



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region VII  
601 East 12<sup>th</sup> Street, Room 0429  
Kansas City, MO 64106

November 5, 2009

Report Number: A-07-09-02746

Mr. Eugene P. Nickerson  
Director  
Medicare Audit & Reimbursement  
National Government Services, Inc.  
2 Gannett Drive  
South Portland, Maine 04106

Dear Mr. Nickerson:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Geographic Classification of Marion General Hospital for Medicare Operating Disproportionate Share Hospital Payment." 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 at (816) 426-3591, or contact James Korn, Audit Manager, at (303) 844-7153 or through email at [James.Korn@oig.hhs.gov](mailto:James.Korn@oig.hhs.gov). Please refer to report number A-07-09-02746 in all correspondence.

Sincerely,

/Patrick J. Cogley/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Mr. Jonathan Blum  
Acting Director  
Centers for Drug and Health Plan Choice  
Centers for Medicare & Medicaid Services  
200 Independence Avenue, SW  
314-G, HHH Building  
Washington, DC 20201

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF GEOGRAPHIC  
CLASSIFICATION OF MARION GENERAL  
HOSPITAL FOR MEDICARE OPERATING  
DISPROPORTIONATE SHARE  
HOSPITAL PAYMENT**



Daniel R. Levinson  
Inspector General

November 2009  
A-07-09-02746

# *Office of Inspector General*

<http://oig.hhs.gov>

---

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:

## *Office of Audit Services*

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.

## *Office of Evaluation and Inspections*

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.

## *Office of Investigations*

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

---

**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <http://oig.hhs.gov>

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**

Pursuant to Title XVIII of the Social Security Act, the Medicare program provides health insurance for people age 65 or older, people under age 65 with certain disabilities, and people of all ages with end-stage renal disease (permanent kidney failure requiring dialysis or a kidney transplant). The Centers for Medicare & Medicaid Services (CMS) administers the program.

Medicare hospitals submit cost reports to their Medicare fiscal intermediaries or Medicare administrative contractors (MAC) annually. (Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 requires CMS to transfer the functions of fiscal intermediaries to MACs by October 2011.) Each cost report is based on the hospital's financial and statistical records, and the hospital attests to the accuracy of the data when submitting its cost report. After acceptance of the cost report, the fiscal intermediary performs a tentative settlement. Before making final settlement, the fiscal intermediary reviews the cost report and, if necessary, conducts an audit. The fiscal intermediary then issues a notice of program reimbursement. As the final settlement document, the notice of program reimbursement shows whether the Medicare program owes the hospital or the hospital owes the Medicare program.

The cost report is used to report various Medicare payments, including an operating disproportionate share hospital (operating DSH) payment if a hospital is deemed eligible for reimbursement of operating costs because it treats a disproportionate share of low-income patients. Medicare fiscal intermediaries or MACs make determinations, based on Federal regulations, as to whether a hospital qualifies for a Medicare operating DSH payment and the size of the payment. These determinations depend on numerous factors, including whether the hospital is in an urban area or a rural area.

Marion General Hospital (Marion) is a 171 bed, acute-care hospital located in Marion, Ohio. Marion claimed operating DSH adjustments of \$1,595,923 on its cost report for the fiscal year ending June 30, 2003, and \$1,304,273 on its cost report for the fiscal year ending June 30, 2004.

For the cost reports reviewed, Marion's fiscal intermediary was AdminaStar Federal, Inc. (AdminaStar Federal). Effective January 1, 2007, AdminaStar Federal, along with four other companies, became National Government Services, Inc. (NGS). Accordingly, we are issuing our report to NGS.

NGS is based in Indianapolis, Indiana, and currently serves as the fiscal intermediary for hospitals in several states, including Ohio.

### **OBJECTIVE**

Our objective was to determine whether the geographic classifications used by AdminaStar Federal to calculate the Medicare operating DSH adjustments resulted in an overpayment.

