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August 20, 2010

Report Number: A-01-09-00012

Michael P. Starkowski  
Commissioner  
Department of Social Services  
25 Sigourney Street  
Hartford, CT 06106

Dear Mr. Starkowski:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Medicaid Disproportionate Hospital Payments Made By Connecticut to Hartford Hospital for Federal Fiscal Years 2007 and 2008*. We will forward a copy of this report to the HHS action official noted below.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please direct them to the HHS action official. Please refer to report number A-01-09-00012 in all correspondence.

Sincerely,

/Michael J. Armstrong/  
Regional Inspector General  
for Audit Services

Enclosure

**HHS Action Official:**

Jackie Garner  
Consortium Administrator  
Consortium for Medicaid and Children's Health Operations  
Centers for Medicare & Medicaid Services  
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Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF MEDICAID  
DISPROPORTIONATE SHARE HOSPITAL  
PAYMENTS MADE BY CONNECTICUT  
TO HARTFORD HOSPITAL FOR  
FEDERAL FISCAL YEARS 2007 AND  
2008**



Daniel R. Levinson  
Inspector General

August 2010  
A-01-09-00012

# *Office of Inspector General*

<http://oig.hhs.gov>

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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 & 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:

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The Office of Audit Services (OAS) provides 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. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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# *Notices*

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## **THIS REPORT IS AVAILABLE TO THE PUBLIC**

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Section 1923 of the Social Security Act, as amended, requires States to make additional Medicaid disproportionate share hospital (DSH) payments to hospitals that serve disproportionately large numbers of low-income patients. The Omnibus Budget Reconciliation Act of 1993 limits these payments to a hospital's uncompensated care costs, which are the annual costs incurred to provide services to Medicaid and uninsured patients less payments received for these patients. This limit is known as the hospital-specific DSH limit. In addition, a Centers for Medicare & Medicaid Services (CMS) letter to State Medicaid Directors dated August 17, 1994 stated that the cost of services included in a hospital's DSH limit could not exceed the amount that would be allowed under Medicare principles of cost reimbursement.

States have considerable flexibility in defining their DSH payments under sections 1923(a) and (b) of the Social Security Act. Each State prepares a State plan that defines how it will operate its Medicaid program, including the DSH program, and submits the plan to CMS for approval. The Department of Social Services (the State agency) administers the Connecticut Medicaid program, including DSH payments, in accordance with an approved State plan. The Federal medical assistance percentage (FMAP) for these payments in Connecticut was approximately 50 percent during our audit period.

Hartford Hospital is a privately operated 867-bed acute care inpatient hospital located in Hartford, Connecticut. The Institute of Living and Jefferson House are two components of Hartford Hospital. In Federal fiscal years (FY) 2007 and 2008, the State agency made DSH payments to Hartford Hospital totaling \$9,743,224 (Federal Share) in FY 2007 and \$9,030,342 in FY 2008.

### **OBJECTIVE**

Our objective was to determine whether the DSH payments made by the State agency to Hartford Hospital during FYs 2007 and 2008 exceeded the hospital-specific DSH limits imposed by Federal requirements and the State plan.

### **RESULTS OF REVIEW**

DSH payments made by the State agency to Hartford Hospital during FYs 2007 and 2008 complied with the hospital-specific DSH limits imposed by Federal requirements and the State plan. For example, the State agency used the correct methodology when calculating the payments made to Hartford Hospital. Accordingly, this report contains no recommendations.

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## **INTRODUCTION**

### **BACKGROUND**

#### **Medicaid Program**

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to certain low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

Pursuant to section 1903(a)(1) of the Act, Federal reimbursement is available only for expenditures that constitute payment for part or all of the cost of services furnished as medical assistance under the State plan. Pursuant to 42 CFR § 433.312, the State must refund the Federal share of unallowable overpayments made to Medicaid providers.

