

**NOV 30 2004**

Report Number: A-09-02-00084

Region IX
Office of Audit Services
50 United Nations Plaza
Room 171
San Francisco, CA 94102Mr. Stan Rosenstein
Deputy Director
Medical Care Services
California Department of Health Services
1501 Capitol Avenue, Suite 6086
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Sacramento, California 95814-5005

Dear Mr. Rosenstein:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Medicaid Claims for Patients Under Age 21 in State-Operated Psychiatric Hospitals That Were Institutions for Mental Diseases in California During the Period July 1, 1997, through February 28, 2001." A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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Please refer to report number A-09-02-00084 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand".

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

Page 2 – Mr. Stan Rosenstein

Direct Reply to HHS Action Official:

Mr. Jeff Flick
Regional Administrator, Region IX
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICAID CLAIMS
FOR PATIENTS UNDER AGE 21
IN STATE-OPERATED PSYCHIATRIC HOSPITALS
THAT WERE
INSTITUTIONS FOR MENTAL DISEASES
IN CALIFORNIA
DURING THE PERIOD
JULY 1, 1997, THROUGH FEBRUARY 28, 2001**



**NOVEMBER 2004
A-09-02-00084**

Office of Inspector General

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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 HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

OBJECTIVE

The objective of our review was to determine if controls were in place to preclude California from claiming Federal Medicaid funds for all medical services, except inpatient psychiatric services, provided to residents under age 21 in State-operated psychiatric hospitals that were institutions for mental diseases (IMD). Examples of the types of medical claims included in this review were inpatient acute care, pharmacy, and laboratory services.

SUMMARY OF FINDING

Federal regulations at 42 CFR §§ 435.1008 and 441.13 preclude paying Federal Medicaid funds for any services to residents under age 65 who are in an IMD, except for inpatient psychiatric services provided to individuals under age 21 and in some instances those under age 22.

Our review of 131 patients in State-operated psychiatric hospitals revealed that 72 patients received medical services for which California improperly claimed Federal funds. In our opinion, California improperly claimed Federal funds because it did not have controls to prevent claims for medical services provided to residents under age 21 in State-operated psychiatric hospitals that were IMDs. As a result, from July 1, 1997, through February 28, 2001, we estimate that California improperly claimed \$380,920 (\$190,460 Federal share) for medical services.

RECOMMENDATIONS

We recommend that California:

- refund to the Federal Government \$190,460 of Federal Medicaid funds improperly claimed for medical services, other than inpatient psychiatric services, provided to IMD residents under age 21 in State-operated psychiatric hospitals;
- implement controls to prevent Federal Medicaid funds from being claimed for medical services, other than inpatient psychiatric services, provided to IMD residents under age 21 in State-operated psychiatric hospitals; and
- identify and refund to the Federal Government any Federal Medicaid funds improperly claimed after February 28, 2001, for medical services, other than inpatient psychiatric services, provided to IMD residents under age 21 in State-operated psychiatric hospitals.

CALIFORNIA COMMENTS

In its written comments on our draft report, California stated that it continues to review the Federal laws that address Medicaid coverage of inpatient psychiatric services for IMD patients under age 21 and may appeal the final audit report based on the outcome of its review. California's comments are included in their entirety as an appendix to this report.

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INTRODUCTION

BACKGROUND

Definition of an Institution for Mental Diseases

Section 1905(i) of the Social Security Act (the Act) and 42 CFR § 435.1009 define an IMD as a hospital, nursing facility, or other institution of more than 16 beds that is primarily engaged in providing diagnosis, treatment, or care of persons with mental diseases, including medical attention, nursing care, and related services. State-operated psychiatric hospitals with more than 16 beds are IMDs.

Medicaid Exclusion

Federal regulations at 42 CFR §§ 435.1008 and 441.13 preclude paying Federal Medicaid funds for any services to residents under age 65 who are in an IMD, except for inpatient psychiatric services provided to individuals under age 21 and in some instances those under age 22.¹

California Medicaid Program

In California, the Department of Health Services (DHS) administers the State's Medicaid program.

