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JUL 18 2008

Report Number: A-03-07-00207

Mr. Theodore Dallas  
Executive Deputy Secretary  
Pennsylvania Department of Public Welfare  
P.O. Box 2675  
Harrisburg, Pennsylvania 17105-2675

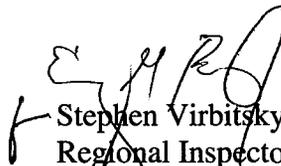
Dear Mr. Dallas:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Disproportionate Share Hospital Payments Made by Pennsylvania to Temple University Hospital for State Fiscal Year 2005-06." We will forward a copy of this report to the HHS action official noted on the following page.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet 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-03-07-00207 in all correspondence.

Sincerely,

  
Stephen Virbitsky  
Regional Inspector General  
for Audit Services

Enclosure

**HHS Action Official:**

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

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF DISPROPORTIONATE  
SHARE HOSPITAL PAYMENTS  
MADE BY PENNSYLVANIA TO  
TEMPLE UNIVERSITY HOSPITAL  
FOR STATE FISCAL YEAR  
2005–06**



Daniel R. Levinson  
Inspector General

July 2008  
A-03-07-00207

# ***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 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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# *Notices*

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

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

## **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 applicable Federal requirements. In Pennsylvania, the Department of Public Welfare (the State agency) administers the Medicaid program. Pennsylvania's Federal share is approximately 55 percent.

Section 1923 of the Act requires that States make Medicaid disproportionate share hospital (DSH) payments to hospitals that serve a disproportionately large number of low-income patients. The Omnibus Budget Reconciliation Act of 1993 limits these payments to 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.

Pennsylvania made \$170.9 million (\$94 million Federal share) in DSH payments to hospitals associated with its State-related universities, including \$45.5 million (\$24.9 million Federal share) authorized by an amendment to the State plan for State fiscal year (FY) 2005–06, submitted under transmittal number 05-014. In its correspondence with the State agency concerning the amendment, CMS informed the State agency that it would verify that the total DSH payments did not exceed the hospital-specific DSH limits of the hospitals. CMS and the Office of Inspector General (OIG) agreed that we would conduct those reviews. This report presents the results of our review at the Temple University Hospital (Temple). Located in Philadelphia, Pennsylvania, Temple is a 617-bed tertiary hospital and certified Level I regional trauma center. It provides medical care to over 28,000 inpatients and 150,000 outpatients annually.

### **OBJECTIVE**

Our objective was to determine whether DSH payments to Temple for State FY 2005–06 did not exceed the hospital-specific limits imposed by section 1923(g) of the Act.

### **RESULTS OF REVIEW**

DSH payments made by Pennsylvania to Temple for State FY 2005–06 did not exceed the hospital-specific limits imposed by section 1923(g) of the Act. For State FY 2005–06, Temple's uncompensated care costs, or hospital-specific DSH limit, totaled \$112,229,126. These costs were in excess of its DSH payments of \$87,506,127. Therefore, we have no recommendations.

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## INTRODUCTION

### BACKGROUND

#### Medicaid Disproportionate Share Hospital 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 applicable Federal requirements. In Pennsylvania, the Department of Public Welfare (the State agency) administers the Medicaid program. Pennsylvania's Federal share is approximately 55 percent.

Section 1923 of the Act requires that States make Medicaid disproportionate share hospital (DSH) payments to hospitals that serve a disproportionately large number of low-income patients. The Omnibus Budget Reconciliation Act of 1993 limits these payments to 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.

#### Hospital-Specific Disproportionate Share Limit

Pursuant to Federal law, only costs incurred by a hospital may be included as part of its uncompensated care costs. 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.

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 . . . . HCFA<sup>1</sup> believes this interpretation of the term "costs incurred" is reasonable because it provides States with a great deal of flexibility

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<sup>1</sup>CMS was formerly called the Healthcare Financing Administration (HCFA).

up to a maximum standard that is widely known and used in the determination of hospital costs.

## **Payments to Hospitals Associated With State-Related Universities**

Pennsylvania made \$170.9 million (\$94 million Federal share) in DSH payments to hospitals associated with its State-related universities, including \$45.5 million (\$24.9 million Federal share) authorized by an amendment to the State plan for State fiscal year (FY) 2005–06, submitted under transmittal number 05-014. In its correspondence with the State agency concerning the amendment, CMS informed the State agency that it would verify that the total DSH payments did not exceed the hospital-specific DSH limits of the hospitals. CMS and the Office of Inspector General (OIG) agreed that we would conduct those reviews.

