

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NEW JERSEY CLAIMED EXCESSIVE
MEDICAID DISPROPORTIONATE
SHARE HOSPITAL PAYMENTS
TO FOUR HOSPITALS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Gloria L. Jarmon
Deputy Inspector General

March 2014
A-02-10-01042

Office of Inspector General

<https://oig.hhs.gov>

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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.

INTRODUCTION

WHY WE DID THIS REVIEW

Under the Medicaid Disproportionate Share Hospital (DSH) program, the New Jersey Department of Human Services (State agency) is required to make payments to hospitals that provide significant amounts of uncompensated care¹ to Medicaid and low-income populations. These DSH payments may not exceed the hospitals' uncompensated care costs for providing services to patients who are eligible for Medicaid or have no health insurance for services provided during the year (known as the "hospital-specific limit").² While performing a survey of DSH payments, we determined that the State agency lacked controls to prevent DSH payments from exceeding hospital-specific limits.

OBJECTIVE

The objective of this review was to determine whether the State agency claimed Federal reimbursement for DSH payments that exceeded hospital-specific limits for State fiscal year (SFY) 2007.

BACKGROUND

Medicaid Program

The Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer Medicaid. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers Medicaid. 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.

Disproportionate Share Hospital Program

The State agency is required to make special payments, known as DSH payments, to hospitals that serve a disproportionate share of low-income or uninsured patients. DSH payments may not exceed the hospital-specific limit.

New Jersey's Disproportionate Share Hospital Program

In New Jersey, the State agency administers the DSH program. The State agency estimates the hospital-specific limit for each hospital using historical data from a prior year. The Medicaid State plan requires that these estimated payments made to the hospitals on a quarterly basis be subsequently adjusted on the basis of the hospitals' actual costs.

¹ Uncompensated care costs are costs incurred to provide services to Medicaid and uninsured patients less payments received for those services.

² Social Security Act, section 1923(g)(1)(A).

HOW WE CONDUCTED THIS REVIEW

Our review covered DSH payments made by the State agency totaling \$1,112,253,434 (\$556,126,717 Federal share) to 92 hospitals during SFY 2007 (July 1, 2006, through June 30, 2007). We verified the State's calculation of the hospital-specific limit and compared hospitals' actual cost data to the DSH payments made by the State agency. Appendix A contains the details of our audit scope and methodology.

FINDING

The State agency generally claimed Federal reimbursement for DSH payments that did not exceed hospital-specific limits. Specifically, the State agency claimed reimbursement for DSH payments totaling \$1,068,243,898 (\$534,121,949 Federal share) to 88 hospitals that did not exceed the hospital-specific limit. However, the State agency claimed reimbursement for DSH payments to four hospitals that exceeded the hospital-specific limit by \$44,009,536 (\$22,004,768 Federal share).³ (See table below.) The overpayments occurred because the State agency had not established procedures for reconciling and adjusting DSH payments to hospital-specific limits.

Table: Unallowable Disproportionate Share Hospital Payments

Hospital	Hospital-Specific Limit	Payment Made to Hospital	Total Difference	Federal Share of Difference
Raritan Bay Medical Center	\$25,387,623	\$25,397,829	\$10,206	\$5,103
Jersey City Medical Center	55,589,781	94,399,835	38,810,054	19,405,027
Capital Health System at Fuld	19,521,438	20,870,371	1,348,933	674,467
Mount Carmel Guild	594,907	4,435,250	3,840,343	1,920,171
Total	\$101,093,749	\$145,103,285	\$44,009,536	\$22,004,768

RECOMMENDATIONS

We recommend that the State agency:

- refund \$22,004,768 to the Federal Government and
- establish procedures for reconciling and adjusting DSH payments to hospital-specific limits.

³ Owing to lack of documentation, we excluded \$100,468,569 applicable to five county hospitals from our review.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency disagreed with our recommendation that it refund the \$22,004,768 in DSH overpayments to the Federal Government, concurred with our recommendation that it establish procedures for reconciling and adjusting DSH payments to hospital-specific limits, and described steps that it had taken or planned to take to implement this recommendation.

The State agency stated that payment information it initially provided to us for the 92 hospitals that received DSH payments during SFY 2007 included estimated costs for uninsured patients. The State agency further stated that it had deferred to an independently certified DSH audit required by CMS to reconcile its actual uninsured cost information to estimated data used to calculate hospital-specific DSH limits. However, because the DSH audit included several caveats, the State agency prepared a “reconciling calculation” for OIG auditors. On the basis of this calculation, the State agency claimed excess DSH payments for four hospitals. Subsequently, the State agency provided the OIG auditors additional, “more accurate” information applicable to uninsured clients for the four hospitals. Using the new information, the State agency calculated that three of the four hospitals identified in our report did not receive excess DSH payments in SFY 2007. The State agency stated that the excess DSH payment to the remaining hospital (Mount Carmel Guild) was \$634,391 (Federal share \$317,196).

