from \$343 per month to \$350 per month.

Respectfully submitted,



JOHN H. WILLIAMS
Auditor General

Staff: Harold L. Turner, Audit Manager
Robert E. Christophel

Attachments: Written Responses to the Auditor General's Report

Department of Health
Department of Benefit Payments

Appendix A: Computation of the Monthly SSI/SSP
Standard for Fiscal Year 1977-78

DEPARTMENT OF HEALTH

714-744 P STREET
SACRAMENTO, CALIFORNIA 95814
(916) 445-3284



February 15, 1978

Mr. John H. Williams
Auditor General
925 'L' Street, Suite 750
Sacramento, CA 95814

Dear Mr. Williams:

This responds to your February 9, 1978, letter regarding a draft report on Residential Care (Report 738).

Your recommendation to the Department of Health or its successor is to provide the Legislature with an analysis of the fiscal impact new regulations will have on community care operations and recommendations to offset any additional costs. The fiscal analysis is to be presented prior to issuing the regulations.

Existing procedures utilized in the adoption of Department of Health regulations provide that a fiscal analysis be prepared by the Department of Health Budget Office. This analysis is designed to identify cost items and to initiate funding proposals or to remove the cost item. To date, none of the proposed Community Care regulation packages have reached this stage in the adoption procedures. The proposed Foster Care regulations will undergo a fiscal analysis by the Budget Office in the near future.

Additional safeguards to prevent increases to the operating costs of residential facilities are the Community Care Facility Advisory Committee and the Community Care Section. The Advisory Committee is composed of 21 members appointed by the Director of Health to review all regulations prior to adoption. Almost one half of the members represent providers who are very concerned about possible cost increases. These members have been very active in reviewing the revised drafts of community care regulations and have been effective in safeguarding the licensing programs. The Community Care Section independently analyzes regulatory revisions to ensure that operating costs will not increase. This Section also considers the comments made by the Advisory Committee and other interested organizations.

The procedures being developed for levying civil penalties for licensed Community Care facilities provide a reasonable period of time within which the facility can make corrections without penalty. Any costs incurred by the facility, therefore, would be self-imposed.

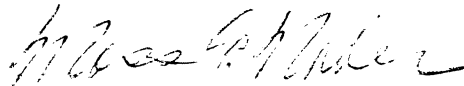
February 15, 1978

The remaining regulations reported by Department of Health officials as possible cost items (pages 2-3 of the draft Residential Care report) relate to facilities other than Foster Homes. The same departmental procedures exist to ensure that a critical review will be made of the new requirements relative to operating cost increases.

The Department of Health will provide a fiscal analysis on new regulations to the Legislature and will make recommendations to offset any additional costs.

I appreciate this opportunity to respond to your draft report.

Sincerely,



Moss T. Nader, Chief
Community Care Section
Licensing and Certification Division

cc: Robert Rowley, Chief Deputy Director
Department of Benefit Payments

Don Hauptman, Deputy Director
Licensing and Certification Division

Caroline Cabias, Assistant Deputy Director
Licensing and Certification Division

DEPARTMENT OF BENEFIT PAYMENTS

744 P Street, Sacramento, Calif. 95814
(916) 322-6636



February 16, 1978

Mr. John Williams
Auditor General
Joint Legislative Audit Committee
California Legislature
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Williams:

The staff of this Department has reviewed the draft of Letter Report 738 on your study of the SSI/SSP NonMedical Out-of-Home-Care living arrangement. The following comments are offered for your consideration.

In the Background section we believe it should be clarified that all of the 46,000 licensed community care facilities do not provide service to SSI/SSP recipients. The 48,600 recipients are placed only in facilities that offer 24-hour residential care for the SSI/SSP client and can operate within the payment level allowed.

It should be noted that this Department and the Department of Health have recently initiated an in-depth review of the Community Care Licensing Program. This review will include a careful analysis of any potential cost impact of proposed regulations.

The section on calculation of the nonmedical out-of-home care payment and the computation formula used appear to be accurate and clear. However, to estimate and project the increases in the SSI/SSP benefit structure as recommended could be quite problematical. Even though the State CPI data is available in late January (for the month of December) which could be changed by legislation, federal data (averaged for the months of January-March) is not available until April. Even under the present time frame the benefit calculation must be expeditiously prepared and submitted to the Social Security Administration in time to be input into their national payment system so that increases can be reflected in the July checks.

We appreciate the opportunity to have reviewed the draft report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert Rowley".

ROBERT ROWLEY
Chief Deputy Director

COMPUTATION OF THE
MONTHLY SSI/SSP PAYMENT STANDARD
FOR FISCAL YEAR 1977-78

<u>Computation Component</u>	<u>Amount</u>
The initial payment standard established by WIC 12200 as paid on January 1, 1974	\$283
The cost-of-living adjustment reflects the cumulative average changes in the CPI from July 1, 1973 to December 1976 (Multiply the base amount of \$140 as specified in WIC 12201 by the cumulative percentage change in the average CPI (33.22%))	47
SSI payment level (All payments in excess of \$168 are passed on to the recipient as required by WIC 12205)	10
Plus a \$3.00 add-on not subject to the cost-of-living adjustment	<u>3</u>
SSI/SSP monthly payment standard	<u>\$343</u>