## **SUMMARY OF FINDINGS**

Geographic classifications used by AdminaStar Federal to calculate the Medicare operating DSH adjustments resulted in an overpayment at one hospital. Of the operating DSH adjustments totaling \$2,900,196 that Marion claimed on its cost reports for the fiscal years ending June 30, 2003, and June 30, 2004, \$437,861 was excessive because AdminaStar Federal calculated the operating DSH adjustments as if the hospital was urban for the entirety of the two consecutive cost reporting periods. However, Marion was rural for the period October 1, 2002, through September 30, 2003. This resulted in an operating DSH overpayment of \$437,861.

This overpayment occurred because AdminaStar Federal's controls did not always ensure that hospitals received Medicare operating DSH adjustments based upon the correct geographic classification.

## **RECOMMENDATION**

We recommend that NGS recover the \$437,861 in Medicare operating DSH overpayment from Marion.

## **NATIONAL GOVERNMENT SERVICES, INC., COMMENTS**

In written comments on our draft report, NGS stated that it has reopened Marion's cost report for the fiscal years ending June 30, 2003, and June 30, 2004, and has taken appropriate action to recover the overpayment. NGS's comments appear in their entirety as the Appendix.

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INTRODUCTION.....</b>	<b>1</b>
<b>BACKGROUND .....</b>	<b>1</b>
<b>OBJECTIVE, SCOPE, AND METHODOLOGY .....</b>	<b>2</b>
Objective .....	2
Scope.....	2
Methodology .....	2
<b>FINDINGS AND RECOMMENDATION.....</b>	<b>3</b>
<b>FEDERAL REQUIREMENTS.....</b>	<b>3</b>
<b>OVERPAYMENT RECEIVED.....</b>	<b>3</b>
<b>RECOMMENDATION .....</b>	<b>4</b>
<b>NATIONAL GOVERNMENT SERVICES, INC., COMMENTS .....</b>	<b>4</b>
<b>APPENDIX</b>	
<b>NATIONAL GOVERNMENT SERVICES, INC., COMMENTS</b>	

## INTRODUCTION

### BACKGROUND

Pursuant to Title XVIII of the Social Security Act (the Act), the Medicare program provides health insurance for people age 65 or older, people under age 65 with certain disabilities, and people of all ages with end-stage renal disease (permanent kidney failure requiring dialysis or a kidney transplant). The Centers for Medicare & Medicaid Services (CMS) administers the program.

Medicare hospitals submit cost reports to their Medicare fiscal intermediaries or Medicare administrative contractors (MAC) annually.<sup>1</sup> Each cost report is based on the hospital's financial and statistical records, and the hospital attests to the accuracy of the data when submitting its cost report. After acceptance of the cost report, the fiscal intermediary performs a tentative settlement. Before making final settlement, the fiscal intermediary reviews the cost report and, if necessary, conducts an audit. The fiscal intermediary then issues a notice of program reimbursement. As the final settlement document, the notice of program reimbursement shows whether the Medicare program owes the hospital or the hospital owes the Medicare program.

The cost report is used to report various Medicare payments, including an operating disproportionate share hospital (operating DSH) payment if a hospital is deemed eligible for reimbursement of operating costs because it treats a disproportionate share of low-income patients. Medicare fiscal intermediaries or MACs make determinations, based on Federal regulations, as to whether a hospital qualifies for a Medicare operating DSH payment and the size of the payment. These determinations depend on numerous factors, including whether the hospital is in an urban area or a rural area.

Marion General Hospital (Marion) is a 171 bed, acute-care hospital located in Marion, Ohio. Marion claimed operating DSH adjustments of \$1,595,923 on its cost report for the fiscal year ending June 30, 2003, and \$1,304,273 on its cost report for the fiscal year ending June 30, 2004.

For the cost reports reviewed, Marion's fiscal intermediary was AdminaStar Federal, Inc. (AdminaStar Federal). Effective January 1, 2007, AdminaStar Federal, along with four other companies, became National Government Services, Inc. (NGS). Accordingly, we are issuing our report to NGS.

