



JUL - 9 2007

TO: Leslie V. Norwalk, Esq.
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: 
Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Review of Medicaid Disproportionate Share Hospital Payments to University Behavioral Healthcare Center, University of Medicine and Dentistry of New Jersey: July 1, 1995, Through June 30, 2001 (A-02-04-01024)

Attached is an advance copy of our final report on Medicaid disproportionate share hospital (DSH) payments to University Behavioral Healthcare Center (UBHC), University of Medicine and Dentistry of New Jersey. We will issue this report to New Jersey within 5 business days. Our objective was to determine whether DSH payments to UBHC for State fiscal years 1996 through 2001 complied with the hospital-specific limits imposed by section 1923(g) of the Social Security Act (the Act) and the approved State plan.

Section 1923 of the Act, as amended, requires that States make Medicaid DSH payments to hospitals that serve disproportionate numbers of low-income patients with special needs. 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 those patients. This limit is known as the hospital-specific DSH limit.

This is the sixth in a series of reports on Medicaid DSH claims that a consultant prepared under a contingency fee contract with New Jersey. The purpose of the contract was to increase Federal reimbursement by identifying and submitting to the Federal Government unclaimed State expenses. As a result of the consultant's work, UBHC received an additional \$92 million (\$46 million Federal share) for State fiscal years 1996 through 2001. The Senate Finance Committee has expressed an interest in Medicaid revenue-enhancing arrangements between States and consulting firms and has requested a copy of this report.

DSH payments to UBHC exceeded the hospital-specific limits imposed by section 1923(g) of the Act and the approved State plan by \$20,075,738 (\$10,037,869 Federal share). Further, we were unable to determine the reasonableness of \$9,881,400 (\$4,940,700 Federal share) of costs

included in UBHC's hospital-specific DSH limits because the contractor included an undetermined amount of costs for patients with private insurance coverage. New Jersey officials told us that they had relied on the contractor to prepare the DSH claims and that, contrary to Federal requirements, they had not ensured the veracity of those claims before submitting them for Federal reimbursement.

We recommend that New Jersey (1) refund \$10,037,869 to the Federal Government, (2) work with the Centers for Medicare & Medicaid Services (CMS) to resolve \$4,940,700 in set-aside costs, (3) adhere to Federal law and State plan requirements when submitting DSH claims subsequent to June 2001 for Federal reimbursement, and (4) review all work performed by consultants to ensure the veracity of future Medicaid claims to the Federal Government.

New Jersey officials agreed with the findings and recommendations in our draft report, except for the amount of costs set aside for resolution by CMS. After reviewing additional documentation that New Jersey provided to us, we revised the set-aside amount.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov or James P. Edert, Regional Inspector General for Audit Services, Region II, at (212) 264-4620 or through e-mail at James.Edert@oig.hhs.gov. Please refer to report number A-02-04-01024.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF INSPECTOR GENERAL

Office of Audit Services
Region II
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JUL 10 2007

Report Number: A-02-04-01024

Ms. Jennifer Velez, Esq.
Acting Commissioner
State of New Jersey
Department of Human Services
P.O. Box 700
Trenton, New Jersey 08625-0700

Dear Ms. Velez:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Medicaid Disproportionate Share Hospital Payments to University Behavioral Healthcare Center, University of Medicine and Dentistry of New Jersey: July 1, 1995, Through June 30, 2001." We will forward a copy of this report to the HHS action official named on the next page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. 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.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports are made available to the public to the extent the information is not subject to exemptions in the Act (see 45 CFR part 5).

If you have any questions or comments about this report, please do not hesitate to call me. Please refer to report number A-02-04-01024 in all correspondence.

Sincerely,

A handwritten signature in cursive script that reads "James P. Edert".

James P. Edert
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Ms. Sue Kelly
Associate Regional Administrator
Division of Medicaid and Children's Health
Centers for Medicare & 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 MEDICAID
DISPROPORTIONATE SHARE HOSPITAL
PAYMENTS TO UNIVERSITY BEHAVIORAL
HEALTHCARE CENTER, UNIVERSITY OF
MEDICINE AND DENTISTRY OF
NEW JERSEY: JULY 1, 1995, THROUGH
JUNE 30, 2001**



Daniel R. Levinson
Inspector General

July 2007
A-02-04-01024

Office of Inspector General

<http://oig.hhs.gov>

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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

BACKGROUND

Section 1923 of the Social Security Act (the Act), as amended, requires that States make Medicaid disproportionate share hospital (DSH) payments to hospitals that serve disproportionate numbers of low-income patients with special needs. 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 those patients. This limit is known as the hospital-specific DSH limit.

