



Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

October 16, 2009

Report Number: A-07-09-02759

Mr. Mike Barlow
Vice President J1 Project Manager
J1 MAC – Palmetto GBA
P.O. Box 669
Augusta, Georgia 30903-0669

Dear Mr. Barlow:

Enclosed is the U.S. Department of Health and Human Services, Office of Inspector General (OIG), final report entitled “Review of Geographic Classification of Pioneers Memorial 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. Please refer to report number A-07-09-02759 in all correspondence.

Sincerely,

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

Enclosure

Page 2 – Mr. Mike Barlow

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 Bldg.
Washington, DC 20201

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF GEOGRAPHIC
CLASSIFICATION OF PIONEERS
MEMORIAL HOSPITAL FOR MEDICARE
OPERATING DISPROPORTIONATE
SHARE HOSPITAL PAYMENT**



Daniel R. Levinson
Inspector General

October 2009
A-07-09-02759

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.

Pioneers Memorial Hospital (Pioneers) is a 107 bed, acute-care hospital located in Brawley, California. Pioneers claimed an operating DSH adjustment of \$2,381,908 on its cost report for the fiscal year ending June 30, 2005.

For the cost report reviewed, Pioneers' fiscal intermediary was National Government Services, Inc. (NGS). However, in keeping with the provisions of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Palmetto GBA, LLC (Palmetto) became Pioneers' MAC effective August 20, 2008, thereby assuming the fiscal intermediary functions and responsibilities formerly discharged by NGS. Accordingly, we are issuing our report to Palmetto.

Palmetto is based in Columbia, South Carolina, and currently serves as the MAC for hospitals in several states, including California. Palmetto subcontracts the audit function for some of its operations to First Coast Service Options, Inc. (FCSO).

OBJECTIVE

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

SUMMARY OF FINDINGS

Geographic classifications used by NGS to calculate the Medicare operating DSH adjustment resulted in an overpayment at one hospital. Of the operating DSH adjustment of \$2,381,908 that Pioneers claimed on its cost report for the fiscal year ending June 30, 2005, \$334,247 was excessive because NGS calculated the operating DSH adjustment as if the hospital was urban for the entire cost report period. However, Pioneers was rural for the period July 1, 2004, through September 30, 2004. This resulted in an operating DSH overpayment of \$334,247.

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

RECOMMENDATION

We recommend that Palmetto recover the \$334,247 in Medicare operating DSH overpayment from Pioneers.

PALMETTO GBA, LLC, COMMENTS

In written comments on our draft report, Palmetto agreed with our findings and stated that it had taken necessary action to recover the overpayment from Pioneers. Palmetto's comments appear in their entirety as the Appendix.

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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.¹ 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.

Pioneers Memorial Hospital (Pioneers) is a 107 bed, acute-care hospital located in Brawley, California. Pioneers claimed an operating DSH adjustment of \$2,381,908 on its cost report ending June 30, 2005.

For the cost report reviewed, Pioneers' fiscal intermediary was National Government Services, Inc. (NGS). However, in keeping with the provisions of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Palmetto GBA, LLC (Palmetto) became Pioneers' MAC effective August 20, 2008, thereby assuming the fiscal intermediary functions and responsibilities formerly discharged by NGS. Accordingly, we are issuing our report to Palmetto.

Palmetto is based in Columbia, South Carolina, and currently serves as the MAC for hospitals in several states, including California. Palmetto subcontracts the audit function for some of its operations to First Coast Service Options, Inc. (FCSO).

¹Section 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 NGS to calculate the Medicare operating DSH adjustment resulted in an overpayment.

Scope

We reviewed the \$2,381,908 Medicare operating DSH adjustment claimed on Pioneers' cost report for the fiscal year ending June 30, 2005.

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 System² 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 Pioneers' cost report for the fiscal year ending June 30, 2005, for further review.

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

- We contacted Palmetto and its subcontractor, FCSO, and obtained the most recently revised cost report, dated August 5, 2008, for the fiscal year ending June 30, 2005. We then confirmed, for the applicable Federal fiscal years, how Pioneers was geographically classified and determined how NGS 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 NGS to calculate the Medicare operating DSH adjustment resulted in an overpayment at one hospital. Of the operating DSH adjustment of \$2,381,908 that Pioneers claimed on its cost report for the fiscal year ending June 30, 2005, \$334,247 was excessive because NGS calculated the operating DSH adjustment as if the hospital was urban for the entire cost report period. However, Pioneers was rural for the period July 1, 2004, through September 30, 2004. This resulted in an operating DSH overpayment of \$334,247.

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

Pioneers claimed an operating DSH overpayment of \$334,247 because NGS incorrectly calculated the operating DSH adjustment as if Pioneers was urban for the entire cost report period. However, Pioneers was rural for the period July 1, 2004, through September 30, 2004, and for that time period NGS should have calculated the operating DSH adjustment accordingly.

The OMB definitions then in effect geographically classified Pioneers as a rural hospital for the period July 1, 2004, through September 30, 2004. Effective October 1, 2004, Pioneers became an urban hospital with the transition to the use of core-based statistical areas identified on the decennial census conducted in 2000. However, NGS calculated the operating DSH adjustment as though Pioneers was urban for the entire cost report period.

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

RECOMMENDATION

We recommend that Palmetto recover the \$334,247 in Medicare operating DSH overpayment from Pioneers.

PALMETTO GBA, LLC, COMMENTS

In written comments on our draft report, Palmetto agreed with our findings and stated that it had taken necessary action to recover the overpayment from Pioneers. Palmetto's comments appear in their entirety as the Appendix.

APPENDIX

APPENDIX: AUDITEE COMMENTS



Palmetto GBA
PARTNERS IN EXCELLENCE™

A/B MAC Jurisdiction 1
Provider Audit and Reimbursement Department

California, Nevada, Hawaii,
Guam, American Samoa,
Northern Mariana Islands

August 21, 2009

Patrick J. Cooley,
Regional Inspector General for Audit Services
Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

RE: Report Number: A-07-09-02759 dated July 31, 2009
Provider Name: Pioneers Memorial Hospital
Provider Number: 05-0342
Provider FYE: 06/30/2005

Dear Mr. Cooley:

We have reviewed the draft report included with your letter dated July 31, 2009. We agree with the facts as presented in this draft report.

As part of our discussions with the OIG auditor during the OIG review, we agreed that the DSH calculation used to settle the cost report by the prior contractor did not properly apply the geographic reclassification in calculating the DSH amount when settling the Medicare cost report for FYE June 30, 2006.

As a result of our discussions and in agreement with the OIG auditor, we issued the Notice of Reopening on February 26, 2009, and issued the Corrected Notice of Program Reimbursement (NPR) on March 24, 2009. This reopening and resulting Corrected NPR applied the geographic reclassification factors and computed the updated DSH payment amount. As a result of this change, the DSH amount was adjusted from \$2,381,908 to \$2,047,662, resulting in a request for payment from the provider of \$334,246.

In summary, no further action by Palmetto GBA is required and we are in agreement with the report, as currently written. Please contact Martin Lothes at 805-504-3549 if you need additional information or have any questions.

Sincerely,

Mike Barlow
Vice President J1 Project Manager

cc: Michael Redmond, FCSO
Marty Lothes, FCSO

Revision 08/11/2008
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