



Region VII  
601 East 12<sup>th</sup> Street  
Room 0429  
Kansas City, Missouri 64106

October 16, 2009

Report Number: A-07-09-02757

Ms. Sandra L. Coston  
President and Chief Executive Officer  
First Coast Service Options, Inc.  
532 Riverside Avenue  
Jacksonville, Florida 33202

Dear Ms. Coston:

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 Hospital Cayetano Coll y Toste 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-07-09-02757 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 HOSPITAL  
CAYETANO COLL Y TOSTE FOR  
MEDICARE OPERATING  
DISPROPORTIONATE SHARE  
HOSPITAL PAYMENT**



Daniel R. Levinson  
Inspector General

October 2009  
A-07-09-02757

# *Office of Inspector General*

<http://oig.hhs.gov>

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that  
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## **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.

Hospital Cayetano Coll y Toste (the Hospital) is a 210 bed, acute-care hospital located in Arecibo, Puerto Rico. The Hospital claimed an operating DSH adjustment of \$1,087,360 on its cost report for the fiscal year ending December 31, 2003.

For the cost report reviewed, the Hospital's fiscal intermediary was Cooperativa de Seguros de Vida de Puerto Rico (COSVI). However, in keeping with the provisions of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, First Coast Service Options, Inc., (FCSO) became the Hospital's MAC effective March 1, 2009, thereby assuming the fiscal intermediary functions and responsibilities formerly discharged by COSVI. Accordingly, we are issuing our report to FCSO.

FCSO is based in Jacksonville, Florida, and currently serves as the MAC for hospitals in Puerto Rico, the U.S. Virgin Islands and Florida.

### **OBJECTIVE**

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

## **SUMMARY OF FINDINGS**

Geographic classifications used by COSVI to calculate the Medicare operating DSH adjustment resulted in an overpayment at one hospital. Of the operating DSH adjustment of \$1,087,360 that the Hospital claimed on its cost report for the fiscal year ending December 31, 2003, \$581,723 was excessive because COSVI calculated the operating DSH adjustment as if the Hospital was urban for the entire cost report period. However, the Hospital was rural for the entire cost report period. This resulted in an operating DSH overpayment of \$581,723.

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

## **RECOMMENDATION**

We recommend that FCSO recover the \$581,723 in Medicare operating DSH overpayment from the Hospital.

## **FIRST COAST SERVICE OPTIONS, INC., COMMENTS**

In written comments on our draft report, FCSO did not directly address our finding or recommendation but stated that it has reopened the Hospital's December 31, 2003, cost report and will take appropriate action to recover the overpayment. FCSO's comments appear in their entirety as the Appendix.

## TABLE OF CONTENTS

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



## 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.

Hospital Cayetano Coll y Toste (the Hospital) is a 210 bed, acute-care hospital located in Arecibo, Puerto Rico. The Hospital claimed an operating DSH adjustment of \$1,087,360 on its cost report for the fiscal year ending December 31, 2003.

For the cost report reviewed, the Hospital's fiscal intermediary was Cooperativa de Seguros de Vida de Puerto Rico (COSVI). However, in keeping with the provisions of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, First Coast Service Options, Inc., (FCSO) became the Hospital's MAC effective March 1, 2009, thereby assuming the fiscal intermediary functions and responsibilities formerly discharged by COSVI. Accordingly, we are issuing our report to FCSO.

FCSO is based in Jacksonville, Florida, and currently serves as the MAC for hospitals in Puerto Rico, the U.S. Virgin Islands and Florida.

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<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 COSVI to calculate the Medicare operating DSH adjustment resulted in an overpayment.

### **Scope**

We reviewed the \$1,087,360 Medicare operating DSH adjustment claimed on the Hospital's cost report for the fiscal year ending December 31, 2003.

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 the Hospital's cost report for the fiscal year ending December 31, 2003, for further review.

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<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 COSVI and confirmed, for the applicable Federal fiscal years, how the Hospital was geographically classified and determined how COSVI calculated the operating DSH adjustment.

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 COSVI to calculate the Medicare operating DSH adjustment resulted in an overpayment at one hospital. Of the operating DSH adjustment of \$1,087,360 that the Hospital claimed on its cost report for the fiscal year ending December 31, 2003, \$581,723 was excessive because COSVI calculated the operating DSH adjustment as if the Hospital was urban for the entire cost report period. However, the Hospital was rural for the entire cost report period. This resulted in an operating DSH overpayment of \$581,723.

### **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**

The Hospital claimed an operating DSH overpayment of \$581,723 because COSVI incorrectly calculated the operating DSH adjustment as if the Hospital was urban for the entire cost report period. However, the Hospital was rural for the entire cost report period, and COSVI should have calculated the operating DSH adjustment accordingly.

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

### **RECOMMENDATION**

We recommend that FCSO recover the \$581,723 in Medicare operating DSH overpayment from the Hospital.

### **FIRST COAST SERVICE OPTIONS, INC., COMMENTS**

In written comments on our draft report, FCSO did not directly address our finding or recommendation but stated that it has reopened the Hospital's December 31, 2003, cost report and will take appropriate action to recover the overpayment. FCSO's comments appear in their entirety as the Appendix.

# **APPENDIX**

## APPENDIX: AUDITEE COMMENTS



**Sandy Coston**  
**CEO & President**  
First Coast Service Options, Inc.  
Sandy.Coston@fcsco.com

September 1, 2009

Patrick J. Cogley  
Regional Inspector General for Audit Services  
Region VII  
601 East 12<sup>th</sup> Street, Room 0429  
Kansas City, Missouri 64106

Subject: Report A-07-09-02757

Dear Mr. Cogley:

This is in response to the draft audit report issued to First Coast Service Options, Inc. (FCSO) entitled "Review of Geographic Classification of Hospital Cayetano Coll y Toste for Medicare Operating Disproportionate Share Hospital Payment" (DSH). FCSO's response to the finding and recommendation in the report is as follows:

**FINDING:**

Geographic classifications used by COSVI to calculate the Medicare operating DSH adjustment resulted in an overpayment of \$581,723. The Hospital claimed costs for the fiscal year ending December 31, 2003 as rural when it was urban for the entire cost report period.

**RECOMMENDATION:**

We recommend that FCSO recover the \$581,723 in Medicare operating DSH overpayment from the Hospital.

**RESPONSE:**

FCSO reopened Hospital Cayetano Coll y Toste's December 31, 2003 Medicare cost report and will take appropriate action to recover the overpayment.

Thank you for the opportunity to comment on the draft report. Please contact Greg England at 904-791-8364 if you have any questions or need additional information.

Sincerely,

Sandra L. Coston

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