States have considerable flexibility in defining their DSH programs under sections 1923(a) and (b) of the Act. Each State prepares a State plan that defines how it will operate its Medicaid program and submits the plan to the Centers for Medicare & Medicaid Services (CMS) for approval. In New Jersey, the Department of Human Services, Division of Medical Assistance and Health Services (the State agency) administers the DSH program.

In 1996, New Jersey awarded a contingency fee contract to Deloitte Consulting (Deloitte). The purpose of the contract was to generate increased Federal reimbursement by identifying and submitting to the Federal Government unclaimed State expenses. According to the contract terms, Deloitte was to receive a payment ranging from 6 percent to 7.5 percent of the additional Federal funds recovered. As a result of Deloitte's calculation of the hospital-specific DSH limits for the period July 1, 1995, through June 30, 2001, University Behavioral Healthcare Center (UBHC) received an additional \$46,267,357 million Federal share.

The University of Medicine and Dentistry of New Jersey owns and operates UBHC.

OBJECTIVE

Our objective was to determine whether DSH payments to UBHC for State fiscal years 1996 through 2001 complied with the hospital-specific limits imposed by section 1923(g) of the Act and the approved State plan.

SUMMARY OF FINDINGS

As a result of Deloitte's calculation of the hospital-specific DSH limits, \$92,534,713 (\$46,267,357 Federal share) of additional DSH payments was claimed for UBHC. Of the \$92,534,713 in additional DSH payments, \$20,075,738 (\$10,037,869 Federal share) exceeded the hospital-specific limits. In its calculations of the hospital-specific DSH limits, Deloitte erroneously included \$15,425,700 (\$7,712,850 Federal share) of nonreimbursable costs. These costs were not DSH eligible and should not have been included in the DSH limit calculations. In addition, the State agency claimed \$4,650,038 (\$2,325,019 Federal share) of duplicate DSH expenditures to the Federal Government.

Furthermore, we were unable to determine the reasonableness of \$9,881,400 (\$4,940,700 Federal share) of costs included in UBHC's hospital-specific DSH limits because Deloitte included an undetermined amount of costs for patients with private insurance coverage.

We found no evidence that the remaining \$62,577,575 (\$31,288,788 Federal share) in DSH payments calculated by Deloitte was not in compliance with Federal and State requirements.

New Jersey officials advised that they had relied on Deloitte to prepare all UBHC DSH claims and that, contrary to Federal requirements, they had not ensured the veracity of those claims.

RECOMMENDATIONS

We recommend that New Jersey:

- refund \$10,037,869 to the Federal Government,
- work with CMS to resolve \$4,940,700 in set-aside costs,
- adhere to Federal law and State plan requirements when submitting DSH claims subsequent to June 2001 for Federal reimbursement, and
- review all work performed by consultants to ensure the veracity of future Medicaid claims to the Federal Government.

NEW JERSEY'S COMMENTS

New Jersey officials agreed with the findings and recommendations in our draft report, except for the amount of costs set aside for resolution by CMS. New Jersey also provided us with additional documentation regarding the indigent portion of the DSH calculation and the nonreimbursable costs that it agreed to refund to the Federal Government.

The full text of New Jersey's comments is included as the Appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

After reviewing the additional documentation regarding the set-aside amount, we revised our finding and related recommendation. Based on the State's agreement to refund the amount applicable to the nonreimbursable cost centers, we offset these costs from the set-aside amount. We also revised the set-aside amount to account for the exclusion of the State indigent cost category.

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INTRODUCTION

BACKGROUND

Disproportionate Share Hospital Program

Medicaid is a jointly funded Federal and State program that provides medical assistance to qualified low-income people. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Within a broad legal framework, each State designs and administers its own Medicaid program. Each State prepares a State plan that defines how the State will operate its Medicaid program and submits the plan for CMS approval. In New Jersey, the Department of Human Services, Division of Medical Assistance and Health Services (the State agency) administers the Medicaid program, including the disproportionate share hospital (DSH) program.