NGS is based in Indianapolis, Indiana, and currently serves as the fiscal intermediary for hospitals in several states, including Ohio.

---

<sup>1</sup>Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 requires CMS to transfer the functions of carriers and fiscal intermediaries to MACs by October 2011.

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

### **Objective**

Our objective was to determine whether the geographic classifications used by AdminaStar Federal to calculate the Medicare operating DSH adjustments resulted in an overpayment.

### **Scope**

We reviewed the \$2,900,196 in Medicare operating DSH adjustments claimed on Marion's cost reports for the fiscal years ending June 30, 2003, and June 30, 2004.

We did not verify the accuracy of the factors in the Medicare operating DSH computation, other than to verify the accuracy of the geographic classification of the hospital.

We conducted our audit from June through December 2008.

### **Methodology**

To accomplish our objective, we did the following:

- We reviewed applicable Federal laws and regulations.
- We interviewed CMS officials to gain an understanding of how Medicare operating DSH payments are calculated.
- We obtained all cost reports from the Healthcare Cost Report Information System<sup>2</sup> for acute-care inpatient hospitals whose cost reporting periods ended in calendar years 2003 through 2006 as of March 31, 2007.
- We determined the geographic classification for all hospitals using data from the most recent U.S. Census to identify whether particular hospitals were geographically classified as rural or urban during our audit period. We then accounted for reclassifications done by the Medicare Geographic Classification Review Board and "Lugar" reclassifications (discussed below) in accordance with Section 1886(d)(8)(B) of the Act.
- We used the cost report data to recalculate the operating DSH payments based upon these geographic classifications to identify any hospitals that may have received an overpayment due to using an incorrect geographic classification. As a result of this process, we selected Marion's cost reports for the fiscal years ending June 30, 2003, and June 30, 2004, for further review.

---

<sup>2</sup>The Healthcare Cost Report Information System is a national database containing financial and statistical information extracted from hospital cost reports.

- We contacted NGS and confirmed, for the applicable Federal fiscal years, how Marion was geographically classified and determined how AdminaStar Federal calculated the operating DSH adjustments.

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 objective.

## **FINDINGS AND RECOMMENDATION**

Geographic classifications used by AdminaStar Federal to calculate the Medicare operating DSH adjustments resulted in an overpayment at one hospital. Of the operating DSH adjustments totaling \$2,900,196 that Marion claimed on its cost reports for the fiscal years ending June 30, 2003, and June 30, 2004, \$437,861 was excessive because AdminaStar Federal calculated the operating DSH adjustments as if the hospital was urban for the entirety of the two consecutive cost reporting periods. However, Marion was rural for the period October 1, 2002, through September 30, 2003. This resulted in an operating DSH overpayment of \$437,861.

### **FEDERAL REQUIREMENTS**

Pursuant to 42 CFR § 412.106, hospitals that serve a disproportionate number of low-income patients may receive an additional Medicare operating DSH payment. Determinations as to whether a hospital qualifies for a Medicare operating DSH payment and the size of the payment depend in part on whether the hospital is in an urban area or a rural area.

The geographic classifications used to determine whether the hospital is in an urban area or a rural area are based upon the definitions in 42 CFR §§ 412.62(f) or 412.64, which generally identify an urban area as a metropolitan statistical area as defined by the Office of Management and Budget (OMB). On June 6, 2003, OMB began classifying geographic areas using the core-based statistical areas identified on the decennial census conducted in 2000. CMS deferred implementation of these classifications until October 1, 2004.

A hospital's geographic classification can be reclassified by the Medicare Geographic Classification Review Board through an application process in accordance with 42 CFR § 412.230. A hospital's geographic classification can also be deemed urban if that hospital meets certain criteria based on residents' commuting patterns and population density. These "Lugar" hospitals are located in rural counties and have been reclassified as urban under § 1886(d)(8)(B) of the Act.

