



Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

September 10, 2010

Report Number: A-04-10-06125

Ms. Emma Forkner
Medicaid Director
Department of Health & Human Services
P. O. Box 8206
1801 Main Street
Columbia, SC 29201-8206

Dear Ms. Forkner:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Medicaid Settlement of the Medical University of South Carolina for Fiscal Year Ended June 30, 2008*. 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 Andrew Funtal, Audit Manager, at (404) 562-7762 or through email at Andrew.Funtal@oig.hhs.gov. Please refer to report number A-04-10-06125 in all correspondence.

Sincerely,

/Peter J. Barbera/
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 SETTLEMENT OF
THE MEDICAL UNIVERSITY OF SOUTH
CAROLINA FOR FISCAL YEAR ENDED
JUNE 30, 2008**



Daniel R. Levinson
Inspector General

September 2010
A-04-10-06125

Office of Inspector General

<http://oig.hhs.gov>

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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
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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

Medicaid Program

Pursuant to Title XIX of the Social Security 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.

Inpatient Medicaid Services

The Social Security Act, section 1905(a) (1), requires States to provide inpatient hospital services for Medicaid recipients. Federal regulations (42 CFR § 440.10(a)) define inpatient hospital services as items and services ordinarily furnished by the hospital for the care and treatment of inpatients under the direction of a physician or dentist.

South Carolina Medicaid Program

In the State of South Carolina, the Department of Health & Human Services (the State agency) administers the Medicaid program. The agency's *Medicaid Provider Manual for Hospital Services* defines methods and requirements for Medicaid payments. For inpatient hospital services, the State agency uses a prospective payment system based on hybrid payment methodologies. The payment system reimburses hospitals either an amount per discharge (per case) or a per diem rate. The diagnosis related group (DRG) determines which method of reimbursement is used to reimburse the hospital.

For discharges paid by the per case method, the State agency uses specific relative weights and rates. The relative weights are established by comparing charges for each DRG category with charges for all categories in the State agency's historical Medicaid claims database. A base rate, calculated by a statewide average per case rate, is assigned to each DRG. The base rate is then multiplied by the relative weight to establish the base payment for each DRG. Additional factors, including the length of stay, transfers, and cost outliers, increase the base payment.

For discharges paid by the per diem method, statewide DRG-specific per diem rates are established for the following categories of hospitals: teaching hospitals with intern/resident programs, teaching hospitals without intern/resident programs, and non-teaching hospitals. Hospitals receive the appropriate per diem rate times the number of days of stay, subject to defined limits.

The State agency uses Medicaid charges and cost-to-charge ratios from Medicare cost reports to complete the annual retrospective interim Medicaid cost settlement.

Medical University of South Carolina

The Medical University of South Carolina (MUSC) is an academic health science center with a 700-bed hospital and 6 colleges that train approximately 2600 health professionals per year. As an academic medical center or teaching hospital, MUSC annually records more than one million patient encounters.

OBJECTIVE

Our objective was to ensure that MUSC received Medicaid inpatient payments in accordance with applicable Federal and State laws, regulations, and guidance.

SUMMARY OF FINDING

MUSC generally received Medicaid inpatient payments in accordance with applicable Federal and State Laws, regulations, and guidance. However, from our random sample of 100 MUSC paid claims, 1 claim was not in accordance with State Medicaid criteria. This erroneous claim resulted in an excessive outpatient charge of \$2,585.

Although the *Medicaid Provider Manual for Hospital Services* requires that all outpatient services rendered during an inpatient stay be included in the inpatient DRG payment, MUSC billed the State agency for both inpatient and outpatient procedures on the same date. This erroneous claim occurred because of a clerical error. Subsequently, MUSC installed an edit in its electronic billing system to prevent inpatient and outpatient claims from being billed for the same date of service.

RECOMMENDATION

We recommend that the State agency direct MUSC to file a corrected bill rescinding the improper outpatient claim.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our finding and agreed to follow up with MUSC to ensure that the claim has been corrected and the overpayment has been refunded.

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

MEDICAL UNIVERSITY OF SOUTH CAROLINA COMMENTS

In written comments on our draft report, MUSC concurred with our finding.