The Omnibus Budget Reconciliation Act of 1981 established the DSH program, which is codified in section 1923 of the Social Security Act (the Act). Section 1923 requires State Medicaid agencies to make additional payments to hospitals that serve disproportionate numbers of low-income patients with special needs. 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 those patients. This limit is known as the hospital-specific DSH limit. To qualify for DSH funding, hospitals must have a Medicaid inpatient utilization rate of not less than 1 percent.

States have considerable flexibility in defining their DSH programs under sections 1923(a) and (b) of the Act. The Federal Government pays its share of Medicaid DSH expenditures according to a formula shown in section 1905(b) of the Act. In New Jersey, the Federal Government and the State contribute 50 percent each.

New Jersey's Use of Consultant

On December 9, 1996, the New Jersey Department of the Treasury, Office of Management and Budget awarded a contingency fee contract to Deloitte Consulting (Deloitte). The purpose of the contract, known as "Federal Fund Revenue Enhancers for All Federal Programs," was to generate increased Federal reimbursement by identifying and submitting to the Federal Government unclaimed State expenses. According to the terms of the contract, Deloitte was to receive a payment ranging from 6 percent to 7.5 percent of the additional Federal funds recovered.

Recognizing the DSH program's potential for Federal fund enhancement, New Jersey and Deloitte targeted payments for services and other health-related activities made on behalf of Medicaid beneficiaries and uninsured individuals by any State agency that had not been submitted for Federal reimbursement. As a result of Deloitte's efforts, the State agency claimed and was reimbursed \$46,267,357 (Federal share) in additional DSH funds for University Behavioral Healthcare Center (UBHC).

University Behavioral Healthcare Center

The University of Medicine and Dentistry of New Jersey owns and operates UBHC. UBHC, located in Piscataway, New Jersey, is governed and managed by a board of trustees and administered by a president and chief executive officer. The mission of the institution is the delivery of mental health care services.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether DSH payments to UBHC for State fiscal years (FY) 1996 through 2001 complied with the hospital-specific limits imposed by section 1923(g) of the Act and the approved State plan.

Scope

Our audit covered all DSH expenditures claimed for UBHC from July 1, 1995, through June 30, 2001.

We did not perform an indepth 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. We conducted our fieldwork at the State agency in Mercerville, New Jersey.

Methodology

To accomplish our objective, we:

- reviewed the Omnibus Budget Reconciliation Acts of 1981 and 1993, sections 1902 and 1923 of the Act, the New Jersey State plan, and other applicable criteria;
- reviewed the New Jersey Office of Management and Budget 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 between the New Jersey Office of Management and Budget and Deloitte;
- reconciled \$92,534,713 of DSH claims for UBHC to each "Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program," Form CMS-64 (CMS-64), submitted to the Federal Government for reimbursement;
- obtained from New Jersey Deloitte's hospital-specific DSH calculations for State FYs 1996 through 2001, which Deloitte used to prepare UBHC's DSH claims;
- traced total costs claimed on the CMS-64s to the annual DSH expenditure calculation;

- traced total costs included in the hospital-specific DSH calculations to hospital cost reports and other supporting documentation;
- evaluated total costs included in the hospital-specific DSH calculations for the audit period to determine whether they were reasonable and allowable for Federal reimbursement; and
- discussed the audit results with New Jersey Medicaid officials.

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

FINDINGS AND RECOMMENDATIONS

As a result of Deloitte’s calculation of the hospital-specific DSH limits, \$92,534,713 (\$46,267,357 Federal share) of additional DSH payments was claimed for UBHC. Of the \$92,534,713 in additional DSH payments, \$20,075,738 (\$10,037,869 Federal share) exceeded the hospital-specific limits. In its calculations of the hospital-specific DSH limits, Deloitte erroneously included \$15,425,700 (\$7,712,850 Federal share) of nonreimbursable costs. These costs were not DSH eligible and should not have been included in the DSH limit calculations. In addition, the State agency claimed \$4,650,038 (\$2,325,019 Federal share) of duplicate DSH expenditures to the Federal Government.

