

**Memorandum**

Date DEC 20 1993

From June Gibbs Brown  
Inspector General *June Gibbs Brown*

Subject Follow-up Audit of the Health Care Financing Administration's Resolution of an  
Office of Inspector General Audit Related to Two Westchester County Institutions  
for Mental Diseases (A-02-93-01021)

To

Bruce C. Vladeck  
Administrator  
Health Care Financing Administration

Attached are two copies of our final audit report entitled, "Follow-up Audit of the Health Care Financing Administration's Resolution of an Office of Inspector General Audit Related to Two Westchester County Institutions for Mental Diseases." This report provides you with the results of our follow-up audit of the Health Care Financing Administration's (HCFA) resolution of recommendations from a prior Office of Inspector General (OIG) report. The purpose of our follow-up audit was to determine whether HCFA monitored corrective actions and cleared a prior audit report's recommendations in an appropriate and timely manner.

In our prior report, we had recommended that the New York State (NYS) calculate the unallowable Medicaid amounts for certain residents of institutions for mental diseases (IMD) prior to and after our original audit period of October 1, 1986 through September 30, 1989. When our office initially notified HCFA in November 1992 of our intention to perform a follow-up audit, we determined that neither the State nor HCFA had calculated the unallowable amounts prior to or after our original audit period. We were informed that HCFA considered this recommendation to be cleared but unclosed.

At the request of HCFA Region II staff, we calculated the additional amount due the Federal Government for the one cleared but unclosed recommendation contained in our prior report. In order to fully respond to HCFA's request for assistance, we audited claims from January 1, 1984 through September 30, 1986 and from October 1, 1989 to December 31, 1991. These periods were examined in order to obtain data which should enable HCFA to completely resolve the one cleared but unclosed recommendation contained in our prior report. If HCFA staff promptly acts on the information we are providing in this report, they should be able to successfully close the finding and recommendation.

On September 7, 1990, OIG issued an audit report entitled, "Review of Medical Assistance Payments Made by the New York State Department of Social Services for Clients Between the Ages of 21 to 64 at New York Hospital - Cornell Medical Center in White Plains, New York and St. Vincent's Hospital and Medical Center in Harrison, New York." The report indicated that contrary to Federal regulations, NYS Department of Social Services (DSS) improperly claimed Medicaid reimbursement for clients between the ages of 21 to 64 at the above two psychiatric hospitals in Westchester County, New York during the period October 1, 1986 to September 30, 1989. We found that these two hospitals were IMDs and, as such, NYS DSS should not have claimed Federal financial participation (FFP) for clients within the 21 to 64 age group.

The original audit report contained three recommendations which required resolution by HCFA. The first was that NYS should refund \$17,762,539 to the Federal Government for overpayments identified by the audit. The second recommendation directed the State to cease claiming FFP for clients between the ages of 22 to 64 and for those aged 21 at admission for the two upstate psychiatric hospitals in question. The third recommendation directed the State to identify the unallowable aged 21 to 64 Medicaid claims that were made by the two hospitals prior to and after our October 1, 1986 to September 30, 1989 audit period and return the Federal share of these claims.

In summary, our follow-up audit determined that HCFA has an adequate and reliable system of controls and procedures in place for resolving audit findings. With respect to recommendation numbers one and two, HCFA's actions were timely, proper, and effective in resolving these recommendations. For recommendation number three, HCFA cleared the recommendation based on its intention to calculate the additional refund due the Federal Government. Although cleared, HCFA continued to report recommendation number three as unclosed in its audit\_resolution tracking system. The circumstances delaying the closing of this recommendation included an appeal by the State of New York which precluded HCFA from acting, and the lack of HCFA staff to make the computations once the appeal case was resolved in favor of HCFA in March 1992.

Based upon our follow-up audit, we recommend that HCFA utilize the information we developed to take all necessary action to adjudicate recommendation number three from the original audit report. In an October 5, 1993 response, officials of HCFA Region II concurred with the recommendation in our follow-up report.

Page 3 - Bruce C. Vladeck

We would appreciate your views and the status of any further action taken or contemplated on our recommendations within the next 60 days. If you have any questions, please call me or have your staff contact George M. Reeb, Assistant Inspector General for Health Care Financing Audits, at (410) 966-7104. Copies of this report are being sent to other interested top Department officials.

