REVIEW OF MEDICAID INPATIENT PSYCHIATRIC CLAIMS FOR 21 TO 64 YEAR OLD RESIDENTS OF PRIVATE PSYCHIATRIC HOSPITALS THAT ARE INSTITUTIONS FOR MENTAL DISEASES IN CALIFORNIA DURING THE PERIOD JULY 1, 1997 THROUGH JANUARY 31, 2001
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Report Number: A-09-02-00061

Mr. Stan Rosenstein  
Assistant Deputy Director of Medical Care Services  
Department of Health Services  
714 P Street, Room 1253  
Sacramento, California 95814

Dear Mr. Rosenstein:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) final report entitled, "Review of Medicaid Inpatient Psychiatric Claims for 21 to 64 Year Old Residents of Private Psychiatric Hospitals that are Institutions for Mental Diseases in California during the Period July 1, 1997 through January 31, 2001." Your attention is invited to the audit findings and recommendations contained in the report.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action officials 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. Should you have any questions, please direct them to the HHS action official.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS 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 report number A-09-02-00061 in all correspondence relating to this report.

Sincerely,

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Regional Administrator  
Centers for Medicare & Medicaid Services, Region IX  
Department of Health and Human Services  
75 Hawthorne Street, 4th Floor  
San Francisco, California  94105-3901
REVIEW OF MEDICAID INPATIENT PSYCHIATRIC CLAIMS FOR 21 TO 64 YEAR OLD RESIDENTS OF PRIVATE PSYCHIATRIC HOSPITALS THAT ARE INSTITUTIONS FOR MENTAL DISEASES IN CALIFORNIA DURING THE PERIOD JULY 1, 1997 THROUGH JANUARY 31, 2001

JANET REHNQUIST
Inspector General

DECEMBER 2002
A-09-02-00061
THIS REPORT IS AVAILABLE TO THE PUBLIC
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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 the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.
Report Number: A-09-02-00061

Mr. Stan Rosenstein  
Assistant Deputy Director of  
Medical Care Services  
Department of Health Services  
714 P Street, Room 1253  
Sacramento, California 95814

Dear Mr. Rosenstein:

This final report provides you with the results of our Review of Medicaid Inpatient Psychiatric Claims for 21 to 64 Year Old Residents of Private Psychiatric Hospitals that are Institutions for Mental Diseases in California during the Period July 1, 1997 through January 31, 2001. This audit is part of our ongoing review of medical billings for patients in institutions for mental diseases (IMD).

OBJECTIVE

The objective of this audit was to determine if the state of California had adequate controls to prevent it from claiming federal financial participation (FFP) under the Medicaid program for inpatient psychiatric services provided to residents who were ages 21 to 64 in private psychiatric hospitals that were IMDs. Our review covered Medicaid payments for the period July 1, 1997 through January 31, 2001.

SUMMARY

A prior Office of Inspector General (OIG) review showed that, during the period July 1, 1986 through June 30, 1987, the state claimed unallowable FFP under the Medicaid program for inpatient psychiatric services provided to private psychiatric hospital patients. Nearly all the unallowable FFP was for Medicare/Medicaid claims. We recommended that the state refund the unallowable FFP and discontinue claiming these services under Medicaid.

The state refunded the unallowable FFP. However, it did not implement controls to prevent improper FFP from being claimed. Our current review showed that the state claimed $3,083,389 of unallowable FFP for services provided to residents at 26 private psychiatric hospitals that were IMDs.
Specifically, we identified:

- 7,723 improper Medicare/Medicaid crossover claims for inpatient psychiatric care resulting in $3,032,961 of unallowable FFP, and
- 35 improper Medicaid claims for inpatient psychiatric care resulting in $50,428 of unallowable FFP.

**RECOMMENDATIONS**

We recommended that the state of California:

1. Refund $3,083,389 to the Federal Government, representing the unallowable FFP claimed under the Medicaid program for inpatient psychiatric care provided to IMD residents aged 21 to 64 in private psychiatric hospitals.

2. Establish computer controls to prevent FFP from being claimed under the Medicaid program for IMD residents aged 21 to 64 in private psychiatric hospitals.

3. Identify and refund any unallowable FFP claimed under the Medicaid program for inpatient psychiatric care provided to IMD residents aged 21 to 64 in private psychiatric hospitals subsequent to January 31, 2001, the cut-off date of our audit.

4. Identify and refund any unallowable FFP claimed under the Medicaid program for inpatient psychiatric care provided to IMD residents aged 21 to 64 in private psychiatric hospitals for the period July 1, 1987 through June 30, 1997.