The State-operated psychiatric hospitals in our review submitted their claims for inpatient psychiatric hospital services through the California Department of Developmental Services (DDS). DDS submits a claim to DHS, which submits a claim for Medicaid funding to the Federal Government. In addition, other providers submit claims for any medical services provided to IMD residents outside the State-operated psychiatric hospitals. These provider claims are typically processed by California's fiscal intermediary and are separate from DDS claims.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our review was to determine if controls were in place to preclude California from claiming Federal Medicaid funds for all medical services, except inpatient psychiatric services, provided to residents under age 21 in State-operated psychiatric hospitals that were IMDs. Examples of the types of medical claims included in this review were inpatient acute care, pharmacy, and laboratory services.

¹ If the individual was receiving the services immediately before he or she reached age 21, services may continue to be provided until the earlier of (1) the date the individual no longer requires the services or (2) the date the individual reaches age 22.

Scope

Our audit period covered July 1, 1997, through February 28, 2001. During our audit, we did not review the overall internal control structure of California's Medicaid program; we limited our review of internal controls to obtaining an understanding of California's controls to prevent Federal Medicaid funds from being claimed for all medical services, except inpatient psychiatric services, provided to IMD residents under age 21. We did not review the rates used by California to claim Medicaid reimbursement for inpatient psychiatric services.

We performed our fieldwork from July 2003 through March 2004, which included visits to the California Department of Health Services, its Medicaid fiscal intermediary in Sacramento, and the Centers for Medicare & Medicaid Services (CMS) Region IX offices in San Francisco. We also made onsite visits to various county mental health programs and two State-operated psychiatric hospitals in California that were IMDs: Napa State Hospital and Metropolitan State Hospital.

Methodology

To accomplish our audit objective, we:

- reviewed Medicaid law and regulations, and CMS guidelines provided to the States concerning the allowability of medical services for patients under age 21 in IMDs;
- reviewed California's State plan and Code of Regulations concerning claims for medical services for these patients;
- obtained an understanding of computer controls and edits established by California regarding the claiming of Federal Medicaid funds for medical services, other than inpatient psychiatric services, provided to IMD residents under age 21;
- obtained a list of California's State-operated psychiatric hospitals that were IMDs;
- obtained a list of residents under age 21 from the State-operated psychiatric hospitals, including those residents temporarily released to receive inpatient acute care;
- obtained computerized paid Medicaid claims data from California for the period July 1, 1997, through February 28, 2001;
- contacted the providers and county mental health program officials to confirm the purpose of medical services that California claimed;
- reviewed Medicaid payment histories for 100 randomly sampled patients of State-operated psychiatric hospitals to determine if the State received Federal funds for medical services while the patients were IMD residents (app. A provides a description of our sampling methodology);

- reviewed Medicaid payment histories for all of the 31 patients temporarily released from State-operated psychiatric hospitals to determine if the State received Federal funds for medical services while the patients were IMD residents; and
- used a variable appraisal program to estimate the amount of Federal funds improperly claimed by California for medical services provided during our review period (app. B provides details of our sample appraisal).

We conducted our review in accordance with generally accepted government auditing standards.

FINDING AND RECOMMENDATIONS

Our review of 131 patients in State-operated psychiatric hospitals revealed that 72 patients received medical services for which California improperly claimed Federal funds. In our opinion, California improperly claimed Federal funds because it did not have controls to prevent claims for medical services provided to residents under age 21 in State-operated psychiatric hospitals that were IMDs. As a result, from July 1, 1997, through February 28, 2001, we estimate that California improperly claimed \$380,920 (\$190,460 Federal share) for medical services.

