



November 5, 2009

Report Number: A-07-09-02760

Ms. Donna Dickinson  
Program Director  
Cahaba Safeguard Administrators, LLC  
2803 Slater Road, Suite 215  
Morrisville, North Carolina 27560

Dear Ms. Dickinson:

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 Thomasville Medical Center 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-07-09-02760 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 THOMASVILLE  
MEDICAL CENTER FOR MEDICARE  
OPERATING DISPROPORTIONATE SHARE  
HOSPITAL PAYMENT**



Daniel R. Levinson  
Inspector General

November 2009  
A-07-09-02760

# *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.

Thomasville Medical Center (Thomasville) is a 149 bed, acute-care hospital located in Thomasville, North Carolina. Thomasville claimed an operating DSH adjustment of \$1,134,996 on its cost report for the fiscal year ending December 31, 2004.

For the cost report reviewed, Thomasville's fiscal intermediary was Palmetto GBA, LLC. However, Cahaba Safeguard Administrators, LLC (Cahaba) has a contract with CMS to perform cost report audit and reimbursement activities for providers in North Carolina. Accordingly, we are issuing our report to Cahaba. Cahaba's main office for audit and reimbursement is based in Morrisville, North Carolina.

### **OBJECTIVE**

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

## **SUMMARY OF FINDINGS**

Geographic classifications used by Cahaba to calculate the Medicare operating DSH adjustment resulted in an overpayment at one hospital. Of the operating DSH adjustment of \$1,134,996 that Thomasville claimed on its cost report for the fiscal year ending December 31, 2004, \$24,454 was excessive because Cahaba calculated the operating DSH adjustment as if the hospital was urban for the entire cost report period. However, Thomasville was rural for the period October 1, 2004, through December 31, 2004. This resulted in an operating DSH overpayment of \$24,454.

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

## **RECOMMENDATION**

We recommend that Cahaba recover the \$24,454 in Medicare operating DSH overpayment from Thomasville.

## **CAHABA SAFEGUARD ADMINISTRATORS, LLC, COMMENTS**

In written comments on our draft report, Cahaba agreed with our finding that the incorrect operating DSH formula was used, and stated that it had taken necessary action to recover the overpayment from Thomasville. However, Cahaba disagreed with the statement in our draft report that Cahaba's controls were insufficient. Cahaba described those controls and added that the overpayment we identified was relatively immaterial when compared to the total operating DSH adjustment. Cahaba's comments appear in their entirety as the Appendix.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing Cahaba's comments, we revised our report as it pertains to Cahaba's controls in order to describe the cause of the overpayment more precisely.

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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.<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.

Thomasville Medical Center (Thomasville) is a 149 bed, acute-care hospital located in Thomasville, North Carolina. Thomasville claimed an operating DSH adjustment of \$1,134,996 on its cost report for the fiscal year ending December 31, 2004.

For the cost report reviewed, Thomasville's fiscal intermediary was Palmetto GBA, LLC. However, Cahaba Safeguard Administrators, LLC (Cahaba) has a contract with CMS to perform cost report audit and reimbursement activities for providers in North Carolina. Accordingly, we are issuing our report to Cahaba. Cahaba's main office for audit and reimbursement is based in Morrisville, North Carolina.

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

#### **Objective**

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

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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.

## Scope

We reviewed the \$1,134,996 Medicare operating DSH adjustment claimed on Thomasville's cost report for the fiscal year ending December 31, 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 Thomasville's cost report for the fiscal year ending December 31, 2004, for further review.
- We contacted Cahaba and confirmed, for the applicable Federal fiscal years, how Thomasville was geographically classified and determined how Cahaba 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

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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.

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 Cahaba to calculate the Medicare operating DSH adjustment resulted in an overpayment at one hospital. Of the operating DSH adjustment of \$1,134,996 that Thomasville claimed on its cost report for the fiscal year ending December 31, 2004, \$24,454 was excessive because Cahaba calculated the operating DSH adjustment as if the hospital was urban for the entire cost report period. However, Thomasville was rural for the period October 1, 2004, through December 31, 2004. This resulted in an operating DSH overpayment of \$24,454.