Furthermore, we were unable to determine the reasonableness of \$9,881,400 (\$4,940,700 Federal share) of costs included in UBHC’s hospital-specific DSH limits because Deloitte included an undetermined amount of costs for patients with private insurance coverage.

We found no evidence that the remaining \$62,577,575 (\$31,288,788 Federal share) in DSH payments calculated by Deloitte was not in compliance with Federal and State requirements.

New Jersey officials advised that they had relied on Deloitte to prepare all UBHC DSH claims and that, contrary to Federal requirements, they had not ensured the veracity of those claims.

INCORRECT CALCULATION OF HOSPITAL-SPECIFIC DISPROPORTIONATE SHARE LIMITS

Pursuant to Federal law, only costs incurred by a hospital may be included as part of its uncompensated care costs. Specifically, section 1923(g)(1)(A) of the Act states that DSH payments to a hospital may not exceed:

. . . the costs incurred during the year of furnishing hospital services (as determined by the Secretary and net of payments under this title, other than under this section, and by uninsured patients) by the hospital to individuals who either are eligible for medical assistance under the State plan or have no health insurance (or other source of third party coverage) for services provided during the year. [Emphasis added.]

In an August 1994 letter to State Medicaid directors, CMS clarified the DSH provisions of the Omnibus Budget Reconciliation Act of 1993. In regard to the costs of services under the DSH limit, CMS stated that it would:

. . . permit the State to use the definition of allowable costs in its State plan, or any other definition, as long as the costs determined under such a definition do not exceed the amounts that would be allowable under the Medicare principles of cost reimbursement HCFA¹ believes this interpretation of the term “costs incurred” is reasonable because it provides States with a great deal of flexibility up to a maximum standard that is widely known and used in the determination of hospital costs. [Emphasis added.]

Contrary to Federal requirements, Deloitte included unallowable costs in its calculations of the UBHC hospital-specific DSH limits. Deloitte used UBHC’s annual Medicare cost reports as the basis for calculating the hospital-specific DSH limits. These reports included all costs incurred (Medicare, Medicaid, and private) by UBHC for furnishing hospital services. Within these reports, hospital costs that were identified as unallowable under Medicare principles of cost reimbursement were classified in separate nonreimbursable cost centers. The following four cost centers were listed as nonreimbursable: education services, Office of Prevention services, psychiatry, and public relations.

Because these amounts were unallowable under Medicare cost principles, they should not have been included in the calculations of UBHC’s hospital-specific DSH limits. The inclusion of these costs resulted in an overpayment of \$15,425,700 (\$7,712,850 Federal share).

DUPLICATE DISPROPORTIONATE SHARE HOSPITAL CLAIMS

In reconciling Deloitte calculations to the CMS-64s, we determined that the State had duplicated \$4,650,038 (\$2,325,019 Federal share) of DSH claims for UBHC. The State claimed these DSH-eligible expenditures twice for the quarter ended September 30, 1995.

State officials acknowledged that they had submitted duplicate claims to the Federal Government as a result of a clerical error. The duplicate claims resulted in a \$2,325,019 Federal overpayment.

UNRESOLVED UNCOMPENSATED CARE COSTS

The approved New Jersey State plan contains a provision prohibiting DSH payments for insured individuals. Attachment 4.19A, page IV-39, of the plan states:

Disproportionate Share Hospital (DSH) payments to New Jersey private psychiatric, special (non-acute) and rehabilitation hospitals . . . shall include payments by any agency of the State of New Jersey for health services provided to Medicaid beneficiaries and uninsured individuals. These DSH payments shall be the amount of the payment by the State agency for Medicaid and uninsured

¹CMS was formerly called the Health Care Financing Administration (HCFA).

individuals not to exceed 100 percent of the costs incurred by the hospital during the year serving Medicaid beneficiaries and uninsured individuals less Medicaid payments including any other DSH payment methodology and payment from or on behalf of uninsured patients

Deloitte calculated the hospital-specific DSH limits for UBHC based on a percentage of its total operating costs. This percentage was the ratio of total charges for DSH-eligible patients (numerator) to total charges for all patients (denominator). Deloitte included charges for the “Self Pay” category in the total charges for DSH-eligible patients. State officials told us that charges for insured and uninsured patients were included in this category; however, neither the State nor Deloitte could identify either amount. Section 1923 of the Act and the New Jersey State plan both prohibit DSH payments for insured individuals. The State advised that Deloitte included all charges because it believed that the charges applicable to insured patients in the Self-Pay category would be immaterial.

