INDIANA IMPROPERLY CLAIMED FEDERAL REIMBURSEMENT FOR ALL REVIEWED MEDICAID INPATIENT PSYCHIATRIC HOSPITAL SERVICE PAYMENTS TO EVANSVILLE STATE HOSPITAL

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

June 2013
A-05-12-00041
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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.

Indiana Medicaid Program

The Indiana Office of Medicaid Policy and Planning (State Medicaid agency) administers the Indiana Medicaid program according to the CMS-approved State plan. The State Medicaid agency makes Medicaid payments to eligible hospitals and claims Federal reimbursement for a portion of those payments. The Indiana Division of Mental Health and Addiction operates six State-owned psychiatric hospitals that provide inpatient treatment for mental health conditions. The Indiana State Department of Health is the State survey agency responsible for determining whether these hospitals meet the standards for participation in the Medicaid program. Evansville State Hospital (Evansville), one of the six State-owned psychiatric hospitals, provides inpatient psychiatric services primarily to adults with severe mental illness. During the audit period, January 1, 2008, through December 31, 2010, Evansville participated in the Medicaid, but not the Medicare, program.

Federal Requirements for Inpatient Psychiatric Hospital Services

For States to claim Federal reimbursement for their Medicaid inpatient psychiatric service payments to a psychiatric hospital, the hospital’s inpatient services must meet the Federal definitions of such services. These definitions require the provider to demonstrate compliance with the basic Medicare Conditions of Participation (CoP) generally applicable to all hospitals and two special Medicare CoP applicable to psychiatric hospitals. The basic Medicare CoP address issues such as licensing, quality of care, safety, patient rights, self-assessment and performance improvement, and service availability. The special Medicare CoP specify staffing and medical record requirements.

A psychiatric hospital must undergo review by qualified health care professionals to demonstrate compliance with the basic and special Medicare CoP. That review provides CMS with reasonable assurance that participating facilities are improving the health and protecting the safety of Medicaid beneficiaries. For periods in which a psychiatric hospital does not demonstrate compliance with the basic and special Medicare CoP, all inpatient psychiatric service payments received from the State Medicaid agency are ineligible for Federal reimbursement.
OBJECTIVE

Our objective was to determine whether the State Medicaid agency claimed Federal reimbursement for inpatient psychiatric service payments made to Evansville in accordance with certain Federal requirements for inpatient psychiatric hospital services.

SUMMARY OF FINDING

The State Medicaid agency claimed $7,092,206 in Federal reimbursement for inpatient psychiatric service payments made to Evansville that were not in accordance with Federal requirements for inpatient psychiatric hospital services. Evansville did not demonstrate compliance with the special Medicare CoP at any time during the audit period. Therefore, all of the $7,092,206 in such Federal reimbursement for claims with dates of service during the audit period was not allowable. The State Medicaid agency made these improper claims because it believed that Evansville had met all requirements to be eligible for Medicaid inpatient psychiatric service payments.

RECOMMENDATIONS

We recommend that the State Medicaid agency:

- refund $7,092,206 to the Federal Government for its share of inpatient psychiatric service payments made to Evansville for claims with dates of service when it did not demonstrate compliance with the special Medicare CoP and

- ensure that Federal reimbursement for Medicaid inpatient psychiatric service payments to psychiatric hospitals is claimed only if those hospitals can demonstrate compliance with the special Medicare CoP.

STATE MEDICAID AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State Medicaid agency did not concur with our first recommendation and did not comment on our second recommendation. The State Medicaid agency did not concur with our first recommendation because it believes that Evansville demonstrated compliance with the special Medicare CoP throughout the audit period.

After reviewing the State Medicaid agency’s comments, we maintain that our findings and recommendations are valid. Federal Medicaid requirements mandate that inpatient service payments to psychiatric hospitals are eligible for Federal reimbursement only if they demonstrate compliance with the special Medicare CoP. Evansville did not demonstrate such compliance during the audit period.
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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 applicable Federal requirements.

