



MAY 28 2002

Memorandum

Date *Thomas D. Roslewicz*
From Thomas D. Roslewicz
Deputy Inspector General
Subject for Audit Services

To Review of the Calculation Methodology Utilized for Disproportionate Share Hospital Amounts Claimed Under the Missouri Medicaid Program (A-07-01-02089)

Neil Donovan
Director, Audit Liaison Staff
Centers for Medicare & Medicaid Services

We are alerting you to the issuance within 5 business days from the date of this memorandum of our final report entitled, "Review of the Calculation Methodology Utilized for Disproportionate Share Hospital Amounts Claimed Under the Missouri Medicaid Program." A copy of the report is attached. This review was conducted at the request of the Centers for Medicare & Medicaid Services (CMS) as part of a multi-State review of Medicaid disproportionate share hospital (DSH) payments. We suggest you share this report with components of CMS involved with the State Medicaid agency oversight, particularly the Center for Medicaid and State Operations.

The purpose of the review was to verify that DSH amounts claimed by Missouri for State Fiscal Year ended June 30, 1999 were calculated in accordance with the approved Medicaid State plan.

Our audit showed that DSH costs claimed on behalf of State mental hospitals were overstated due to a clerical error. A simple calculation error occurred while compiling DSH costs resulting in a \$1.3 million Federal financial participation (FFP) overstatement.

We recommended that the State return 1999 DSH overpayments of \$1.3 million FFP to the Federal Government; review other years for similar errors and return any overpayments; and implement controls to ensure such calculation errors do not occur in the future. The State concurred with our finding that there was a \$ 1.3 million FFP overpayment but did not respond to the remaining recommendations.

If you have any questions or comments regarding this report, please contact George M. Reeb, Assistant Inspector General for Centers for Medicare and Medicaid Division, at (410) 786-7104 or James Aasmundstad, Regional Inspector General for Audit Services, Region VII, at (816) 426-3591.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE CALCULATION
METHODOLOGY UTILIZED FOR
DISPROPORTIONATE SHARE
HOSPITAL AMOUNTS CLAIMED UNDER
THE MISSOURI MEDICAID PROGRAM**



**JANET REHNQUIST
Inspector General**

**May 2002
A-07-01-02089**



MAY 31 2002

Common Identification Number: A-07-01-02089

Mr. Gregory Vadner
Missouri Department of Social Services
Division of Medical Services
P.O. Box 6500
Jefferson City, Missouri 65102-6500

Dear Mr. Vadner:

This report provides the results of our review of the calculation methodology utilized for disproportionate share hospital (DSH) amounts claimed under the Missouri Medicaid Program. The purpose of the review was to verify that DSH amounts claimed for State Fiscal Year ended June 30, 1999 were calculated in accordance with the approved Medicaid State plan.

Our audit showed that DSH costs claimed on behalf of State mental hospitals were overstated due to a clerical error. A simple calculation error occurred while compiling DSH costs resulting in a \$1.3 million Federal financial participation (FFP) overstatement.

We recommended that the State return 1999 DSH overpayments of \$1.3 million FFP to the Federal Government; review other years for similar errors and return any overpayments; and implement controls to ensure such calculation errors do not occur in the future. The State agency agreed that a calculation error resulted in a \$1.3 million overpayment. The State did not respond to the remaining recommendations. The amount of the recommended overpayment considers adjustments made as a result of the State agency's comments on our draft report.

INTRODUCTION

Background

In 1965, Medicaid was established as a jointly funded Federal and State program providing medical assistance to qualified low-income people. At the Federal level, the program is administered by the Centers for Medicare & Medicaid Services (CMS), an agency within the Department of Health and Human Services (HHS). Within the broad legal framework, each State designs and administers its own Medicaid program and is required to submit State Medicaid plan amendments for CMS approval. In Missouri, the Department of

Social Services, Division of Medical Services is the single State agency responsible for the administration of the approved Medicaid State plan.