Lacking documentation that would differentiate charges for insured and uninsured patients in the Self-Pay category, we excluded this category from the calculation of the percentage of total operating costs for each State fiscal year. Application of our adjusted percentages showed a \$9,881,400 decrease in the DSH limits. Because Deloitte included an undetermined amount of costs for patients with private insurance coverage, the State was unable to demonstrate the reasonableness of the \$9,881,400 (\$4,940,700 Federal share) of costs included in UBHC’s hospital-specific DSH limits. Accordingly, we have set aside the \$4,940,700 for resolution by CMS.

NO STATE REVIEW OF DISPROPORTIONATE SHARE HOSPITAL CLAIMS

Federal regulations (45 CFR § 95.505) stipulate that Medicaid State plans are comprehensive, written commitments by the States to supervise and administer the Medicaid program. Furthermore, 42 CFR § 430.30(c) requires that to receive Federal reimbursement, States must submit a CMS-64 not later than 30 days after the end of each quarter. The CMS-64 instructions require a State certification as to the accuracy of the information provided.

New Jersey officials advised that they had relied solely on Deloitte to prepare and document UBHC’s DSH claims and that, contrary to Federal requirements, they had not ensured the veracity of those claims before submitting them for Federal reimbursement.

RECOMMENDATIONS

We recommend that New Jersey:

- refund \$10,037,869 to the Federal Government,
- work with CMS to resolve \$4,940,700 in set-aside costs,
- adhere to Federal law and State plan requirements when submitting DSH claims subsequent to June 2001 for Federal reimbursement, and

- review all work performed by consultants to ensure the veracity of future Medicaid claims to the Federal Government.

NEW JERSEY’S COMMENTS

New Jersey officials agreed with the findings and recommendations in our draft report, except for the amount of costs set aside for resolution by CMS (\$13,728,264 Federal share). New Jersey said that the set-aside costs should be reduced to \$5,072,477. New Jersey also provided us with additional documentation regarding the indigent portion of the DSH calculation and the nonreimbursable costs that it agreed to refund to the Federal Government.

The full text of New Jersey’s comments is included as the Appendix.

OFFICE OF INSPECTOR GENERAL’S RESPONSE

After reviewing the additional documentation regarding the set-aside amount, we revised our finding and related recommendation. Based on the State’s agreement to refund the amount applicable to the nonreimbursable cost centers, we offset these costs from the set-aside amount. We also revised the set-aside amount to account for the exclusion of the State indigent cost category. As a result, our revised set-aside amount is \$4,940,700.²

²Because of a mathematical error, this is \$131,777 less than the State agency calculation of \$5,072,477.

APPENDIX



JON S. CORZINE
Governor

State of New Jersey
DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
P.O. Box 712
Trenton, NJ 08625-0712
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CLARKE BRUNO
Acting Commissioner

October 10, 2006

ANN CLEMENCY KOHLER
Director

James P. Edert
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services
Region II
Jacob K. Javits Federal Building - Room 3900
New York, NY 10278

Report Number A-02-04-01024

Dear Mr. Edert:

This is in response to the Department of Health and Human Services, Office of the Inspector General's (OIG) draft audit report entitled "Review of Medicaid Disproportionate Share Hospital Payments to University Behavioral Healthcare Center, University of Medicine and Dentistry of New Jersey: July 1, 1995 Through June 30, 2001."

The audit report contains three findings and four recommendations. The report makes the following findings: 1) the auditors found that \$20,075,738 (\$10,037,869 federal share) exceeded the hospital-specific limits due to erroneously including \$15,425,700 (\$7,712,850 federal share) of non-reimbursable costs and claiming \$4,650,038 (\$2,325,019 federal share) in duplicate DSH expenditures, 2) the auditors were unable to determine the reasonableness of the \$27,456,527 (\$13,728,264 federal share) of costs included in University Behavioral Healthcare Center's (UBHC) hospital specific DSH limits because an undetermined amount of costs for patients with private insurance coverage was included and 3) the Division of Medical Assistance and Health Services failed to assure the veracity of these claims prior to submitting them for federal reimbursement."