To facilitate identification, please refer to Common Identification Number A-02-93-01021 in all correspondence relating to this report.

Attachments

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**FOLLOW-UP AUDIT OF THE HEALTH  
CARE FINANCING ADMINISTRATION'S  
RESOLUTION OF AN OFFICE OF  
INSPECTOR GENERAL AUDIT RELATED  
TO TWO WESTCHESTER COUNTY  
INSTITUTIONS FOR MENTAL DISEASES**



DECEMBER 1993 A-02-93-01021

**Memorandum**

DEC 20 1993

Date

From

June Gibbs Brown  
Inspector General

Subject

Follow-up Audit of the Health Care Financing Administration's Resolution of an Office of Inspector General Audit Related to Two Westchester County Institutions for Mental Diseases (A-02-93-01021)

To

Bruce C. Vladeck  
Administrator  
Health Care Financing Administration

This report provides you with the results of our follow-up audit of the resolution activities of the Health Care Financing Administration (HCFA) in clearing audit recommendations identified in an Office of Inspector General (OIG) report entitled, "Review of Medical Assistance Payments Made by the New York State Department of Social Services for Clients Between the Ages of 21 To 64 at New York Hospital - Cornell Medical Center in White Plains, New York and St. Vincent's Hospital and Medical Center in Harrison, New York." Our audit report was issued on September 7, 1990 under Common Identification Number A-02-90-01006.

A primary objective of our follow-up audit was to determine whether HCFA monitored corrective actions and cleared the report recommendations in an appropriate and timely manner. In our prior report, we had recommended that New York State (NYS) calculate the unallowable Medicaid amounts for certain residents of institutions for mental diseases (IMD) prior to and after our original audit period of October 1, 1986 through September 30, 1989. When our office initially notified HCFA in November 1992 of our intention to perform a follow-up audit, we determined that neither the State nor HCFA had calculated the unallowable amounts prior to or after our original audit period. We were informed that HCFA considered this recommendation to be cleared but unclosed.

At the request of HCFA Region II staff, we calculated the additional amount due the Federal Government for the one cleared but unclosed recommendation contained in our prior report. In order to fully respond to HCFA's request for assistance, we audited claims from January 1, 1984 through September 30, 1986 and from October 1, 1989 to December 31, 1991. These periods were examined in order to obtain data which should enable HCFA to completely resolve the one cleared but unclosed recommendation contained in our prior report. If HCFA

staff promptly acts on the information we are providing in this report, they should be able to successfully close the finding and recommendation.

## **BACKGROUND**

On September 7, 1990, OIG issued the above audit report and distributed it to HCFA as the designated Department of Health and Human Services (HHS) action official. The report indicated that contrary to Federal regulations, NYS Department of Social Services (DSS) improperly claimed Medicaid reimbursement for clients between the ages of 21 to 64 at two psychiatric hospitals in Westchester County, New York during the period October 1, 1986 to September 30, 1989. We found that these two upstate hospitals were distinct, free-standing psychiatric hospitals that were IMDs and, as such, NYS DSS should not have claimed Federal financial participation (FFP) for clients within the 21 to 64 age group.

The original audit report contained three recommendations which required resolution by HCFA. The first was that NYS should refund \$17,762,539 to the Federal Government for overpayments identified by the audit. The second recommendation directed the State to cease claiming FFP for clients between the ages of 22 to 64 and for those aged 21 at admission for the two upstate hospitals in question. The third recommendation directed the State to identify the unallowable aged 21 to 64 Medicaid claims that were made by the two upstate hospitals prior to and after our October 1, 1986 to September 30, 1989 audit period and return the Federal share of these claims.

