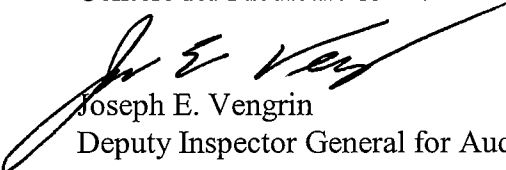




JUL 16 2007

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 Runnells
Specialized Hospital: November 1, 1996, Through June 30, 2001
(A-02-05-01007)

Attached is an advance copy of our final report on Medicaid disproportionate share hospital (DSH) payments to Runnells Specialized Hospital (Runnells). We will issue this report within 5 business days. Our objective was to determine whether DSH payments to Runnells for State fiscal years 1997 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 seventh 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, Runnells received an additional \$3 million (\$1.5 million Federal share) for State fiscal years 1997 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.

We found that DSH payments to Runnells exceeded the hospital-specific limits imposed by section 1923(g) of the Act and the approved State plan by \$2,239,179 (\$1,119,590 Federal share). State officials relied solely on the contractor to prepare and document the additional DSH

claims and failed to ensure the accuracy of the claims before submitting them for Federal reimbursement.

We recommend that New Jersey (1) refund \$1,119,590 to the Federal Government, (2) adhere to Federal law and State plan requirements when submitting future DSH claims subsequent to June 2001 for Federal reimbursement, and (3) review all work performed by consultants to ensure the veracity of future Medicaid claims to the Federal Government.

New Jersey agreed with our findings and recommendations, except for the amount of recommended DSH payments to be set aside for resolution with the Centers for Medicare & Medicaid Services. After the issuance of the draft report, the State agency provided us with additional documentation identifying DSH payments of \$1,119,590 (Federal share) for patients with private insurance. The State agency stated that the set-aside costs should be reduced to that amount. Since the approved New Jersey State plan prohibits DSH payments for insured individuals, we are recommending that these costs be disallowed.

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-02-05-01007.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF INSPECTOR GENERAL

Office of Audit Services
Region II
Jacob K. Javits Federal Building
New York, New York 10278
(212) 264-4620

JUL 18 2007

Report Number: A-02-05-01007

Jennifer Velez, Esq.
Acting Commissioner
State of New Jersey, Department of Human Services
P.O. Box 712
Trenton, New Jersey 08625-0712

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 Runnells Specialized Hospital: November 1, 1996, Through June 30, 2001." We will forward a copy of this report to the 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 issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-02-05-01007 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
RUNNELLS SPECIALIZED
HOSPITAL: NOVEMBER 1, 1996,
THROUGH JUNE 30, 2001**



Daniel R. Levinson
Inspector General

July 2007
A-02-05-01007

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:

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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR part 5.)

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 section 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 November 1, 1996, through June 30, 2001, Runnells Specialized Hospital (Runnells) received an additional \$3 million (\$1.5 million Federal share).

OBJECTIVE

Our objective was to determine whether DSH payments to Runnells for State fiscal years 1997 through 2001 complied with the hospital-specific limits imposed by section 1923(g) of the Act and the approved State plan.

SUMMARY OF FINDINGS

DSH payments to Runnells exceeded the hospital-specific limits imposed by section 1923(g) of the Act and the approved State plan by \$2,239,179 (\$1,119,590 Federal share). In its calculations of the hospital-specific DSH limits, Deloitte improperly included \$2,239,179 of costs applicable to patients with private insurance coverage.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$1,119,590 to the Federal Government,
- 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.

STATE AGENCY'S COMMENTS

In response to our draft report, State agency officials agreed with our findings and recommendations, except for the amount of recommended DSH payments to be set aside for resolution with CMS (\$1,505,088 Federal share). After the issuance of the draft report, the State agency provided us with additional documentation identifying DSH payments of \$1,119,590 (Federal share) for patients with private insurance. The State agency stated that the set-aside costs should be reduced to that amount.

The full text of the State agency's comments is included as an appendix to this report.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

After reviewing the new documentation provided by the State agency, we revised our findings and recommendations. We agree that the additional documentation supported a downward adjustment in set-aside costs of \$385,498 Federal share (\$1,505,088 less \$1,119,590). However, we are recommending that the remaining \$1,119,590 be disallowed rather than set aside. The approved New Jersey State plan prohibits DSH payments for insured individuals.

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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 section 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 the "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 revenue enhancement, New Jersey and Deloitte targeted payments for services and other health-related activities made on behalf of Medicaid recipients 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 \$3,010,176 (\$1,505,088 Federal share) in additional DSH funds for Runnells Specialized Hospital (Runnells).

Runnells Specialized Hospital

Runnells is operated under the authority of the Union County Board of Chosen Freeholders and provides specialized health care for senior citizens in New Jersey. The hospital provides physical rehabilitation services, as well as nursing, hospice, and psychiatric care.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether DSH payments to Runnells for State fiscal years 1997 through 2001 complied with the hospital-specific limits imposed by section 1923(g) of the Act and the approved State plan.