State officials agreed with our audit recommendations. However, they stated that federal policy was inconsistent, and Medicaid law and interpretation of that law did not conform to current medical understanding regarding the nature of mental illness. Further, they stated that the Medicaid program should provide comparable health care to all beneficiaries, regardless of the patient’s diagnosis. The state officials’ comments are included in their entirety as an APPENDIX to this report.

**BACKGROUND**

*Federal Law and Regulations*

The Medicaid program authorized by title XIX of the Social Security Act (Act), as amended, provides grants to states for furnishing medical assistance to eligible low-income persons. The states arrange with medical service providers, such as physicians, pharmacies, hospitals, nursing

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1In the state of California, Medicaid is referred to as the Medi-Cal program. In this report, we used the term “Medicaid” to refer to the Medi-Cal program.
homes, and other organizations, to provide the needed medical assistance. In order to be eligible for FFP, each state must submit an acceptable plan to the Centers for Medicare & Medicaid Services (CMS). The CMS is responsible for monitoring the activities of the state agency in implementing the Medicaid program under the state plan.

Prior to the enactment of Medicaid in 1965, FFP was not available for payments made on behalf of individuals who were receiving care in IMDs. Until that time, such care was the sole responsibility of the states. When Medicaid was enacted, FFP was made available for the care of institutionalized mental patients who were 65 years and older. The Social Security Amendments of 1972 extended FFP for inpatient psychiatric care to individuals under the age of 21 and, in certain instances, under the age of 22. Consistent with the Act, federal regulations prohibit FFP for services to IMD residents under the age of 65, except for inpatient psychiatric services provided to individuals under the age of 21 and, in some cases, for individuals under the age of 22. [42 CFR 435.1008 and 441.13]

**CMS Guidance**

The CMS has consistently provided guidance to states that FFP is not permitted for care provided to IMD residents aged 21 to 64. In March 1994 and again in June 1996, CMS issued guidance to the states regarding the general IMD exclusion:

> “…FFP is not available for any medical assistance under title XIX for services provided to any individual who is under age 65 and who is a patient in an IMD unless the payment is for inpatient psychiatric services for individuals under age 21…Under this broad exclusion, no Medicaid payment can be made for services provided either in or outside the facility for IMD patients in this age group.”

[HCFA Publication 45-4, sec. 4390]

**California Medicaid Program**

The state designated the Department of Health Services (DHS) as the agency responsible for the administration of the Medicaid program in California. The DHS submitted claims for FFP to its Medicaid fiscal intermediary.

The Federal Government pays its share of medical assistance expenditures to the state agency according to a defined formula yielding the FFP rate. In California, the FFP rate varied from 50.23 percent to 51.67 percent during our audit period.

**Prior OIG Review of California Psychiatric Hospitals**

In September 1988, we issued a report on the results of our audit of California’s private psychiatric hospitals for the period July 1, 1986 through June 30, 1987 (A-09-88-00052).
Our review showed that the state claimed $358,354 in unallowable FFP under the Medicaid program for inpatient psychiatric services provided to private psychiatric hospital residents aged 22 to 64. Nearly all the unallowable FFP was for Medicare/Medicaid crossover claims for the Medicare deductible and co-insurance amounts on behalf of patients eligible for both health care programs.

We recommended that the state refund the unallowable FFP and discontinue claiming FFP under the Medicaid program for Medicare crossover patients aged 22 to 64 in private psychiatric hospitals. In 1990, the state refunded the $358,354 of unallowable FFP. However, the state did not implement the necessary payment controls, and continued to improperly claim FFP for these services.

**OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of this audit was to determine if the state had adequate controls to prevent it from claiming FFP under the Medicaid program for inpatient psychiatric services provided to residents who were ages 21 to 64 in private psychiatric hospitals that were IMDs. Our review covered Medicaid payments for the period July 1, 1997 through January 31, 2001. We reviewed the Medicaid payments to psychiatric hospitals for inpatient psychiatric services as well as Medicaid payments for Medicare deductibles for qualified beneficiaries covered by both Medicare and Medicaid (crossover payments).

The source of our paid Medicaid data was a computerized file of paid claims maintained by the state. This data was subject to periodic CMS reviews and was relied upon to support the state’s claims for federal funds under the Medicaid program. Thus, our audit did not include an independent review of the internal and automatic data processing controls for the state’s automated system. Except for this limitation, our review was conducted in accordance with generally accepted government auditing standards.