Indiana Medicaid Program

The Indiana Office of Medicaid Policy and Planning (State Medicaid agency) administers the Indiana Medicaid program according to the CMS-approved State plan. The State Medicaid agency makes Medicaid payments to eligible hospitals and claims Federal reimbursement for a portion of those payments. The Indiana Division of Mental Health and Addiction operates six State-owned psychiatric hospitals that provide inpatient treatment for mental health conditions. The Indiana State Department of Health is the State survey agency responsible for determining whether these hospitals meet the standards for participation in the Medicaid program. Evansville State Hospital (Evansville), an institution for mental diseases (IMD) and one of the six State-owned psychiatric hospitals, provides inpatient psychiatric services primarily to adults, including those under age 21 and those aged 65 or older, with severe mental illness. During the audit period, January 1, 2008, through December 31, 2010, Evansville participated in the Medicaid, but not the Medicare, program.

Federal Requirements for Inpatient Psychiatric Hospital Services

For States to claim Federal reimbursement for their Medicaid inpatient psychiatric service payments to a psychiatric hospital, the hospital’s inpatient services must meet the Federal definitions of such services. These definitions require the provider to demonstrate compliance with the basic Medicare Conditions of Participation (CoP) generally applicable to all hospitals and two special Medicare CoP applicable to psychiatric hospitals.

Medicaid Payments

Pursuant to § 1903(a)(1) of the Act, States may claim Federal reimbursement for a portion of their Medicaid medical assistance payments. For patients in IMDs, a category that generally includes psychiatric hospitals, medical assistance includes inpatient hospital services for
individuals aged 65 or older but excludes care or services for younger individuals, except for inpatient psychiatric hospital services for individuals under age 21 (§ 1905(a) of the Act).¹

Definitions of Medicaid Inpatient Psychiatric Hospital Services

The Federal definitions of Medicaid inpatient psychiatric hospital services require the hospitals providing such services to comply with Medicare CoP, including two special Medicare CoP. The basic Medicare CoP address issues such as licensing, quality of care, safety, patient rights, self-assessment and performance improvement, and service availability (42 CFR §§ 482.1–482.23 and 42 CFR §§ 482.25–482.57). The special Medicare CoP specify staffing and medical record requirements (42 CFR §§ 482.61 and 482.62).

Demonstrating Compliance With Medicare Conditions of Participation

To demonstrate compliance with the basic and special Medicare CoP, a psychiatric hospital must undergo review by qualified health care professionals. Medicare-participating psychiatric hospitals are generally deemed to meet both the basic and special Medicare CoP for Medicaid purposes (42 CFR § 488.5(b)). Psychiatric hospitals that do not participate in Medicare can demonstrate compliance with the basic and special Medicare CoP by successfully completing a survey of those CoP performed by the State survey agency (42 CFR § 488.10(a)). During the audit period, a psychiatric hospital could also generally demonstrate compliance with the basic Medicare CoP² by being accredited as a hospital by CMS-approved organizations, such as the Joint Commission.³ However, during that time, such accreditation did not demonstrate compliance with the special Medicare CoP (42 CFR § 488.5(a)).⁴ According to the CMS State Operations Manual, § 2718A, psychiatric hospitals had to be specially surveyed by qualified psychiatric health care professionals to demonstrate compliance with the special Medicare CoP.

Accreditation or survey by qualified health care professionals provides CMS with reasonable assurance that participating facilities are improving the health and protecting the safety of Medicaid beneficiaries. To provide such assurance, the surveys must be performed “as frequently as necessary to ascertain compliance” (42 CFR § 488.20(b)(1)).

For periods in which a psychiatric hospital does not demonstrate compliance with the basic and special Medicare CoP, all inpatient psychiatric service payments received from the State Medicaid agency are ineligible for Federal reimbursement.

¹ Pursuant to 42 CFR § 441.151(a)(3), medical assistance also includes necessary inpatient psychiatric hospital services for individuals aged 21 if they were receiving such services immediately before reaching age 21.

