



June 15, 2011

Office of Audit Services
Jacob Javits Federal Building
26 Federal Plaza, Room 3900
New York, NY 10278

Report Number: A-02-10-01036

Nirav R. Shah, M.D., M.P.H.
Commissioner
New York State Department of Health
14th Floor, Corning Tower
Empire State Plaza
Albany, NY 12237

Dear Dr. Shah:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Medicaid High-Dollar Payments for Inpatient Services in New York State From January 1, 2008, Through November 30, 2009*. We will forward a copy of this report to the HHS action official noted on the following 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 this 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.

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 do not hesitate to call me, or contact Glenn H. Richter, Audit Manager, at (518) 437-9390, extension 227, or through email at Glenn.Richter@oig.hhs.gov. Please refer to report number A-02-10-01036 in all correspondence.

Sincerely,

/James P. Edert/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Jackie Garner
Consortium Administrator
Consortium for Medicaid and Children's Health Operations
Centers for Medicare & Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, IL 60601

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICAID
HIGH-DOLLAR PAYMENTS FOR
INPATIENT SERVICES IN NEW YORK
STATE FROM JANUARY 1, 2008,
THROUGH NOVEMBER 30, 2009**



Daniel R. Levinson
Inspector General

June 2011
A-02-10-01036

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 & 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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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

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

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to 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 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(a), the State must refund the Federal share of unallowable overpayments made to Medicaid providers.

In New York State, the Department of Health (State agency) administers the Medicaid program. The State agency uses the Medicaid Management Information System, a computerized payment and information reporting system, to process and pay Medicaid claims.

New York's Medicaid State plan requires the State agency to use a prospective payment system (PPS) for inpatient hospital services. Under the PPS, the State agency pays hospital costs at predetermined rates for patient discharges. The rates vary according to the diagnosis-related group (DRG) to which a beneficiary's stay is assigned. The DRG payment is generally accepted as payment in full to the hospital for all inpatient costs associated with the beneficiary's stay.

The State agency processed and paid 2,810 Medicaid inpatient hospital claims, totaling \$841,091,655 (\$447,096,789 Federal share), for beneficiaries discharged during the period January 1, 2008, through November 30, 2009, which resulted in payments of \$100,000 (Federal share) or more (high-dollar payments).

OBJECTIVE

Our objective was to determine whether high-dollar Medicaid payments that the State agency made to hospitals for inpatient services were allowable.

SUMMARY OF FINDING

The State agency's high-dollar Medicaid payments to hospitals for inpatient service were almost always allowable. Of the 100 high-dollar payments in our sample, 97 payments were allowable and 1 payment was partially unallowable. We were unable to determine the allowability of the remaining two payments because the hospitals that received the payments had closed. The unallowable payment included an overpayment totaling \$15,649 (\$8,336 Federal share). Hospital officials attributed the overpayment to a data entry error which resulted in an incorrect DRG being assigned to a beneficiary's stay.

RECOMMENDATION

We recommend that the State agency refund \$8,336 to the Federal Government.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendation. The State agency's comments are included as the Appendix.

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| STATE AGENCY COMMENTS | |

INTRODUCTION

BACKGROUND

Medicaid Program

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to 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 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(a), the State must refund the Federal share of unallowable overpayments made to Medicaid providers.

New York's Medical Assistance Payments for Inpatient Hospital Services

In New York State, the Department of Health (State agency) administers the Medicaid program. The State agency uses the Medicaid Management Information System (MMIS), a computerized payment and information reporting system, to process and pay Medicaid claims.

Attachment 4.19-A of New York's Medicaid State plan describes the methods and standards that the State agency must use to determine medical assistance amounts for inpatient hospital services. Attachment 4.19-A, part I, section 86-1.50 of the State plan requires the State agency to use a prospective payment system (PPS) for inpatient hospital services. Under the PPS, the State agency pays hospital costs at predetermined rates for patient discharges. The rates vary according to the diagnosis-related group (DRG) to which a beneficiary's stay is assigned. The DRG payment is generally accepted as payment in full to the hospital for all inpatient costs associated with the beneficiary's stay.

The State agency processed and paid 2,810 Medicaid inpatient hospital claims, totaling \$841,091,655 (\$447,096,789 Federal share), for beneficiaries discharged during the period January 1, 2008, through November 30, 2009, which resulted in payments of \$100,000 (Federal share) or more (high-dollar payments).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether high-dollar Medicaid payments that the State agency made to hospitals for inpatient services were allowable.

Scope

We reviewed 100 of the 2,810 high-dollar payments for inpatient claims that the State agency processed for beneficiaries discharged during the period January 1, 2008, through November 30, 2009. The 2,810 high-dollar payments totaled \$841,091,655 (\$447,096,789 Federal share).

We did not review the overall internal control structure of the State agency because our objective did not require us to do so. Rather, we reviewed only the internal controls that pertained to our objective.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal and State laws, regulations, and guidance;
- held discussions with State agency officials to gain an understanding of the State agency's procedures for reimbursing inpatient hospital services;
- ran computer programming applications at the MMIS fiscal agent that identified 2,810 high-dollar Medicaid payments made to 148 hospitals, totaling \$841,091,655 (\$447,096,789 Federal share), for inpatient claims;
- selected a simple random sample of 100 payments from the population of 2,810 payments and, for each payment:
 - contacted officials at the corresponding hospital to determine whether claim(s) information reported to the MMIS fiscal agent was accurate and, if not, why the claim(s) information was incorrect; and
 - calculated the unallowable portion, if any, of the high-dollar payment.

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.

FINDING AND RECOMMENDATION

UNALLOWABLE HIGH-DOLLAR PAYMENT

The State agency's high-dollar Medicaid payments to hospitals for inpatient service were almost always allowable. Of the 100 high-dollar payments in our sample, 97 payments were allowable and 1 payment was partially unallowable. We were unable to determine the allowability of the remaining two payments because the hospitals that received the payments had closed. The

unallowable payment included an overpayment totaling \$15,649 (\$8,336 Federal share). Hospital officials attributed the overpayment to a data entry error which resulted in an incorrect DRG being assigned to a beneficiary's stay.

RECOMMENDATION

We recommend that the State agency refund \$8,336 to the Federal Government.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendation. The State agency's comments are included as the Appendix.

APPENDIX

APPENDIX: STATE AGENCY COMMENTS



Nirav R. Shah, M.D., M.P.H.
Commissioner

Sue Kelly
Executive Deputy Commissioner

June 8, 2011

James P. Edert
Regional Inspector General for Audit Services
Department of Health and Human Services
Region II
Jacob Javitz Federal Building
26 Federal Plaza
New York, New York 10278

Ref. No. A-02-10-01036

Dear Mr. Edert:

The New York State Department of Health (Department) has reviewed Department of Health and Human Services, Office of Inspector General draft audit report A-02-10-01036 on "Review of Medicaid High Dollar Amounts for Inpatient Services in New York State from January 1, 2008 through November 30, 2009." The report contains a single recommendation for the Department to refund \$8,336 to the Federal government. The Department agrees with the recommendation and will refund this amount to the Federal government.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert W. Reed". The signature is fluid and cursive.

Robert W. Reed
Deputy Commissioner
for Administration

cc: Jason Helgerson
James Sheehan
Diane Christensen
Dennis Wendell
Stephen Abbott
Stephen F. LaCasse
Irene Myron
Ronald Farrell
Barry Benner
John Brooks