### **OVERPAYMENT RECEIVED**

Marion claimed an operating DSH overpayment of \$437,861 on its cost reports for the fiscal years ending June 30, 2003, and June 30, 2004, because AdminaStar Federal incorrectly calculated the operating DSH adjustments as if Marion was urban for the two consecutive cost

reporting periods. However, Marion was rural for the period October 1, 2002, through September 30, 2003, and for that time period AdminaStar Federal should have calculated the operating DSH adjustments accordingly.

The OMB definitions then in effect geographically classified Marion as a rural hospital for the periods of both of these cost reports. However, Marion received a reclassification to an urban area by the Medicare Geographic Classification Review Board for Federal fiscal years 2002 and 2004. Because Marion did not receive a geographic reclassification to an urban area for Federal fiscal year 2003, it was classified as rural. However, AdminaStar Federal calculated the operating DSH adjustments as though Marion was rural for Federal fiscal year 2003 (October 1, 2002, through September 30, 2003).

This overpayment occurred because AdminaStar Federal's controls did not always ensure that hospitals received Medicare operating DSH adjustments based upon the correct geographic classification.

### **RECOMMENDATION**

We recommend that NGS recover the \$437,861 in Medicare operating DSH overpayment from Marion.

### **NATIONAL GOVERNMENT SERVICES, INC., COMMENTS**

In written comments on our draft report, NGS stated that it has reopened Marion's cost report for the fiscal years ending June 30, 2003, and June 30, 2004, and has taken appropriate action to recover the overpayment. NGS's comments appear in their entirety as the Appendix.

# **APPENDIX**

## APPENDIX: AUDITEE COMMENTS



National Government Services, Inc.  
PO Box 4846  
Syracuse, New York 13221-4846  
A CMS Contracted Agent

## Medicare

August 28, 2009

Mr. Patrick J. Cogley  
Regional Inspector General for Audit Services  
Office of Inspector General  
601 East 12<sup>th</sup> Street  
Room 0429  
Kansas City, MO 64106

Re: A-07-09-02746  
Marion General Hospital-Provider Number 36-0011  
FYE 6/30/03 and 6/30/04

Dear Mr. Cogley:

In response to the draft audit report dated July 31, 2009 regarding the "Review of Geographic Classification of Marion General Hospital for Medicare Operating Disproportionate Share Hospital Payment", please consider the following comments.

National Government Services, Inc. (NGS) originally misclassified Marion General Hospital as 'urban' in the calculation of operating and capital disproportionate share (DSH) payments due to the change in reclassification from 'urban' to 'rural' that was effective on October 1, 2002. JSM/IDL-08362 identified the misclassification error relating to the capital portion of the DSH calculation on the FYE 6/30/03 cost report. At that time, we also identified the miscalculation on the operating DSH for FYE 6/30/03. Upon further investigation NGS identified a partial year misclassification on the FYE 6/30/04 cost report for both operating and capital DSH.

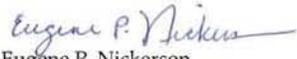
On October 2, 2008, NGS issued Marion General Hospital a Revised Notice of Program Reimbursement for FYE 6/30/03 to correct operating and capital disproportionate share payments recovering \$475,521. We also issued a Notice of Reopening on October 21, 2008 for FYE 6/30/04. A Revised Notice of Program Reimbursement for FYE 6/30/04 was issued on April 17, 2009 to correct operating and capital disproportionate share payments for the period of time the hospital was reclassified as rural recovering \$54,730.



In summary, NGS has reopened and recovered \$530,251 from Marion General Hospital for FYE's 6/30/03 and 6/30/04 for operating and capital disproportionate share payments.

If you should have any questions, please contact Kathy Guran at (513) 852-4274.

Sincerely,



Eugene P. Nickerson  
Director, Medicare Audit & Reimbursement  
National Government Services, Inc.

cc: Kathy Guran