² One exception is the utilization review requirement in 42 CFR § 482.30; however, compliance with the utilization review requirement was outside the scope of our audit.

³ The Joint Commission was previously known as the Joint Commission on Accreditation of Healthcare Organizations and is so referenced in 42 CFR § 488.5(a).

⁴ After the audit period (January 1, 2008, through December 31, 2010), CMS granted the Joint Commission deeming authority with respect to the two special Medicare CoP (76 Fed. Reg. 10598 (Feb. 25, 2011)).
OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State Medicaid agency claimed Federal reimbursement for inpatient psychiatric service payments made to Evansville in accordance with certain Federal requirements for inpatient psychiatric hospital services.

Scope

We reviewed Evansville’s compliance for the period from January 1, 2008, through December 31, 2010, with certain Federal requirements for inpatient psychiatric hospital services. We identified $7,092,206 in Federal reimbursement for Medicaid inpatient psychiatric service payments made to Evansville for claims with dates of service during the audit period. We limited our review of the State Medicaid agency’s internal controls to those significant to the objective of our audit.

We performed our fieldwork from February through October 2012.

Methodology

To accomplish our objective, we:

- examined Federal and State Medicaid requirements for inpatient psychiatric hospital services,
- identified periods for which neither the State Medicaid agency nor Evansville could demonstrate Evansville’s compliance with certain Federal requirements for inpatient psychiatric hospital services,
- held discussions with officials of the State Medicaid agency and reviewed its Medicaid payment records, and
- determined the amount of Federal reimbursement for Medicaid inpatient psychiatric service payments made to Evansville for claims with dates of service during periods when it did not demonstrate compliance.

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.
FINDING AND RECOMMENDATIONS

The State Medicaid agency claimed $7,092,206 in Federal reimbursement for inpatient psychiatric service payments made to Evansville that were not in accordance with Federal requirements for inpatient psychiatric hospital services. Evansville did not demonstrate compliance with the special Medicare CoP at any time during the audit period. Therefore, all of the $7,092,206 in such Federal reimbursement for claims with dates of service during the audit period was not allowable. The State Medicaid agency made these improper claims because it believed that Evansville had met all requirements to be eligible for Medicaid inpatient psychiatric service payments.

FEDERAL REQUIREMENTS

Pursuant to 42 CFR §§ 440.140(a) and 482.60, an IMD in which individuals aged 65 or older receive Medicaid inpatient hospital services must meet the basic Medicare CoP (42 CFR §§ 482.1–482.23 and 42 CFR §§ 482.25–482.57) applicable to all hospitals and two special Medicare CoP applicable to psychiatric hospitals (42 CFR §§ 482.61 and 482.62). Pursuant to §§ 1905(h)(1) and 1861(f) of the Act, a psychiatric hospital that provides Medicaid inpatient psychiatric services to individuals under age 21 must also meet the basic and special Medicare CoP.

The Medicare CoP for psychiatric hospitals are minimum standards that provide a basis for improving quality of care and protecting the health and safety of Medicaid beneficiaries. The basic Medicare CoP address issues such as licensing, quality of care, safety, patient rights, self-assessment and performance improvement, and service availability (42 CFR §§ 482.1–482.23 and 42 CFR §§ 482.25–482.57). The special staffing Medicare CoP require that psychiatric hospitals “have adequate numbers of qualified professional and supportive staff to evaluate patients, formulate written, individualized comprehensive treatment plans, provide active treatment measures, and engage in discharge planning” (42 CFR § 482.62). The special medical record Medicare CoP require that “medical records maintained by a psychiatric hospital … permit determination of the degree and intensity of the treatment provided to individuals who are furnished services in the institution” (42 CFR § 482.61).