## **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**

Thomasville claimed an operating DSH overpayment of \$24,454 because Cahaba incorrectly calculated the operating DSH adjustment as if Thomasville was urban for the entire cost report period. However, Thomasville was rural for the period October 1, 2004, through December 31, 2004, and for that time period Cahaba should have calculated the operating DSH adjustment accordingly.

The OMB definitions then in effect geographically classified Thomasville as an urban hospital for the period January 1, 2004, through September 30, 2004. Effective October 1, 2004, Thomasville became a rural hospital with the transition to the use of core-based statistical areas

identified on the decennial census conducted in 2000. However, Cahaba calculated the operating DSH payment for the entire fiscal year ending December 31, 2004, as though Thomasville was urban for the entire cost report period.

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

### **RECOMMENDATION**

We recommend that Cahaba recover the \$24,454 in Medicare operating DSH overpayment from Thomasville.

### **CAHABA SAFEGUARD ADMINISTRATORS, LLC, COMMENTS**

In written comments on our draft report, Cahaba agreed with our finding that the incorrect operating DSH formula was used, and stated that it had taken necessary action to recover the overpayment from Thomasville. However, Cahaba disagreed with the statement in our draft report that Cahaba's controls were insufficient. Cahaba described those controls and added that the overpayment we identified was relatively immaterial when compared to the total operating DSH adjustment. Cahaba's comments appear in their entirety as the Appendix.

### **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing Cahaba's comments, we revised our report as it pertains to Cahaba's controls in order to describe the cause of the overpayment more precisely.

# **APPENDIX**

## APPENDIX: AUDITEE COMMENTS



2803 Slater Road, Suite 215  
Morrisville, North Carolina 27560

August 27, 2009

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

Re: OIG Report # A-07-09-02760  
Thomasville Medical Center, Provider No. 34-0085, FYE 12/31/2004

Dear Mr. Cogley:

I have reviewed the OIG report on the disproportionate share hospital (DSH) payment formula used to final-settle the FYE 12/31/2004 Medicare cost report of Thomasville Medical Center, provider 34-0085.

We agree with the finding that the incorrect DSH formula was used. The DSH formula for urban hospitals was used for the entire year. DSH payments should have been calculated using the DSH formula for rural hospitals for the 3-month period of 10/1/2004 through 12/31/2004 and the DSH formula for urban hospitals for the 9-month period of 1/1/2004 through 9/30/2004, with an additional DSH adjustment for 2/3 of the difference between the urban and rural operating DSH for the period in which the provider became rural (October to December 2004) under the Core Based Statistical Area (CBSA) definition.

Our corrective action is to reopen this cost report to correct the DSH calculation. The notice of reopening was issued to the hospital on August 27, 2009. We project the revised cost report settlement to be issued by December 31, 2009.

We do not agree with the OIG statement that insufficient controls are in place to ensure hospitals receive the correct Medicare DSH adjustment. CSA requires a supervisory review of all desk reviews and audits prior to final settlement to assure accurate cost report settlement. CSA has an Internal Quality Assurance Auditor that performs scheduled reviews of audit work to ensure audit procedures are followed and accurate settlement determinations are made. Our controls are sufficient, but sufficient controls do not assure 100% accuracy. This error was relatively immaterial (\$24,454 out of total DSH payment of \$1,134,996 = 2% overpayment) and is attributed to human error and a complex variation of the DSH Medicare formula that applied to 1 hospital in the state.

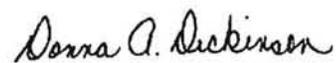
Ensuring the Integrity of the Medicare Program



Mr. Cogley  
Page 2  
August 27, 2009

Thank you for the opportunity to comment on this report.

Sincerely,

A handwritten signature in cursive script that reads "Donna A. Dickinson".

Donna Dickinson, Program Director  
Cahaba Safeguard Administrators, LLC

cc: File Copy