## **SCOPE OF AUDIT**

Our follow-up audit was performed in accordance with generally accepted government auditing standards to the extent applicable in the circumstances. The audit was also performed in accordance with chapter 20-19 of Office of Audit Services' Audit Policies and Procedures Manual which provides guidance for performing follow-up audits. Our audit effort was limited to determining the extent of resolution activity undertaken and assessing whether the resolution action was appropriate and timely. In performing the audit, we held discussions and obtained documentation from Federal resolution officials and conducted a limited audit of HCFA's internal controls and procedures covering the resolution of audit findings. Because our follow-up audit found that the third recommendation in our original report had not been successfully closed, we assisted HCFA by determining the amount of the unallowable aged 21 to 64 claims that were made

by the two upstate hospitals prior to and after our original audit period of October 1, 1986 to September 30, 1989.

The Office of Management and Budget Circular A-50 establishes procedures to ensure that audit findings are resolved in a timely and efficient manner. Audit follow-up officials are responsible for ensuring that: (1) systems of audit follow-up, resolution, and corrective action are documented and in place, (2) timely responses are made to all audit reports, (3) disagreements are resolved, (4) corrective actions are actually taken, and (5) semiannual reports to the agency head are submitted on the status of all unresolved audit reports over 6 months old. In addition, chapter 1-105 of the HHS Grants Administration Manual sets forth Department policy for the resolution of audit findings.

Our audit field work was conducted at HCFA Region II and at NYS DSS during the period March 1, 1993 through June 14, 1993.

## **RESULTS OF AUDIT**

In summary, our audit determined that HCFA has an adequate and reliable system of controls and procedures in place for resolving audit findings. With respect to recommendations numbers one and two, HCFA's actions were timely, proper, and effective in resolving these recommendations. For recommendation number three, HCFA cleared the recommendation based on its intention to calculate the additional refund due the Federal Government. Although cleared, HCFA continued to report recommendation number three as unclosed in its audit resolution tracking system. The circumstances delaying the closing of this recommendation included an appeal by the State of New York which precluded HCFA from acting, and the lack of HCFA staff to make the computations once the appeal case was resolved in favor of HCFA in March 1992. When our office initially notified HCFA in November 1992 of our intention to perform a follow-up audit, we determined that neither the State nor HCFA had calculated the unallowable amounts prior to or after our original audit period. Because of this, HCFA requested, and we agreed, that we calculate the unallowable amount and furnish the information to them. If HCFA promptly acts on the information we are providing in this report, they should be able to successfully close recommendation number three.

### ***HCFA's Resolution Activities***

In closing recommendation number one, we noted that HCFA properly sustained the recommendation, successfully defended an appeal challenge, and recovered our calculated disallowance amount in accordance with Departmental Appeals Board (DAB) Decision No. 1313.

For recommendation number two, HCFA permitted the two hospitals in question to merge with larger general acute care facilities. The mergers were effective January 1, 1991 for New York Hospital - Cornell Medical Center, and January 1, 1992 for St. Vincent's Hospital and Medical Center. Thus, the mergers prospectively eliminated the unallowable claiming issue from these two dates forward because services rendered to clients between the ages of 21 to 64 in psychiatric wings of general acute care hospitals are allowable for FFP.

With respect to recommendation three, HCFA cleared the recommendation by indicating that it would initiate action to determine the refund amount. However, HCFA's plans were delayed when the State appealed the original audit report. After the DAB rendered its decision, HCFA, in a June 30, 1992 update to the resolution system, again indicated its plans to determine the refund amount. However, during our follow-up audit, we were advised that because of staff limitations, HCFA was unable to initiate work on determining the refund amount. When OIG initially contacted HCFA in November 1992, HCFA requested, and our office agreed, that we determine the overpayment amount and furnish the information to HCFA for recovery action.

### ***Overpayment Calculation***

In the original audit report, recommendation number three directed NYS to identify the amount of the unallowable aged 21 to 64 Medicaid claims that were made by the two upstate hospitals prior to and after the October 1, 1986 to September 30, 1989 audit period and return the Federal share of these claims. As explained previously, we reached agreement with HCFA that OIG would identify the unallowable FFP claims for periods prior to and after the original disallowance period.