## **Temple University Hospital**

Located in Philadelphia, Pennsylvania, Temple University Hospital (Temple) is a 617-bed tertiary hospital and certified Level I regional trauma center. It provides medical care to over 28,000 inpatients and 150,000 outpatients annually.

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

### **Objective**

Our objective was to determine whether DSH payments to Temple for State FY 2005–06 did not exceed the hospital-specific limits imposed by section 1923(g) of the Act.

### **Scope**

Our audit covered \$87,506,127 (\$48,143,890 Federal share) in DSH payments claimed by the State agency and made to Temple from July 1, 2005, through June 30, 2006. We did not perform an in-depth review of the State’s internal control structure; however, we made a limited assessment of the fiscal controls related to DSH claims submitted for Federal reimbursement.

We conducted our fieldwork at the State agency in Harrisburg, Pennsylvania, and at the business offices of Temple University Hospital in Philadelphia, Pennsylvania.

### **Methodology**

To accomplish our objective, we:

- reviewed the Omnibus Budget Reconciliation Acts of 1981 and 1993, sections 1902 and 1923 of the Act, and other applicable DSH criteria;
- reviewed those pages of Attachment 4.19A of the Pennsylvania State plan that governed DSH payments;

- reviewed the State plan amendment and associated correspondence between the State and CMS and related State and hospital documents concerning DSH payments to the hospitals;
- reconciled \$550 million (\$302.7 million Federal share) of DSH payments claimed by Pennsylvania for State FY 2005–06 on the Quarterly Medicaid Statements of Expenditures for the Medical Assistance Program, Form CMS-64 (CMS-64) ;
- obtained from the State agency its calculations of Temple’s estimated hospital-specific DSH limit for State FY 2005–06, which was used by the State to determine its DSH payments;
- calculated Temple’s actual hospital-specific DSH limit for State FY 2005–06 through an analysis of hospital cost reports and other supporting documentation;
- compared the DSH payments to the hospital-specific DSH limits; and
- discussed the audit results with hospital and university 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 finding and conclusions based on our audit objective.

### **RESULTS OF REVIEW**

DSH payments made by Pennsylvania to Temple for State FY 2005–06 did not exceed the hospital-specific limits imposed by section 1923(g) of the Act. In State FY 2005–06, Pennsylvania made \$87.5 million (Federal share \$48.1 million) in DSH payments to Temple. These payments were derived from several funding sources and were each approved by CMS.

**Table 1: Disproportionate Share Hospital Payments to Temple**

<b>DSH Payments for State FY 2005–06</b>	<b>Amount</b>
General Fund—Payments made to eligible hospitals statewide	\$30,955,000
Special Funds—Payments from dedicated sources, e.g. Tobacco Settlement Fund <sup>2</sup>	21,843,325
General Fund—Payments for services to State General Assistance (GA) patients	20,860,247
General Fund—Payments targeted to academic medical centers	13,847,555
<b>Total</b>	<b>\$87,506,127</b>

For State FY 2005–06, Temple’s uncompensated care costs, or hospital-specific DSH limit, totaled \$112.2 million.

**Table 2: Temple’s Hospital-Specific Disproportionate Share Limit**

<b>Hospital-Specific DSH Limit for State FY 2005–06</b>	<b>Amount</b>
Costs for services to Medical Assistance patients	\$193,477,103
Payments for services to Medical Assistance patients	(131,353,022)
Costs for services to uninsured patients (including State GA patients)	51,065,099
Payments for services to uninsured patients	(960,054)
<b>Total</b>	<b>\$112,229,126</b>

The DSH payments did not exceed the hospital-specific limit. Therefore, we have no recommendations.

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<sup>2</sup>Pennsylvania’s State plan allow it to report its payments made for medical services provided to its General Assistance (GA) beneficiaries as a DSH payment that is eligible for Federal matching funds. GA is a State administered program that provides financial and medical benefits to low income families not eligible for cash payment through the Temporary Assistance for Needy Families program or the Medicaid program. Medical expenditures for treating GA beneficiaries are included with those of the uninsured.

# ACKNOWLEDGMENTS

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

Robert Baiocco, *Audit Manager*  
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For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.