#### **Medicaid Disproportionate Share Hospital Program**

The Omnibus Budget Reconciliation Act (OBRA) of 1981 established the disproportionate share hospital (DSH) program by adding section 1923 to the Social Security Act (the Act). Section 1923 requires State Medicaid agencies to make additional Medicaid DSH payments to hospitals that serve disproportionately large numbers of low-income patients with special needs. States have considerable flexibility to define their DSH programs under sections 1923(a) and (b) of the Act.

The OBRA of 1993 established additional DSH parameters by amending section 1923 of the Act to limit DSH payments to a hospital's incurred uncompensated care costs (UCC). Under section 1923(g) of the Act, the UCC was limited to costs of medical services provided to Medicaid and uninsured patients less payments received for those patients excluding Medicaid DSH payments. This limit is known as the hospital-specific DSH limit. A CMS letter to State Medicaid Directors dated August 17, 1994 clarified the DSH provisions of the OBRA of 1993. The letter stated that the cost of services included in a hospital-specific DSH limit could not exceed the amount that would be allowable under Medicare principles of cost reimbursement.

States receive allotments of DSH funds as set forth by Federal statute. The Federal Government cost-shares Medicaid DSH expenditures based upon the applicable Federal medical assistance percentage (FMAP). This share ranges from 50 percent to 83 percent, depending upon each State's relative per capita income. States report DSH expenditures on Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS-64). Additionally, section 4721 of the Balanced Budget Act of 1997 amended the Act to require States to report to CMS the annual DSH payments made to each facility.

## **Connecticut Disproportionate Share Hospital Program**

The Department of Social Services (the State agency) administers the Connecticut Medicaid program, including DSH payments, in accordance with an approved State plan. The FMAP for these payments in Connecticut was 50 percent during our audit period.

### **Hartford Hospital**

Hartford Hospital is a privately operated 867-bed acute care inpatient hospital located in Hartford, Connecticut. The Institute of Living and Jefferson House are two components of Hartford Hospital. In Federal fiscal years (FY) 2007 and 2008, the State agency made DSH payments to Hartford Hospital totaling \$9,743,224 (Federal Share) in FY 2007 and \$9,030,342 in FY 2008.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether the DSH payments made by the State agency to Hartford Hospital during FYs 2007 and 2008 complied with the hospital-specific DSH limits imposed by Federal requirements and the State plan.

### **Scope**

We reviewed DSH payments totaling \$18,773,566 (Federal Share) that the State agency made to Hartford Hospital and claimed for FYs 2007 and 2008.

Our objective did not require an understanding or assessment of the State agency's complete internal control structure. Our review of internal controls was limited to validating the State agency's methodology for computing DSH payments reported on Form CMS-64 for FY 2007 and FY 2008.

We performed field work at the State agency's office in Hartford, Connecticut and at Hartford Hospital's office in Newington, Connecticut from March through April 2010.

### **Methodology**

To accomplish our objective, we:

- reviewed applicable Federal and State laws, regulations and guidance;
- reviewed the CMS-approved State plan, including its Attachment 4.19-A;
- met with State agency officials to determine the methodology they used to compute the DSH payments made to Hartford Hospital;

- met with Hartford Hospital officials to review the financial records they submit to the Connecticut Office of Health Care Access (OHCA);
- met with officials at the Institute of Living to determine its relationship with Hartford Hospital, if it is considered an Institution for Mental Diseases and if it should be considered a part of Hartford Hospital when determining the hospital-specific DSH upper payment limit;
- met with officials at the Jefferson House to determine if it should be considered a part of Hartford Hospital when determining the hospital-specific DSH upper payment limit; and
- reviewed schedules compiled by OHCA to determine the upper payment limit for Hartford Hospital.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

### **RESULTS OF REVIEW**

DSH payments made by the State agency to Hartford Hospital during FYs 2007 and 2008 complied with the hospital-specific DSH limits imposed by Federal requirements and the State plan. For example, the State agency used the correct methodology when calculating the payments made to Hartford Hospital. Accordingly, this report contains no recommendations.