The State agency’s comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency’s comments and additional information, we maintain that our finding and recommendations are valid because the additional information was incomplete and potentially unreliable. Specifically, the State agency did not provide additional information for all 92 hospitals that received DSH payments. Rather, the State agency provided data only for the four hospitals identified in our report. Further, we could not rely on the State agency’s new information because it did not reconcile to audited cost reports.

For our review, we used audited cost reports to verify hospital-specific limits. Specifically, we reviewed the reconciling calculation and supporting documentation for uninsured patient cost data for 92 hospitals provided by the State agency. Using this calculation, we identified that the State agency claimed excess DSH payments for four hospitals. The State agency subsequently used a different source for its uninsured patient cost data and provided a revised hospital-specific DSH limit for these four hospitals. However, we could not rely on this additional information because the uninsured patient cost data did not reconcile to audited cost reports. Further, to be consistent in determining the overall effect of the State agency’s revised reconciliation, the State agency would have to provide reliable information for all 92 hospitals, not just the 4 hospitals identified in our report.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our review covered DSH payments made by the State agency totaling \$1,112,253,434 (\$556,126,717 Federal share) to 92 hospitals during SFY 2007. Our objective did not require an understanding or assessment of the State agency's overall internal control structure. We limited our review to gaining an understanding of the State agency's procedures for calculating DSH payments.

We performed our fieldwork at the State agency's offices in Trenton, New Jersey, from October 2010 through February 2013.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal and State requirements;
- obtained from the State agency a list of 97 hospitals that received DSH payments during SFY 2007;
- reviewed the State agency's Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, Form CMS-64, for the period July 1, 2006, through June 30, 2007, to determine DSH payments claimed for Federal reimbursement;
- obtained from the State agency the DSH hospital-specific limit methodology and its calculations for 92 of the 97 hospitals;⁴
- for each hospital with DSH payments exceeding hospital-specific limits, obtained the hospital's cost reports and reports from the State agency's payment database to verify figures in the State agency's calculations;
- compared the hospital-specific limit to payments the State agency made to each hospital to determine whether any hospitals received payments in excess of their limits; and
- discussed the results of our review with State agency officials.

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 objectives.

⁴ We excluded five hospitals from our review because the State agency did not provide documentation to support its payments to these facilities.

APPENDIX B: STATE AGENCY COMMENTS



CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

State of New Jersey
DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
PO Box 712
TRENTON, NJ 08625-0712

November 22, 2013

JENNIFER VELEZ
Commissioner

VALERIE HARR
Director

Report Number A-02-10-01042

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

Dear Mr. Edert:

This letter is in response to your letter dated October 8, 2013 concerning the Department of Health and Human Services, Office of the Inspector General (OIG) draft report entitled *New Jersey Claimed Excessive Medicaid Disproportionate Share Hospital Payments to Four Hospitals*. Your letter provides the opportunity for the State to comment on this draft report.

Section 1923 of the Social Security Act (the Act) allows states to claim federal reimbursement on disproportionate share hospital (DSH) payments that offset uncompensated costs of providing care to uninsured clients and medical assistance clients. However, each facility's DSH payment is limited to the provisions of §1923(g)(1) of the Act. The objective was to determine whether the State agency claimed federal reimbursement on payments exceeding the limits set forth in §1923(g)(1) of the Act during state fiscal year (SFY) 2007.

The draft audit report concluded that the Division of Medical Assistance and Health Services (DMAHS) claimed reimbursement for DSH payments to four hospitals that exceeded the hospital-specific limit by \$44,009,536 (\$22,004,768 Federal share). Specifically, the Federal Share of the overpayments referenced in the OIG's draft report is as follows:

- Jersey City Medical Center: \$19,405,027
- Mount Carmel Guild: \$ 1,920,171
- Capital Health System at Fuld: \$ 674,467
- Raritan Bay Medical Center: \$ 5,103

We appreciate the opportunity to provide this response to the draft OIG audit report. Following are the auditors' recommendations and the DMAHS responses:

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The OIG recommends that New Jersey Refund \$22,004,768 to the Federal Government:

The State does not concur with the OIG's draft finding and recommended refund. As part of the SFY2007 hospital-specific DSH limit review, the auditor initially requested New Jersey's SFY2007 estimated hospital-specific DSH limits calculation. After their review of the estimated calculation, a final reconciliation calculation was requested. New Jersey had not previously prepared a SFY2007 hospital-specific DSH limit reconciliation. With CMS' requirement for an independent certified DSH audit, New Jersey originally deferred to the audit report for the reconciliation. However, the SFY2007 was one of the years included in the first independent certified DSH audit, and it included several caveats, thus, a reconciling calculation was prepared by the State for the OIG auditor.