To accomplish our objective, we:

- Reviewed Medicaid laws, regulations, and CMS guidelines provided to the states concerning the allowability of FFP claimed under the Medicaid program for 21 to 64 year old residents of private psychiatric hospitals that were IMDs;
- Examined and reviewed state and CMS licensing and certification information maintained on private psychiatric hospitals;
- Evaluated the state’s controls that prevent it from claiming unallowable FFP under Medicaid for IMD residents aged 21 to 64;
- Obtained computerized paid Medicaid claims data from the state’s Medicaid fiscal intermediary for the period July 1, 1997 through January 31, 2001;
Determined the amount paid under the Medicaid program to the 26 private psychiatric hospitals for residents aged 21 to 64;

Applied the appropriate FFP percentages based on the Medicaid claims disallowed.

This audit is a continuation of our multi-state review of Medicaid payments for services to IMD residents. We previously reviewed California’s controls over hospital inpatient claims for residents of state IMDs.

Our fieldwork was performed at DHS and its Medicaid fiscal intermediary in Sacramento, California and at the CMS Region IX offices in San Francisco, California. Our field work was conducted during the period November 2001 through June 2002.

**FINDINGS AND RECOMMENDATIONS**

**STATE CLAIMED UNALLOWABLE FFP**

The state claimed $3,083,389 of unallowable FFP under the Medicaid program for patients aged 21 to 64 residing in 26 private psychiatric hospitals that were IMDs. Federal laws and regulations prohibit FFP for the care and treatment of IMD patients in this age range.

The $3,083,389 consists of (i) $3,032,961 of unallowable FFP claimed for inpatient psychiatric services provided to Medicare/Medicaid crossover patients, and (ii) $50,428 of unallowable FFP for inpatient psychiatric services provided to patients who were eligible for Medicaid only.

**Medicare/Medicaid Crossover Claims**

We identified 7,723 Medicare/Medicaid crossover claims from the private psychiatric hospitals that resulted in $3,032,961 of unallowable FFP. For Medicare/Medicaid crossover patients, the Medicaid program is normally responsible for paying the patients’ share of costs not covered by Medicare, usually the deductible and coinsurance. However, FFP is not available for any services provided to IMD residents aged 21 to 64. These costs are the state’s responsibility.

**Medicaid Claims**

We identified another 35 Medicaid claims for IMD residents of the private psychiatric hospitals. The state improperly claimed $50,428 of unallowable FFP for the claims. The total cost of this care was the state’s responsibility.
Controls Were Not Established

The state did not establish computer controls under its Medicaid program to identify claims for IMD residents 21 to 64 years old as not eligible for FFP. State officials believed that computer controls were unnecessary because the state was entitled to claim FFP for the services. Our review of Medicaid laws, regulations, and CMS guidelines showed that FFP is not available for any medical assistance provided to any individual who is under age 65 and who is a patient in an IMD unless the payment is for inpatient psychiatric services for individuals under age 21.

RECOMMENDATIONS

We recommended that the state of California:

1. Refund $3,083,389 to the Federal Government, representing the unallowable FFP claimed under the Medicaid program for inpatient psychiatric care provided to IMD residents aged 21 to 64 in private psychiatric hospitals.

2. Establish computer controls to prevent FFP from being claimed under the Medicaid program for IMD residents aged 21 to 64 in private psychiatric hospitals.

3. Identify and refund any unallowable FFP claimed under the Medicaid program for inpatient psychiatric care provided to IMD residents aged 21 to 64 in private psychiatric hospitals subsequent to January 31, 2001, the cut-off date of our audit.

4. Identify and refund any unallowable FFP claimed under the Medicaid program for inpatient psychiatric care provided to IMD residents aged 21 to 64 in private psychiatric hospitals for the period July 1, 1987 through June 30, 1997.

STATE OFFICIALS’ COMMENTS AND OIG’S RESPONSE

State Officials’ Comments

In their response to our draft report, state officials agreed with our recommendations. They are currently reviewing the claims that formed the basis of our recommended disallowance and, if no discrepancies are found, the state will refund the $3,083,389 in question. They also agreed to take necessary steps to ensure that the state’s mental health plans understand their responsibility to prevent FFP from being claimed. Further, they agreed to identify and refund any unallowable FFP claimed subsequent to January 31, 2001 and between the period July 1, 1987 and June 30, 1997.

However, the state officials expressed their belief that federal policy was inconsistent, and Medicaid law and interpretation of that law did not conform to current medical understanding regarding the nature of mental illness. Further, they stated that the Medicaid program should
provide comparable health care to all beneficiaries, regardless of the patient’s diagnosis. The state officials’ comments are included in their entirety as an APPENDIX to this report.

**OIG’s Response**

Medicaid law, regulations, and policies prohibit states from claiming FFP for care and services provided to IMD residents aged 21 through 64, regardless of their diagnoses. The institutional status and age of the individual, not the individual’s diagnosis, is the determinative factor of whether the IMD exclusion applies.

