



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office Of Inspector General
Office Of Audit Services

Region II
Jacob K. Javits Federal Building
26 Federal Plaza
New York, NY 10278

July 9, 2003

Report Number: A-02-02-01040

Ms. Gwendolyn L. Harris, Commissioner
State of New Jersey
Department of Human Services
P.O. Box 700
Trenton, New Jersey 08625

Dear Ms. Harris:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled, *Review of Federally Non-Participating Medicaid Costs Claimed by the State of New Jersey to the Disproportionate Share Hospital Program for the period April 1, 1997 through June 30, 2001*. This review was self-initiated and the audit objective was to determine if the Federally non-participating (FNP) Medicaid costs which were claimed by the State of New Jersey, Department of Human Services, Division of Medical Assistance and Health Services (DMAHS) as disproportionate share acute care hospital expenditures were allowable for Federal reimbursement. Should you have any questions or comments concerning the matters commented on in this report, please direct them to the HHS official named below.

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To facilitate identification, please refer to report number A-02-02-01040 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Timothy J. Horgan".

Timothy J. Horgan
Regional Inspector General
for Audit Services

Enclosure

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Direct Reply to HHS Action Official:

Ms. Sue Kelly
Associate Regional Administrator
Division of Medicaid and Children's Health
Centers for Medicare and Medicaid Services, Region II
Department of Health and Human Services
26 Federal Plaza, Room 3811
New York, New York 10278

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF FEDERALLY NON-PARTICIPATING
MEDICAID COSTS CLAIMED BY THE
STATE OF NEW JERSEY TO THE
DISPROPORTIONATE SHARE HOSPITAL PROGRAM
FOR THE PERIOD
APRIL 1, 1997 THROUGH JUNE 30, 2001**



Inspector General

**JULY 2003
A-02-02-01040**

Office of Inspector General

<http://oig.hhs.gov/>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

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The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties. The OI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

Office of Counsel to the Inspector General

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Notices

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.





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Ms. Gwendolyn L. Harris, Commissioner
State of New Jersey
Department of Human Services
P.O. Box 700
Trenton, New Jersey 08625

Dear Ms. Harris:

This final report provides you with the results of our audit entitled, *Review of Federally Non-Participating Medicaid Costs Claimed by the State of New Jersey to the Disproportionate Share Hospital Program for the period April 1, 1997 through June 30, 2001.*

The audit objective was to determine if the Federally non-participating (FNP) Medicaid costs which were claimed by the State of New Jersey, Department of Human Services, Division of Medical Assistance and Health Services (DMAHS) as disproportionate share acute care hospital expenditures were allowable for Federal reimbursement.

Our review showed that the FNP Medicaid costs claimed by DMAHS as eligible disproportionate share acute care hospital expenditures were allowable for Federal funding.

INTRODUCTION

BACKGROUND

Disproportionate Share Hospital Program

The disproportionate share hospital (DSH) program originated with the Omnibus Budget Reconciliation Act (OBRA) of 1981, which authorized State agencies to make additional payments to hospitals serving a disproportionately large number of low-income patients with special-needs. The eligible hospitals are reimbursed from various funds within the New Jersey DSH program: the Health Care Subsidy Fund/Charity Care Subsidy Fund, Mental Health Service Contracts Fund, and the Hospital Relief Subsidy Fund. The Federal Government shares in these payments and the Centers for Medicare and Medicaid Services (CMS) is the operating division within the Department

of Health and Human Services responsible for administering the DSH program. Section 1923(g) of the Social Security Act (the Act) also stipulates that annual DSH payments to each hospital shall not exceed the respective hospital-specific limit calculated utilizing State plan guidelines.

On December 9, 1996, the State of New Jersey, Department of the Treasury, Office of Management and Budget (NJOMB) awarded a contingency fee contract to Deloitte Consulting (Deloitte). The purpose of the contract, known as the “Federal Fund Revenue Enhancers For All Federal Programs”, was to generate increased Federal reimbursement by identifying and submitting State expenses not previously claimed to the respective funding agencies for Federal financial participation (FFP). According to the terms of the contingency fee contract, Deloitte was to receive a percentage ranging from 6 to 7 ½ percent of the Federal funds recovered.

The State and Deloitte identified four DSH initiatives related to inpatient hospitals as having the potential for Federal fund enhancement. These initiatives targeted State payments for services and other health related activities made on behalf of Medicaid recipients and uninsured individuals by any agency of the State and not previously submitted for Federal reimbursement.