MUSC's comments are included in their entirety as Appendix C.

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INTRODUCTION

BACKGROUND

Medicaid Program

Pursuant to Title XIX of the Social Security 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.

Inpatient Medicaid Services

The Social Security Act, section 1905(a)(1), requires States to provide inpatient hospital services for Medicaid recipients. Federal regulations (42 CFR § 440.10(a)) define inpatient hospital services as items and services ordinarily furnished by the hospital for the care and treatment of inpatients under the direction of a physician or dentist.

South Carolina Medicaid Program

In the State of South Carolina, the Department of Health & Human Services (the State agency) administers the Medicaid program. The agency's *Medicaid Provider Manual for Hospital Services* defines methods and requirements for Medicaid payments. For inpatient hospital services, the State agency uses a prospective payment system based on hybrid payment methodologies. The payment system reimburses hospitals either an amount per discharge (per case) or a per diem rate. The diagnosis related group (DRG) determines which method of reimbursement is used to reimburse the hospital.

For discharges paid by the per case method, the State agency uses specific relative weights and rates. The relative weights are established by comparing charges for each DRG category with charges for all categories in the State agency's historical Medicaid claims database. A base rate, calculated by a statewide average per case rate, is assigned to each DRG. The base rate is then multiplied by the relative weight to establish the base payment for each DRG. Additional factors, including the length of stay, transfers, and cost outliers, increase the base payment.

For discharges paid by the per diem method, statewide DRG-specific per diem rates are established for the following categories of hospitals: teaching hospitals with intern/resident programs, teaching hospitals without intern/resident programs, and non-teaching hospitals. Hospitals receive the appropriate per diem rate times the number of days of stay, subject to defined limits.

The State agency uses Medicaid charges and cost-to-charge ratios from Medicare cost reports to complete the annual retrospective interim Medicaid cost settlement.

Medical University of South Carolina

The Medical University of South Carolina (MUSC) is an academic health science center with a 700-bed hospital and 6 colleges that train approximately 2600 health professionals per year. As an academic medical center or teaching hospital, MUSC annually records more than one million patient encounters.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to ensure that MUSC received Medicaid inpatient payments in accordance with applicable Federal and State laws, regulations, and guidance.

Scope

Our review covered 9,288 Medicaid inpatient paid claims and related charges for MUSC for the cost reporting period from July 1, 2007, to June 30, 2008.

We did not assess the overall internal control structure of the State agency or MUSC. Rather, we limited our internal control review to the objective of our audit. In March 2010, we performed fieldwork at: the MUSC offices located in Charleston, South Carolina; the Medicaid State agency in Columbia, South Carolina; and the Medicare Fiscal Intermediary offices in Columbia, South Carolina.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal, and State laws, regulations, and guidance;
- reviewed the State agency's policies, procedures, and hybrid DRG payment methodologies for the determination of Medicaid payments;
- reviewed the State Medicaid plan for Inpatient Hospital Services;
- interviewed State agency officials to obtain insight on payment methodologies and the finalization process of hospital Medicaid inpatient settlements;
- performed a risk analysis of MUSC's cost report by comparing revenue and cost center groupings to ensure consistency with the prior year;
- reviewed 9,288 Medicaid inpatient payments, totaling more than \$97 million (Appendix A) to MUSC for the cost reporting period July 1, 2007, through June 30, 2008, to identify variances and further assess risks;

- selected the inpatient payment category for further review based on our risk analysis;
- selected a random sample of 100 Medicaid claims totaling approximately \$1.2 million from the period July 1, 2007, to June 30, 2008;
- compared the 100 sampled claims to the Medicaid Statistical Information System database to determine whether any inpatient claims with self-care discharge codes were admitted to other hospitals on the same day as discharge;
- compared the 100 sampled claims to the Social Security Death Index to ensure that no services were billed after death;
- reviewed the 100 sampled claims for outpatient charges during the inpatient dates of service;
- reviewed the associated hospital accounting records for the 100 sampled claims and verified the accuracy of the DRG payment calculations used by the State agency to determine payment for these claims;
- computed the payments of selected sample items to determine whether the Medicaid payments were based on the published hybrid payment calculations defined by the State agency; and
- discussed our results with MUSC 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.