EVANSVILLE DID NOT DEMONSTRATE COMPLIANCE WITH SPECIAL MEDICARE CONDITIONS OF PARTICIPATION DURING THE AUDIT PERIOD

The State Medicaid agency improperly claimed $7,092,206 in Federal reimbursement for inpatient psychiatric service payments made to Evansville for claims with dates of service when it did not demonstrate compliance with the special Medicare CoP. Evansville did not participate in Medicare at any time during the audit period and was not thereby deemed to meet either the basic or the special Medicare CoP for Medicaid purposes. The Joint Commission accredited Evansville as a hospital throughout the audit period, and that accreditation generally

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5 Effective January 6, 2012, Evansville began participating in the Medicare program as a psychiatric hospital. However, such participation cannot retroactively demonstrate Evansville’s compliance with either the basic or the special Medicare CoP during the audit period, which ended on December 31, 2010.
demonstrated Evansville’s compliance with the basic Medicare CoP. However, Evansville did not demonstrate compliance with the special Medicare CoP because it had last been surveyed by the State survey agency to demonstrate compliance with those standards in October 1993. As of the beginning of the audit period, that survey was more than 14 years old and, therefore, did not reasonably satisfy the requirement to be resurveyed “as frequently as necessary to ascertain compliance” (42 CFR § 488.20(b)(1)). Accordingly, the October 1993 survey could not legitimately demonstrate Evansville’s compliance with the special Medicare CoP during the audit period.

The State Medicaid agency improperly claimed Federal reimbursement for claims with dates of service when Evansville did not demonstrate compliance with the special Medicare CoP because the State Medicaid agency believed that Evansville had met all requirements to be eligible for Medicaid inpatient psychiatric service payments.

RECOMMENDATIONS

We recommend that the State Medicaid agency:

- refund $7,092,206 to the Federal Government for its share of inpatient psychiatric service payments made to Evansville for claims with dates of service when it did not demonstrate compliance with the special Medicare CoP and

- ensure that Federal reimbursement for Medicaid inpatient psychiatric service payments to psychiatric hospitals is claimed only if those hospitals can demonstrate compliance with the special Medicare CoP.

STATE MEDICAID AGENCY COMMENTS

In written comments on our draft report, the State Medicaid agency did not concur with our first recommendation and did not comment on our second recommendation. The State Medicaid agency did not concur with our first recommendation because it believes that the State survey agency’s October 1993 survey of the special Medicare CoP demonstrated Evansville’s compliance with those standards throughout the audit period.

The State Medicaid agency indicated that it was entitled to rely on the October 1993 survey throughout the audit period for two reasons. First, the State Medicaid agency indicated that 42 CFR § 488.20(b)(1) did not stipulate a specific survey or recertification interval. Second, it stated that there was no indication that the October 1993 survey was no longer valid. Specifically, it stated that periodic Joint Commission accreditation surveys and recent CMS Medicare certification provided adequate assurance that Evansville had maintained its compliance with the special Medicare CoP after the October 1993 survey. It also stated that we did not identify evidence of noncompliance, “[n]or were there any deficiencies that needed correction.”

The State Medicaid agency’s comments are included in their entirety as the Appendix.
OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State Medicaid agency’s comments, we maintain that our findings and recommendations are valid. Federal Medicaid requirements mandate that inpatient service payments to psychiatric hospitals are eligible for Federal reimbursement only if they demonstrate compliance with the special Medicare CoP. Evansville did not demonstrate such compliance during the audit period.

The State Medicaid agency first indicated that 42 CFR § 488.20(b)(1) did not stipulate a specific survey or recertification interval. That regulation requires State survey agencies to “[r]esurvey providers or suppliers as frequently as necessary to ascertain compliance.” In this case, we concluded that, on its face, the October 1993 survey did not reasonably satisfy the requirement that Evansville be resurveyed “as frequently as necessary to ascertain compliance” because at the beginning of our audit period (January 1, 2008), the survey was already more than 14 years old.