As a result of Deloitte’s efforts on these four DSH initiatives, DMAHS submitted and was reimbursed \$586,746,672 (Federal share \$293,373,336). The DSH claims were submitted for the following:

<u>Description</u>	<u>Total Claim</u>	<u>FFP Amount</u>
New Jersey Acute Care Hospitals	\$233,012,833	\$116,506,416
University of Medicine and Dentistry, Newark	247,145,662	123,572,831
University of Medicine and Dentistry, Piscataway	90,051,378	45,025,689
Runnells Hospital	<u>16,536,799</u>	<u>8,268,400</u>
Total Additional DSH Claim to CMS	<u>\$586,746,672</u>	<u>\$293,373,336</u>

Although we planned to review the entire \$586,746,672, we decided to segment our audit effort and issue separate reports for each of the above four DSH initiatives. For this audit, we initially selected \$233,012,833 of DSH expenses claimed by DMAHS for acute care hospitals. The Deloitte agreement with the NJOMB provided for the identification of all State agency payments to acute care hospitals for medical services that qualify for Federal reimbursement under the DSH program.

To accomplish our audit objectives, we requested documentation for the \$233,012,833 of disproportionate share acute care hospital claims developed by Deloitte. These claims were submitted by DMAHS, the State agency responsible for administering and claiming Federal reimbursement of DSH expenses.

Based upon the information provided to us, we decided to further segment our review of the \$233,012,833 into several separate audits including:

- Segment 1 – Duplicate Claims - \$54,924,748

Based upon documentation provided by DMAHS, we determined that duplicate claims were erroneously included as part of the \$233,012,833 of acute care hospital claims submitted to and paid by CMS. We segmented and reviewed these duplicate claims and we issued our results under report number A-02-01-01037.

- Segment 2 – Prison Inmate Claims - \$22,229,640

While reviewing the State's documentation for the \$233,012,833, we identified \$22,229,640 of acute care hospital claims for prison inmates. We segmented these claims and issued our results under report number A-02-02-01028.

- Segment 3 – Federal-Nonparticipating Claims - \$45,461,490

These expenditures represent DMAHS claims applicable to Medicaid beneficiaries for which FFP was not previously claimed. We segmented these claims to determine their allowability, which is the subject of this report.

- Segment 4 – Contractual Services - \$110,396,955

These claims represent contractual service costs that are associated with contracts between State agencies and various hospitals. We are currently reviewing the allowability of these claims.

Objectives, Scope, and Methodology

Objective

The objective of our review was to determine if the FNP Medicaid costs which were claimed by DMAHS as disproportionate share acute care hospital expenditures were allowable for Federal reimbursement.

Scope

Our review was performed in accordance with generally accepted government auditing standards. Our fieldwork was performed at the DMAHS offices in Mercerville, New Jersey from December 2002 to May 2003.

We did not perform an in-depth review of the State's internal control structure; however, we did make a limited assessment of the fiscal controls related to DSH claims submitted for Federal reimbursement.

Methodology

To accomplish our objective, we:

- Obtained and reviewed the OBRA of 1981 and 1993, section 1923 of the Act, the New Jersey State plan, and other applicable criteria.

Reviewed the NJOMB request for proposal for the “Federal Fund Revenue Enhancers For All Federal Programs” and Deloitte’s response to the request for proposal.

- Reviewed the “Federal Fund Revenue Enhancers For All Federal Programs” contract entered into with Deloitte by the NJOMB.
- Obtained from DMAHS the universe of acute care hospital claims totaling \$233,012,833 (Federal share \$116,506,417) developed by Deloitte and reconciled the claims to the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS-64) submitted to the Federal Government for reimbursement under the DSH program.
- Selected the 178,502 claims totaling \$45,461,490 (Federal share \$22,730,745) from this universe that represented the expenditures paid by the Medicaid agency and not previously Federally funded.
- Used simple random sampling techniques to select a sample of 100 claims from the universe of 178,502 claims. For these 100 claims, we visited the hospitals and obtained documentation that included details of the charges and verified that a medical service was performed and was funded by the New Jersey Medicaid program.
- Discussed the audit results with New Jersey officials.

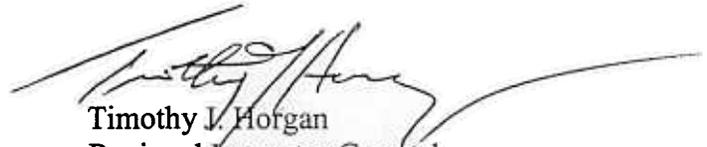
Results of Audit

Our review showed that the FNP Medicaid costs which were claimed by DMAHS as disproportionate share acute care hospital expenditures were allowable for Federal reimbursement. Based on the results of our sample, we verified that these claims represented health care services provided to Medicaid eligible beneficiaries by acute care hospitals during the period April 1, 1997 through June 30, 2001. We also verified that the Federal Government did not previously share in these costs. Therefore, we concluded that these costs are allowable for reimbursement under the DSH program. As a result, we have no recommendation to make at this time.

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To facilitate identification, please refer to report number A-02-02-01040 in all correspondence relating to this report.

Sincerely yours,



Timothy J. Horgan
Regional Inspector General
for Audit Services

ACKNOWLEDGMENTS

This report was prepared under the direction of Timothy J. Horgan (RIGA). Other principal Office of Audit Services staff who contributed include:

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For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.