FINDING AND RECOMMENDATION

MUSC generally received Medicaid inpatient payments in accordance with applicable Federal and State Laws, regulations, and guidance. However, from our random sample of 100 MUSC paid claims, 1 claim was not in accordance with State Medicaid criteria. This erroneous claim resulted in an excessive outpatient charge of \$2,585.

Although the *Medicaid Provider Manual for Hospital Services* requires that all outpatient services rendered during an inpatient stay be included in the inpatient DRG payment, MUSC billed the State agency for both inpatient and outpatient procedures on the same date. This erroneous claim occurred because of a clerical error. Subsequently, MUSC installed an edit in its electronic billing system to prevent inpatient and outpatient claims from being billed for the same date of service.

INPATIENT HOSPITAL SERVICES

Section 2 of South Carolina's *Medicaid Provider Manual for Hospital Services* states that all services rendered during an inpatient stay are included in the DRG reimbursement. Accordingly, all outpatient services that coincide with an inpatient admission are deemed to be inpatient services, regardless of relation to the inpatient admission, and should be included in the DRG payment.

RECOMMENDATION

We recommend that the State agency direct MUSC to file a corrected bill rescinding the improper outpatient claim.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our finding and agreed to follow up with MUSC to ensure that the claim has been corrected and the overpayment has been refunded.

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

MEDICAL UNIVERSITY OF SOUTH CAROLINA COMMENTS

In written comments on our draft report, MUSC concurred with our finding.

MUSC's comments are included in their entirety as Appendix C.

APPENDIXES

APPENDIX A: SAMPLING METHODOLOGY

POPULATION

The population consisted of The Medical University of South Carolina inpatient claims paid to the South Carolina Department of Health & Human Services with dates of service from July 1, 2007, through June 30, 2008.

SAMPLING FRAME

The sampling frame was an Excel database containing 9,288 paid inpatient claims totaling \$97,080,793 with dates of service from July 1, 2007, through June 30, 2008.

SAMPLE UNIT

The sample unit was an inpatient paid claim.

SAMPLE DESIGN

We used a simple random sample of paid claims.

SAMPLE SIZE

We selected a sample of 100 paid claims.

SOURCE OF RANDOM NUMBERS

We generated the random numbers with the Office of Inspector General, Office of Audit Services (OIG/OAS), statistical software.

METHOD FOR SELECTING SAMPLE

We consecutively numbered the inpatient paid claims in our sampling frame from 1 to 9,288. After generating 100 random numbers, we selected the corresponding frame items.

ESTIMATION METHODOLOGY

Our sample contained only one error. Per OAS policy, we made no estimate of unallowable payments.

APPENDIX B: STATE AGENCY COMMENTS



State of South Carolina
Department of Health and Human Services

Mark Sanford
Governor

Emma Forkner
Director

August 12, 2010

Mr. Peter J. Barbera
Regional Inspector General for Audit Services
U. S. Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, Georgia 30303

Report Number: A-04-10-06125

Dear Mr. Barbera:

We have reviewed the report and concur with the audit finding for the *Review of Medicaid Settlement of the Medical University of South Carolina (MUSC) for Fiscal Year Ended June 30, 2008* regarding the erroneous outpatient claim. We will follow up with MUSC to assure that the claim has been corrected and the overpayment has been refunded.

If you have any questions or need additional information, please let me know.

Sincerely,

A handwritten signature in cursive script that reads "Emma Forkner".

Emma Forkner
Director

EF/wh



APPENDIX C: MEDICAL UNIVERSITY OF
SOUTH CAROLINA COMMENTS

W. Stuart Smith, FACHE
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& Executive Director
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August 25, 2010

Mr. Peter J. Barbera
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of the Inspector General
Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

Report Number: A-04-10-06125

Dear Mr. Barbera:

We are in receipt of your letter dated August 12, 2010 along with the draft report entitled *Review of Medicaid Settlement of the Medical University of South Carolina for Fiscal Year Ended June 30, 2008*. We have reviewed the findings and concur with this result.

If we can be of further assistance, please do not hesitate to contact us. With kind regards, I am

Sincerely,


W. Stuart Smith
Executive Director