Regarding the finding related to the State's review of these claims, it is the policy and practice of the State to submit accurate claims. The State has added resources for this purpose, revised its procedures and will take any additional steps necessary to verify the accuracy of future claims.

The State agrees with the finding that the amount of \$7,712,850 for nonreimbursable costs was improperly claimed as a DSH expenditure to the Federal government. A review of the available documentation indicates that nonreimbursable costs from the Medicare cost report were erroneously included in UBHC's hospital-specific DSH limit calculation.

The State agrees to work to resolve the \$13,728,264 in set-aside costs related to reasonableness of costs included in UBHC's hospital specific DSH limits and to determine if any costs for patients with private insurance coverage were included. The State is working on obtaining additional information that will support the reasonableness of the self-pay portion of the set-aside costs. Based on discussions with UBHC staff, the State Indigent category, used for determining uninsured cost, is only utilized if the patient has no insurance. If a patient is referred and has any third party insurance, the revenue for that patient is assigned to the applicable third party insurance category. Therefore, the amount applicable to State Indigent patients reflects the cost of uninsured patients only. The effect of reversing this portion of the adjustment is \$942,937. Also, based on a review of the set-aside cost calculation, the set-aside costs include the hospital-specific DSH limit adjustment for nonreimbursable costs of \$7,712,850. The set-aside costs would be duplicating the nonreimbursable adjustment if no allowance is applied to the calculation for the amount already adjusted in the nonreimbursable cost calculation. The correct net set-aside costs should be \$5,072,477.

With regard to the finding that the State claimed \$2,325,019 of duplicated DSH expenditures to the Federal government, a review of the available documentation indicates that the finding and the report are correct. The finding that New Jersey improperly claimed FFP is accurate and the payments were a duplication of a previous claim.

In summary, the recommendations contained in the report and our responses are provided below:

1. New Jersey should refund \$10,037,869 to the Federal Government.

As explained above, New Jersey agrees that a duplication in the amount of \$2,325,019 was improperly claimed as FFP. New Jersey agrees that the remaining amount of \$7,712,850 for nonreimbursable costs was improperly claimed as FFP. New Jersey will submit an adjustment for the duplication and the non-reimbursable costs adjustment on the Medical Assistance Expenditures by Type of Service Report (CMS-64).

2. New Jersey should work with CMS to resolve \$13,728,264 in set-aside costs.

As explained above, New Jersey agrees to work to resolve the \$13,728,264 in set-aside costs related to reasonableness of costs included in UBHC's hospital-specific DSH limits and to determine if any costs for patients with private insurance coverage were included. The State is working on obtaining additional information that will support the reasonableness of the set-aside costs. The State feels the State Indigent portion of the set-aside costs of \$942,937 should be reversed. However, based on a review of the set-aside cost calculation, the set-aside costs include the hospital-specific DSH limit adjustment for nonreimbursable costs of \$7,712,850 with no allowance for the adjustment. The correct net set-aside costs should be \$5,072,477. There would be no reason to set-aside the non-reimbursable cost portion if it is already addressed as part of finding #1.

3. New Jersey should adhere to Federal law and State plan requirements when submitting DSH claims subsequent to June 2001 for Federal reimbursement.

The Division of Medical Assistance and Health Services has adhered and will continue to adhere to Federal law and its State plan requirements when submitting DSH claims for reimbursement.

4. New Jersey should review all work performed by consultants to ensure the veracity of future Medicaid claims to the Federal Government.

It is the policy and practice of DMAHS to submit accurate claims to the Federal government. Therefore, additional resources have been assigned to this purpose, review procedures have been revised and any additional steps needed to verify the accuracy of future claims will be taken.

The opportunity to review and comment on this draft audit report is greatly appreciated. If you have any questions or require additional information please contact me or David Lowenthal at (609) 588-7933.

Sincerely,



Ann Clemency Kohler
Director

ACK:L

c: David Lowenthal
Patricia Dix
Jacqueline Cantlin

ACKNOWLEDGMENTS

This report was prepared under the direction of James P. Edert, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

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Stephanie Iseman, *Senior Auditor*
Peili Yao, *Auditor*