Scope

Our audit period covered all DSH expenditures claimed for Runnells from November 1, 1996, through June 30, 2001.

We did not perform an indepth review of the State agency'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 offices 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 \$3,010,176 of DSH claims for Runnells to the Quarterly Medicaid Statements of Expenditures for the Medical Assistance Program, Forms CMS-64 (CMS-64), submitted to the Federal Government for reimbursement;
- obtained from the State agency Deloitte's hospital-specific DSH calculations for State fiscal years 1997 through 2001, which Deloitte used to prepare Runnells' DSH claims;

- traced the total costs claimed on the CMS-64s to the annual DSH expenditure calculations;
- 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

DSH payments to Runnells exceeded the hospital-specific limits imposed by section 1923(g) of the Act and the approved State plan by \$2,239,179 (\$1,119,590 Federal share). In its calculations of the hospital-specific DSH limits, Deloitte improperly included \$2,239,179 of costs applicable to patients with private insurance coverage.

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.]

The approved New Jersey State plan also prohibits DSH payments for insured individuals. Specifically, 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 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 Runnells' DSH limits based on a percentage of the hospital's total operating costs. The percentage Deloitte used was the ratio of total charges for DSH-eligible patients (numerator) to total charges for all patients (denominator). Deloitte included charges for "Self Pay" and "State Indigent" categories in the total charges for DSH-eligible patients. State officials told us that charges for insured and uninsured patients were included in these categories. Section 1923 of the Act and the New Jersey State plan both prohibit DSH payments for insured individuals. State agency officials advised us that Deloitte included all charges because Deloitte believed that the charges applicable to insured patients in the "Self-Pay" and "State-Indigent" categories were insignificant.

In our draft report, we were unable to determine the reasonableness of \$3,010,176 (\$1,505,088 Federal share) of costs included in Runnells' DSH limits. After receiving our draft report, the State agency recalculated those limits by excluding all charges for the "Self Pay" and "State Indigent" categories related to patients with private insurance coverage. These charges were unallowable but included by Deloitte in their calculation of Runnells' hospital-specific DSH limits. The inclusion of these costs resulted in an overpayment of \$2,239,179 (\$1,119,590 Federal share).

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.

State agency officials advised us that they had relied solely on Deloitte to prepare and document Runnells' DSH claims and that, contrary to Federal requirements, they had not ensured the veracity of the claims before submitting them for Federal reimbursement.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$1,119,590 to the Federal Government,
- 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.

STATE AGENCY'S COMMENTS

In response to our draft report, State agency officials agreed with our findings and recommendations, except for the amount of recommended DSH payments to be set aside for

resolution with CMS (\$1,505,088 Federal share). After the issuance of the draft report, the State agency provided us with additional documentation identifying DSH payments of \$1,119,590 (Federal share) for patients with private insurance. The State agency stated that the set-aside costs should be reduced to that amount.

The full text of the State agency's comments is included as an appendix to this report.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

After reviewing the new documentation provided by the State agency, we revised our findings and recommendations. We agree that the additional documentation supported a downward adjustment in set-aside costs of \$385,498 Federal share (\$1,505,088 less \$1,119,590). However, we are now recommending that the remaining \$1,119,590 be disallowed rather than set aside since the approved New Jersey State plan prohibits Federal reimbursement of DSH payments for insured individuals.

APPENDIX



State of New Jersey
DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
P.O. Box 712
Trenton, NJ 08625-0712
Telephone 1-800-356-1561

JON S. CORZINE
Governor

CLARKE BRUNO
Acting Commissioner

ANN CLEMENCY KOHLER
Director

November 22, 2006

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-02-05-01007

Dear Mr. Edert:

This is a revision to the previous response dated October 10, 2006 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 Runnells Specialized Hospital for the Period November 1, 1996 Through June 30, 2001".

The audit report contains two findings and three recommendations. The report makes the following findings: 1) the auditors were unable to determine the reasonableness of the \$3,010,176 (\$1,505,088 federal share) of costs included in Runnells Specialized Hospital's (RSH) hospital specific disproportionate share hospital (DSH) limits because an undetermined amount of costs for patients with private insurance coverage was included and 2) 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 has reviewed the set-aside cost finding related to the inability to determine the reasonableness of the \$1,505,088 of costs included in RSH's hospital-specific DSH limits because an undetermined amount of

James P. Edert
November 22, 2006
Page 2

costs for patients with private insurance coverage was included. The State has gathered additional information from RSH that indicates the patients with private insurance coverage, if applicable. The supporting documentation is enclosed and the analysis indicates a revised adjustment of \$1,119,590.

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

1. New Jersey should work with CMS to resolve \$1,505,088 in set-aside costs.

As explained above, New Jersey has identified the patients with private insurance and provided a revised analysis with supporting documentation in response to the \$1,505,088 in set-aside costs related to reasonableness of costs included in RSH's hospital specific DSH limits. New Jersey feels the set aside costs should be revised to \$1,119,590.

2. 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.

3. 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