FEDERAL REGULATIONS AND GUIDANCE

Legislative and Regulatory Background

Section 1905(a) of the Act defines the term “medical assistance.” Medical assistance includes inpatient hospital services and nursing facility services for IMD residents 65 years of age or over but excludes care or services for IMD residents who are under 65, except “inpatient psychiatric hospital services for individuals under the age of 21.”

Federal regulations prohibit payment of Federal Medicaid funds for “any individual who is under age 65 and is in an institution for mental diseases, except an individual who is under age 22 and receiving inpatient psychiatric services under subpart D of this part.” (See 42 CFR § 441.13.)

CMS Guidance

CMS guidance to States specifies that Federal Medicaid funds are available only for inpatient psychiatric services for IMD residents under age 21 and in certain instances those under age 22. Specifically, CMS issued Transmittal Number 65 of the State Medicaid Manual in March 1994 and Transmittal Number 69 of the State Medicaid Manual in May 1996. Section 4390 of the State Medicaid Manual, entitled “Institutions for Mental Diseases,” provides in subsection A.2. (“IMD Exclusion”):

The IMD exclusion is in 1905(a) of the Act in paragraph (B) following the list of Medicaid services. This paragraph states that FFP [Federal financial participation] is not available for any medical assistance under title XIX for services provided to any individual who is under age 65 and who is a patient in an

IMD unless the payment is for inpatient psychiatric services for individuals under age 21.

CMS guidance to States has also established that Federal Medicaid funds are not permitted for IMD residents who are temporarily released to acute care hospitals for medical treatment. Specifically, section 4390.1 of the State Medicaid Manual, entitled “Periods of Absence From IMDs,” states, “If a patient is temporarily transferred from an IMD for the purpose of obtaining medical treatment...the patient is still considered an IMD patient.”

In summary, based on the Act, the implementing Federal regulations, and CMS guidance, Federal funds may not be claimed for any medical services, except inpatient psychiatric services, for IMD residents under age 21.

IMPROPER CLAIMS FOR MEDICAL SERVICES

We based our review of claims on Federal law and regulations. Specifically, if all of the following criteria were met, we considered the claim under review improper and unallowable:

- The beneficiary was a resident of an IMD on the service date of the claim under review.
- The beneficiary was under age 21 on the service date under review.
- The service was not related to a psychiatric condition.
- The service provider was paid, and California claimed Federal funds for the services rendered.

We reviewed medical service claims for 131 patients in State-operated psychiatric hospitals. Our review consisted of 100 randomly selected patients and all of the 31 temporarily released patients. Of these 131 patients, 72 patients received medical services for which California improperly claimed Federal Medicaid funds.

Our review of Medicaid paid claim histories for the 100 randomly selected patients identified 429 medical service claims while the patients were IMD residents. The amount of improperly claimed medical services in our sample was \$17,622 (\$8,811 Federal share). Based on our sample, we are 95-percent confident that California improperly claimed at least \$44,167 (\$22,083 Federal share) for medical services.

Our review of Medicaid paid claim histories for all of the 31 patients temporarily released (but not discharged) from the IMDs to receive medical treatment identified 405 medical service claims. California improperly claimed \$336,753 (\$168,377 Federal share) for these medical services.

The total amount of improperly claimed medical services was \$380,920 (\$44,167 + \$336,753). The Federal share was \$190,460 (\$22,083 + \$168,377).

NO CONTROLS TO PREVENT IMPROPER CLAIMS

In our opinion, California improperly claimed Federal funds because it did not have controls to prevent claims for medical services, other than inpatient psychiatric services, provided to IMD residents under age 21 in State-operated psychiatric hospitals.

ESTIMATION OF THE IMPROPER CLAIMS

During our audit period, we estimate that California improperly claimed \$380,920 (\$190,460 Federal share) for medical services, other than inpatient psychiatric services, provided to IMD residents under age 21 in State-operated psychiatric hospitals.