The State Medicaid agency stated that periodic Joint Commission accreditation surveys and recent CMS Medicare certification provided adequate assurance that Evansville maintained its compliance with the special Medicare CoP after the October 1993 survey; we disagree. During the audit period, Joint Commission accreditation did not demonstrate compliance with the special Medicare CoP (42 CFR § 488.5(a)). According to the CMS State Operations Manual, § 2718A, psychiatric hospitals had to be specially surveyed by qualified psychiatric health care professionals to demonstrate compliance with the special Medicare CoP. No such survey was performed during the audit period, nor was one performed in the 14 years prior to our audit period. We agree that on or after its January 6, 2012, effective date, Evansville’s Medicare certification as a psychiatric hospital generally demonstrated its compliance with the special Medicare CoP for Medicaid purposes (42 CFR § 488.5(b)). However, such certification cannot retroactively demonstrate Evansville’s compliance with the special Medicare CoP during the audit period, which ended on December 31, 2010.

The State Medicaid agency also stated that we did not identify evidence of noncompliance, “[n]or were there any deficiencies that needed correction,” but that comment goes beyond the scope of our audit. Our audit did not determine whether Evansville was compliant with the special Medicare CoP; it determined only whether Evansville had demonstrated compliance with the special Medicare CoP as required by CMS regulations and guidance. Evansville did not demonstrate compliance with the special Medicare CoPs during our audit period.
April 4, 2013

Sheri L. Fulcher
Regional Inspector General for Audit Services
Office of Audit Services, Region V
233 North Michigan, Suite 1360
Chicago, IL 60601

Re: OIG Report No. A-05-12-00041

Dear Ms. Fulcher:

The Indiana Office of Medicaid Policy and Planning (OMPP) appreciates the opportunity to comment on the Office of Inspector General’s (OIG) draft report entitled Indiana Improperly Claimed Federal Reimbursement for All Reviewed Medicaid Inpatient Psychiatric Hospital Services Payments to Evansville State Hospital (audit report).

OMPP strongly disagrees with the OIG’s recommendation that it refund $7,092,206 to the federal government for Medicaid inpatient psychiatric services payments made to Evansville State Hospital (Evansville) for claims made during the audit period. The payments were allowable because Evansville was certified for compliance with the special Medicare conditions of participation (CoPs).

As the draft audit report notes, Evansville was surveyed for compliance with the Medicare special conditions of participation in October 1993. Audit Report, at 4. This survey included the record keeping and staffing requirements codified in 42 C.F.R. § 482.61-62. However, the draft audit report concludes that “the October 1993 survey could not legitimately demonstrate Evansville’s compliance with the special Medicare CoP during the audit period” because the survey was 14 years old at the time the audit period began. Id. at 5.

This is incorrect. The regulation at 42 C.F.R. § 488.20(b)(1) does not provide a time limit on States’ ability to rely on successful hospital surveys. The regulation provides only that CMS and the State survey agencies must “[r]esurvey providers or suppliers as frequently as necessary to ascertain compliance and confirm the correction of deficiencies.” There was no indication that the prior survey for the special Medicare conditions of participation was no
longer valid, and OIG has not identified one. Nor were there any deficiencies that needed correction. In 1994, Evansville submitted to the State surveying agency evidence of its compliance with the corrective action plan based on issues identified during the survey. Accordingly, OMPP was free to rely on the prior successful survey for compliance with the two Medicare special CoPs during the audit period.

From 1998 to 2008, Evansville has received continued accreditation letters from the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). In light of these continuous successful surveys from JCAHO, Evansville was not aware of any material changes, deficiencies, or issues that would necessitate a re-survey for Medicare special CoPs. Furthermore, Evansville was recently recertified by the Center for Medicare and Medicaid Services (CMS) for participation in the Medicare program as a psychiatric hospital after a successful survey by CMS. This successful survey further demonstrates that there were no changes or deficiencies in the interim that required a re-survey. In the absence of the OIG identifying issues that would have required Evansville’s recertification, OMPP was entitled to rely on the prior survey to demonstrate compliance with Medicare special CoPs.

The State appreciates your consideration of the information provided in this letter. If you have any questions or require additional information, please contact Kim Forrest at 317-234-2129 or Kim.Fors@fssa.in.gov.

Sincerely,

Patricia Casanova
Medicaid Director