The initial reconciliation indicated excess DSH payments for the four hospitals identified in the draft report. Additional information specifically related to the uninsured costs for the four hospitals was identified and provided to the auditors in April 2013. This uninsured cost information is more accurate as the costs are derived from actual claims data for services provided to uninsured clients whereas the original reconciliation included an uninsured cost estimate based on a percentage of charity care and bad debt charges. The more accurate uninsured cost data was reviewed by the auditor but was not included in the hospital-specific DSH limit review findings. Incorporating this documentation would have resulted in Capital Health System at Fuld, Jersey City Medical Center and Raritan Bay Medical Center receiving no excess DSH payments in SFY2007 (see enclosed chart).

In addition to more accurate uninsured costs, the State also provided revised Medicaid cost and payment information for Mount Carmel Guild based on its final settlement for SFY2007. These updates result in Mount Carmel Guild receiving only \$634,391 in excess DSH payments in SFY2007 (see enclosed chart).

Note that the calculations represented in the original and revised reconciliations for all facilities do not include Medicaid managed care cost or payment data. Its inclusion would have likely resulted in greater hospital-specific DSH limits for all facilities as the State's participating managed care organizations generally reimburse less than cost.

The OIG Recommends the Establishment of Procedures for Reconciling and Adjusting DSH Payments to Hospital-specific Limits:

The State concurs with the OIG's recommendation in establishing protocols to better assure that DSH payments do not exceed the hospitals-specific DSH limits. DMAHS' corrective actions include, but are not limited, to the following:

- 1) The federal government, through DSH reporting and audit protocols set forth in §1923(j)(2) of the Act and 42 CFR 447.299, has established the parameters for the calculation of the hospital-specific DSH limits and intends to recover federal reimbursement paid on these excessive claims beginning SPRY 2011.
- 2) The State has a pending state plan amendment before CMS that would allow DSH payments in excess of the hospital-specific DSH limit to be reallocated to qualifying facilities, whose payments do not exceed the hospital-specific DSH limit.

James P. Edert
November 22, 2013
Page 3

- 3) The DMAHS has established the Office of Federal Fund Compliance that ensures the calculation of the hospital-specific DSH limit complies with federal rules and that all allowable costs and revenues are included in the calculation. Moreover, the State Medicaid agency is actively working with hospitals that have historically received excess DSH payments in order to properly identify DSH payments that risk exceeding the hospital specific limits.
- 4) The State's DSH payments fall under the purview of several agencies. The DMAHS has developed better methods of communication between itself and other agencies, for which the policy of the DSH payments are responsible. This action on the part of the DMAHS provides for better understanding of all DSH issues and helps mitigate the State's financial exposure resulting from excess DSH payments.

The professionalism, patience and courtesy of the auditors throughout this audit have been noteworthy and are greatly appreciated. The opportunity to review and comment on the draft report is also appreciated. If you have any questions or require additional information, please contact me or Richard Hurd at 609-588-2550.

Sincerely,



Valerie Harr
Director

VH:H

c: Jennifer Velez
Richard Hurd

DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
OFFICE OF REIMBURSEMENT
DRG DISPROPORTIONATE SHARE HOSPITAL SPECIFIC OBRA LIMITS FOR SFY 2007 RECONCILIATION

Original Reconciliation

As represented in Draft Report #A-02-10-01042

Hospital Medicare Number	Hospital Name	Medicaid Cost	Uninsured Cost	Medicaid Payments	Hospital-Specific DSH Limit	DSH Payments	Hospital-Specific Limit Gap Uninsured Payments
310039	Raritan Bay Medical Center	\$ 16,764,490	\$ 20,849,363	\$ 12,226,228	\$ 25,387,625	\$ 25,397,829	\$ (10,204)
310074	Jersey City Medical Center	\$ 41,494,078	\$ 49,123,785	\$ 35,028,082	\$ 55,589,781	\$ 94,399,835	\$ (38,810,054)
310092	Capital Health System at Fuld	\$ 11,203,204	\$ 20,581,823	\$ 12,263,589	\$ 19,521,438	\$ 20,870,371	\$ (1,348,933)
314010	Mount Carmel Guild	\$ 9,475,937	\$ 45,302	\$ 8,926,333	\$ 594,906	\$ 4,435,250	\$ (3,840,344)

Revised Reconciliation

Hospital Medicare Number	Hospital Name	Medicaid Cost	Uninsured Cost	Medicaid Payments	Hospital-Specific DSH Limit	DSH Payments	Hospital-Specific Limit Gap Uninsured Payments
310039	Raritan Bay Medical Center	\$ 16,764,490	\$ 23,570,702	\$ 12,226,228	\$ 26,108,964	\$ 25,397,829	\$ 2,711,135
310074	Jersey City Medical Center	\$ 41,494,078	\$ 90,500,389	\$ 35,028,082	\$ 96,966,385	\$ 94,399,835	\$ 2,566,550
310092	Capital Health System at Fuld	\$ 11,203,204	\$ 24,177,531	\$ 12,263,589	\$ 23,117,146	\$ 20,870,371	\$ 2,246,775
314010	Mount Carmel Guild	\$ 11,817,494	\$ 1,330,068	\$ 9,346,703	\$ 3,800,859	\$ 4,435,250	\$ (634,391)