RECOMMENDATIONS

We recommend that California:

- refund to the Federal Government \$190,460 of Federal Medicaid funds improperly claimed for medical services, other than inpatient psychiatric services, provided to IMD residents under age 21 in State-operated psychiatric hospitals;
- implement controls to prevent Federal Medicaid funds from being claimed for medical services, other than inpatient psychiatric services, provided to IMD residents under age 21 in State-operated psychiatric hospitals; and
- identify and refund to the Federal Government any Federal Medicaid funds improperly claimed after February 28, 2001 for medical services, other than inpatient psychiatric services, provided to IMD residents under age 21 in State-operated psychiatric hospitals.

CALIFORNIA COMMENTS

In its written comments on our draft report, California stated that it continues to review the Federal laws that address Medicaid coverage of inpatient psychiatric services for IMD patients under age 21 and may appeal the final audit report based on the outcome of its review. California's comments are included in their entirety as appendix C.

APPENDIXES

SAMPLING METHODOLOGY FOR THE 100 RANDOMLY SELECTED PATIENTS

Audit Objective

The objective of our review was to determine if controls were in place to preclude California from claiming Federal Medicaid funds for all medical services, except inpatient psychiatric services, provided to IMD residents under age 21 in State-operated psychiatric hospitals.

Population

The population was medical claims, except inpatient psychiatric claims, made on behalf of Medicaid beneficiaries under age 21 who were residents of State-operated psychiatric hospitals that were IMDs from July 1, 1997, through February 28, 2001.²

Sampling Frame

The sampling frame was a computer file containing detailed claims for Medicaid beneficiaries under age 21 who were residents of State-operated psychiatric hospitals that were IMDs during our review period.

We extracted the claims from the paid claims files maintained at DDS and California's fiscal intermediary.

Sampling Unit

The sampling unit consisted of all medical services provided and billed during an inpatient psychiatric hospital stay.

Sample Design

We used a simple random sample of Medicaid patients in State-operated psychiatric hospitals during our review period.

Sample Size

We selected a sample size of 100 patients.

Source of the Random Numbers

The source of the random numbers was the Office of Inspector General statistical sampling software dated October 1998. We used the Random Number Generator for our simple random

² We reviewed 100 percent of the claims for all 31 patients temporarily released and did not include these patients in the population from which the sample was drawn.

sample.

Method for Selecting Sample Items

We numbered the Medicaid patients sequentially, generated a set of random numbers, correlated the random numbers to the sequential numbers assigned to each Medicaid patient, and created a list of the 100 sample items.

Characteristics To Be Measured

We used applicable Federal law and regulations to determine whether a claim was questionable. Specifically, if all of the following criteria were met, the claim under review was considered improper and unallowable:

- The beneficiary was a resident of an IMD on the service date of the claim under review.
- The beneficiary was under the age of 21 on the service date under review.
- The service was not related to a psychiatric condition.
- The service provider was paid, and California claimed Federal funds for the services rendered.

Estimation Methodology

We used the Office of Inspector General variables appraisal program in RAT-STATS to appraise the sample results. We used the lower limit at the 90-percent confidence level to estimate the Federal Medicaid funds improperly claimed for all medical services, except inpatient psychiatric services, for residents of IMDs who were under age 21.

**SAMPLE RESULTS AND PROJECTION
FOR THE 100 RANDOMLY SELECTED PATIENTS**

The results of our review of the 100 Medicaid paid claim histories were as follows:

<u>Number of Patients in Universe</u>	<u>Sample Size</u>	<u>Number of Patients with Improper Medical Service Claims</u>	<u>Number of Improper Medical Service Claims</u>	<u>Amount of Improper Medical Service Claims</u>
456	100	41	429	\$17,621.51

Projection of Sample Results

(Precision at the 90-Percent Confidence Level)

Point Estimate	\$80,354
Lower Limit	\$44,167
Upper Limit	\$116,541
Sample Precision	±45.03 percent



State of California—Health and Human Services Agency
Department of Health Services