The Omnibus Budget Reconciliation Act (OBRA) of 1981 established the DSH program by adding section 1923 to the Social Security Act (the Act). Section 1923 required State Medicaid agencies to make additional payments to hospitals serving disproportionate numbers of low-income patients with special needs and allowed the States considerable flexibility to establish their DSH programs.

The OBRA 1993 established additional inpatient DSH parameters by amending section 1923 of the Act to limit DSH payments to a hospital's incurred uncompensated care costs. Under section 1923(g) of the Act, the uncompensated care costs were limited to costs of medical services provided to Medicaid and uninsured patients less payments received for those patients excluding Medicaid DSH payments. Section 1923(g)(1) states:

“Section 1923...

(g) Limit on Amount of Payment to Hospital.--

(1) Amount of adjustment subject to uncompensated costs.--

(A) IN GENERAL,---A payment adjustment during a fiscal year shall not be considered to be consistent with...respect to a hospital if the payment adjustment exceeds 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.”

For State Fiscal Years beginning between July 1, 1994 and January 1, 1995, payments to public hospitals were limited to 100 percent of uncompensated care cost with a special provision that allowed payments up to 200 percent to those public hospitals qualifying as high DSH hospitals. For State Fiscal Years beginning on or after January 1, 1995, payments to all hospitals were limited to 100 percent of uncompensated care costs.

According to the approved Missouri Medicaid State plan (State plan), uncompensated care cost is defined as:

“Inpatient days estimated to be reimbursed by Missouri Medicaid multiplied by the Medicaid inpatient rate PLUS base year Medicaid outpatient payments divided by eighty percent (80%) LESS base year general plan payments PLUS base year charity care and bad debts charges multiplied by the base year cost-to-charge ratio.”

The Missouri DSH payment and uncompensated care cost for a hospital for any given year is based on the fourth prior year cost report, trended for hospital market basket and anticipated growth indices. For example, the State's 1999 DSH payments (the year under review) were based on 1995 Medicare/Medicaid cost reports.

Objective, Scope, and Methodology

Our audit was performed in accordance with generally accepted government auditing standards and included calculations for amounts claimed for State Fiscal Year 1999 DSH payments. For the Fiscal Year ending June 30, 1999, Missouri reported \$671 million (\$406 million FFP) for 147 hospitals.

The objective of the review was to verify that DSH payment calculations were in accordance with the approved Medicaid State plan. To accomplish the objective, we reviewed the State Division of Medical Service's (State agency) policies and procedures for calculating uncompensated care costs and DSH payments. We reviewed Federal Medicaid statutes, Code of Federal Regulations, CMS guidance, and the State plan pertaining to the DSH program. We selected three hospitals whose DSH payments for 1999 totaled about \$100 million, collectively. The \$100 million is about 16 percent of the total DSH payments in Missouri. We performed an on-site review of the books and records at each of the three hospitals to ascertain whether uncompensated care costs were supported, accurately calculated, and reported.

We reviewed books and records at the Department of Mental Health to the extent necessary to verify supporting documentation for certain DSH amounts claimed on behalf of State mental hospitals. Our review at the Department of Mental Health included all community mental health center (CMHC) costs included in the computation of uncompensated care costs. We did not trace payments of DSH monies from the State agency to the respective hospitals.

Our internal control review included interviewing State agency, Department of Mental Health, and hospital personnel to the extent necessary to obtain an understanding of the internal controls relevant to the calculation of the uncompensated care costs and DSH payments.

Fieldwork was performed at the State agency, the Department of Mental Health, and three hospitals.

FINDING AND RECOMMENDATIONS

The Fiscal Year 1999 amounts claimed for DSH were overstated because the calculations included a simple error in accumulation of costs. The Federal share of the resulting overpayments was \$1.3 million.

Calculation Error

Each year the Department of Mental Health prepares an uncompensated care cost schedule for the State mental hospitals and submits this information to the State agency. The State agency utilizes the raw uncompensated care data submitted to compute DSH amounts for the State mental hospitals. For State Fiscal Year 1999 DSH amounts, the Department of Mental Health submitted a schedule of State Fiscal Year 1995 costs, charges, and statistics for the State mental hospitals which included approximately \$191 million of uncompensated care costs. Of this amount, about \$55 million was for non-hospital Department of Mental Health costs pertaining primarily to services provided by CMHCs.