For the period January 1, 1984 to September 30, 1986 for both hospitals, October 1, 1989 to December 31, 1990 for New York Hospital, and October 1, 1989 to December 31, 1991 for St. Vincent's Hospital, we performed various computer programming applications at the Medicaid Management Information System fiscal agent using the paid claims inpatient files. From the claims

information, we identified those clients who were between the ages of 22 to 64 and those aged 21 at admission for the two Westchester County psychiatric hospitals in question. Our audit identified 5,965 clients between the ages of 21 to 64 who had improper claims for FFP. We reviewed 100 percent of these clients' claims. No sampling techniques were used.

Our audit determined that NYS DSS improperly claimed an additional \$41,375,262 (Federal share \$20,687,621) of Medicaid reimbursement for clients between the ages of 21 to 64 for periods prior to and after our original disallowance period. Of this amount, \$28,590,334 (Federal share \$14,295,160) relates to New York Hospital - Cornell Medical Center in White Plains, New York and \$12,784,928 (Federal share \$6,392,461) relates to St. Vincent's Hospital and Medical Center in Harrison, New York.

Appendix A of our report provides a summary of the unallowable Federal share amounts identified by our follow-up audit. The appendix segregates the unallowable amounts by hospital into several periods of time. This information is necessary because of a regulation change. Prior to May 3, 1985, the regulations provided a narrow exception to the IMD exclusion for services separately covered by a State Plan during the month in which a client was admitted to or discharged from an IMD. On May 3, 1985, an amendment to the Federal regulations eliminated this narrow exception thus making all claims unallowable for IMD clients between the ages of 22 to 64 and for those who were aged 21 at admission. We identified \$1,575,300 (\$903,388 for New York Hospital and \$671,912 for St. Vincent's Hospital) related to aged 21 to 64 claims for the partial months of admission and discharge during the period January 1, 1984 to May 2, 1985. This amount is subject to reduction for these two hospitals if NYS DSS can show what portion (if any) of these services would otherwise be coverable under their State Plan.

## **RECOMMENDATIONS**

Based upon our follow-up audit, we recommend that HCFA utilize the information we developed to take all necessary action to adjudicate recommendation number three from the original audit report.

## **HCFA'S COMMENTS**

The HCFA Region II officials concurred with the findings and recommendations contained within our draft follow-up report. Their comments are included in Appendix B of this report.

# *APPENDICES*

## APPENDIX A

**FOLLOW-UP AUDIT OF TWO WESTCHESTER COUNTY IMDs  
UNALLOWABLE AGED 21 TO 64 CLAIMS**

Common Identification No. A-02-93-01021

**SUMMARY OF THE UNALLOWABLE  
FEDERAL SHARE AMOUNTS**

<u>Description</u>	<u>New York Hospital</u>	<u>St. Vincent's Hospital</u>	<u>Total FFP Questioned</u>
New York Hospital Amounts Questioned 10/1/89 to 12/31/90	\$ 7,521,591	\$ N/A	\$ 7,521,591
St. Vincent's Hospital Amounts Questioned 10/1/89 to 12/31/91	N/A	4,112,001	4,112,001
Amounts Questioned 5/3/85 to 9/30/86	3,922,540	1,260,548	5,183,088
Amounts Questioned for the Months In Between Admission/Discharge 1/1/84 to 5/2/85	1,947,641	348,000	2,295,641
Amounts Questioned for Partial Months of Admission/Discharge 1/1/84 to 5/2/85	<u>903,388</u>	<u>671,912</u>	<u>1,575,300</u>
Total Federal Share Questioned	<u>\$14,295,160</u>	<u>\$6,392,461</u>	<u>\$20,687,621</u>



DEPARTMENT OF HEALTH & HUMAN SERVICES

APPENDIX B  
Health Care  
Financing Administration  
Region II

**Memorandum**

Date: October 5, 1993 DMD:MFMB:4

From: Associate Regional Administrator  
Division of Medicaid

To: Regional Inspector General  
Office of Audit Services

Subject: Comments on Draft Audit Report Entitled "Follow-Up on the  
HCFA's Resolution of an OIG Office of Audit Services  
Audit Related to Two Westchester County IMDs" (CIN-A-02-  
93-01021)

HCFA has reviewed the subject report and concurs with its findings and recommendations.

Should you have any questions, your staff may contact Joe Ridiker of my staff at 4-2785.

*William L. Engelhardt*  
for Arthur J. O'Leary