ARNOLD SCHWARZENEGGER
Governor

SANDRA SHEWRY
Director

October 15, 2004

Ms. Lori A. Ahlstrand
Regional Inspector General for
Audit Services
Office of Audit Services
Region IX
50 United Nations Plaza, Room 171
San Francisco, CA 94102

Dear Ms. Ahlstrand:

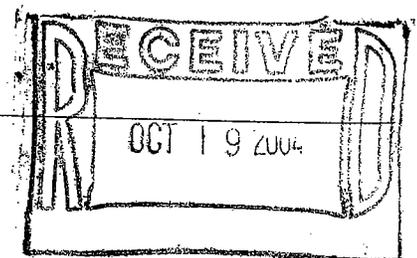
COMMON IDENTIFICATION NUMBER A-09-02-00084: REVIEW OF MEDICAID CLAIMS FOR PATIENTS UNDER AGE 21 IN STATE-OPERATED PSYCHIATRIC HOSPITALS THAT WERE INSTITUTIONS FOR MENTAL DISEASES IN CALIFORNIA DURING THE PERIOD JULY 1, 1997 THROUGH FEBRUARY 28, 2001

This is in response to your August 31, 2004, correspondence regarding the subject audit. Your findings disclosed that the State claimed \$190,460 of unallowable federal financial participation (FFP) for medical services, other than inpatient psychiatric services, provided to Institutions for Mental Diseases (IMD) residents under age 21 in State-operated psychiatric hospitals.

Following in **bold** are the Department of Health Services' (DHS) responses to your recommendations:

1. Refund to the federal government \$190,460 of federal Medicaid funds improperly claimed for medical services, other than inpatient psychiatric services, provided to IMD residents under age 21 in State-operated hospitals.

DHS will be requesting the auditor's documentation in support of this recommendation, and pending our review of this documentation and the auditor's methodology using the variable appraisal program to estimate the amount of federal funds improperly claimed, we are unable to verify the amount the auditor indicates should be refunded to the federal government for the audit period.



Ms. Lori A. Ahlstrand
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2. Implement controls to prevent federal Medicaid funds from being claimed for medical services, other than inpatient psychiatric services, provided to IMD residents under age 21 in State-operated psychiatric hospitals.

Subject to DHS' findings on the review of the auditor's documentation, DHS will determine if it is feasible to identify the subject population in this audit and implement system controls to prevent payment of claims for services to this group and subsequent claiming of federal Medicaid funds.

3. Identify and refund to the federal government any federal Medicaid funds improperly claimed after February 28, 2001, for medical services, other than inpatient psychiatric services, provided to IMD residents under age 21 in State-operated psychiatric hospitals

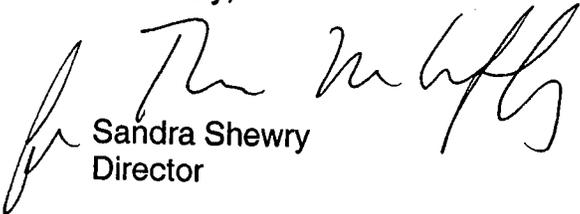
Based on DHS' review of the auditor's documentation and being able to identify the target group, DHS will refund to the federal government any federal Medicaid funds improperly claimed for IMD excluded services after February 28, 2001 (March 1, 2001 to June 30, 2004) by December 2004; pending the system change, this reimbursement process could be done on an annual basis every December of each calendar year for the preceding state fiscal year (FY) effective FY July 2004 to June 30, 2005.

Additional Areas of Concern:

DHS is continuing to review the underlying interpretation of the federal laws, rules, and guidelines that address Medicaid coverage of inpatient psychiatric services for individuals under age 21 who are patients in IMDs. Depending on the outcome of the review, DHS may appeal the final audit report.

If you have any questions, please contact Mr. Stan Rosenstein, Deputy Director of Medical Care Services, at (916) 440-7800.

Sincerely,



Sandra Shewry
Director

cc: See Next Page

Ms. Lori A. Ahlstrand
Page 3

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