Included in the \$55 million non-hospital costs was \$16 million for services purchased from 22 privately owned and operated CMHCs, \$26 million for the cost of operating 6 State-run CMHCs, and \$13 million for supported community living costs. The CMHC costs represent a variety of services provided to CMHC clients, including total case management and community psychiatric rehabilitation services. Supported community living costs generally represent costs of State personnel that monitor and otherwise assist the mentally ill that live independently in the community.

The Department of Mental Health's uncompensated care cost schedule contained a simple calculation error that occurred when certain supported community living costs were incorrectly added twice. As a result, the base 1995 uncompensated care cost schedule was overstated by \$1.8 million. We then applied inflation and growth factors of 32.85 percent to increase the overstatement to \$2.4 million. An 11.2 percent reduction factor for the institution for mental diseases cap resulted in a \$2.1 million overstatement of the 1999 DSH payment. Applying the Federal medical assistance percentage of 60.35 percent, the calculation error resulted in an overpayment of \$1.3 million FFP.

RECOMMENDATIONS

We recommended that the State:

- (1) Return \$1.3 million to the Federal Government.
- (2) Review DSH payment calculations for other years and determine whether similar calculation errors have occurred, and return any additional DSH overpayments to the Federal Government.
- (3) Implement controls to ensure that such calculation errors do not occur in the future.

State Agency's Comments

Our draft report originally questioned duplicate payments and the calculation error. Based on the State agency's comments and our analysis of additional documentation provided subsequent to the comments, we have reduced the recommended refund to include only the amount attributable to the calculation error. The State agency agreed that the calculation error resulted in an overpayment. The complete text of the State agency's comments are included as an Appendix to this report.

Final determinations as to the actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the action 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.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act (see 45 CFR part 5). As such, within 10 business days after the final report is issued, it will be posted on the world-wide-web at <http://oig.hhs.gov/>.

To facilitate identification, please refer to Common Identification Number A-07-01-02089 in all correspondence relating to this report.

Sincerely,



James P. Aasmundstad
Regional Inspector General
for Audit Services

Direct Reply to HHS Action Official:

Mr. Joe Tilghman, Regional Administrator
Centers for Medicare & Medicaid Services
Room 235, Federal Building
601 E. 12th St.
Kansas City, Missouri 64106



BOB HOLDEN
GOVERNOR

MISSOURI
DEPARTMENT OF SOCIAL SERVICES
DIVISION OF MEDICAL SERVICES
P.O. BOX 6500
JEFFERSON CITY
65102-6500

RELAY MISSOURI
for hearing and speech impaired
TEXT TELEPHONE
1-800-735-2966
VOICE
1-800-735-2466

December 12, 2001

James P. Aasmundstad
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services
601 East 12th Street, Room 284A
Kansas City, MO 64106

Dear Mr. Aasmundstad:

The Department of Social Services, Division of Medical Services (DMS) has reviewed the Department of Health and Human Services Office of Inspector General (OIG) draft report dated November 21, 2001 regarding the disproportionate share hospitals (DSH) payments for the State Fiscal Year (SFY) ended June 30, 1999. The report dealt with hospital services provided by state mental health hospitals and their affiliated Community Mental Health Hospitals.

*

DMS concurs with the finding that the Department of Mental Health's uncompensated care cost schedule contained a calculation error which resulted in the 1995 uncompensated care cost schedule to be overstated. This error resulted in an overpayment of \$1.3 million in federal financial participation (FFP).

DMS will await the final audit on the SFY 1999 DSH payments to return the federal share of any overpayment for SFY 1999. If you have any questions please contact Roger Backes of my staff at (573) 751-8994.

Sincerely,

Billie Ann Waite for

Gregory A. Vadner
Director

GAV:kl

"AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER"

* Office of Audit Services Note -- This paragraph is not applicable because the finding referred to by the auditee is not included in this report.