Sincerely,

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services
APPENDIX
August 29, 2002

Ms. Lori A. Ahlstrand
Regional Inspector General for
Audit Services
Office of Inspector General
50 United Nations Plaza, Room 171
San Francisco, CA 94102

COMMON IDENTIFICATION NUMBER A-09-02-00061: REVIEW OF MEDICAID INPATIENT PSYCHIATRIC CLAIMS FOR 21 TO 64 YEAR OLD RESIDENTS OF PRIVATE AND COUNTY-OPERATED PSYCHIATRIC HOSPITALS THAT ARE INSTITUTIONS FOR MENTAL DISEASES IN CALIFORNIA DURING THE PERIOD JULY 1, 1997, THROUGH JANUARY 31, 2001

Dear Ms. Ahlstrand

Thank you for your letter regarding the subject audit. Before responding to the specific audit findings, we would like to restate California's position regarding inequities in Medicaid coverage for mental disease. Federal policy is inconsistent, and Medicaid law and interpretation of that law does not conform to current medical understanding regarding the nature of mental illness. Congress has recognized the coverage issue by introducing legislation (H.R. 4066) to provide comparable treatment in health care for mental illness. Specifically, H.R. 4066 would provide that health insurance plans shall not impose treatment limitations with respect to the coverage of benefits for mental illnesses unless comparable treatment limitations are imposed on medical and surgical benefits.

Inconsistent with attempts by Congress to provide parity, the Office of Inspector General is citing audit exceptions to deny health care to adults with mental disease, predicated upon the patient's residence at the time the medical care was provided. This policy of disallowing Medicaid coverage for mentally ill beneficiaries based upon the mental patient's place of residence represents an unconscionable failure of the health care system. The policy originates in antiquated assumptions on the nature of mental illness. The Department of Health Services (DHS) urges Congress and the Administration to revisit the policy and provide comparable health care under Medicaid to all beneficiaries, regardless of the patient's diagnosis.
Below are the State’s responses to your audit recommendations.

1. Refund $3,083,389 to the Federal Government, representing the unallowable FFP claimed under the Medicaid program for inpatient psychiatric care provided to Institutions for Mental Diseases (IMD) residents aged 21 to 64 in private and county-operated psychiatric hospitals.

   Of the total amount of the audit exception, the report alleges that there were 7,723 improper Medicare/Medicaid crossover claims for inpatient psychiatric care resulting in $3,032,961 of unallowable federal financial participation (FFP).

   The report further alleges there were 35 improper Medicaid claims for inpatient psychiatric care resulting in $50,428 of unallowable FFP.

   Medicare requires cost sharing be paid with Medicaid funds and cost sharing is within the broad scope of medical assistance. While the Department is required by statute to make medical assistance available for Medicare cost-sharing, this is not a requirement for patients of IMD. We believe that this exclusion is arbitrary and again based upon the patient’s diagnosis of mental illness. We also believe that CMS should provide FFP for cost sharing on behalf of IMD patients.

   The Department of Mental Health (DMH) has completed a preliminary review of the claims data provided by your staff. This preliminary review confirms that the 35 claims were for Medi-Cal beneficiaries between the ages of 21 and 64 who were patients in private acute psychiatric hospitals that met the federal definition of an IMD. There were eight beneficiaries who were between the ages of 21 and 22 that had been admitted after their 21st birthday. DMH will be finalizing its review of the claims data in the next few weeks and providing the information to DHS. If no discrepancies are found, DHS will refund the $3,083,389.

2. Establish computer controls to prevent FFP from being claimed under the Medicaid program for IMD residents of private and county-operated psychiatric hospitals aged 21 to 64.

   DHS understands that it is your position that FFP is not available for crossover claims for persons in IMDs, and will take the necessary steps to discontinue such claiming.

   DHS, through DMH, will ensure that the mental health plans that incorrectly authorized IMD services will understand their responsibility to prevent FFP from
DHS, through DMH, will ensure that the mental health plans that incorrectly authorized IMD services will understand their responsibility to prevent FFP from being claimed under the Medicaid program for beneficiaries aged 21 to 64 who are patients in private and county-operated psychiatric hospitals that are IMDs.

3. Identify and refund any unallowable FFP claimed under the Medicaid program for inpatient psychiatric care provided to IMD residents aged 21 to 64 in private and county-operated psychiatric hospitals subsequent to January 31, 2001, the cut-off date of our audit.

DHS will identify and refund any unallowable FFP claimed under the Medicaid program for inpatient psychiatric care provided to IMD residents aged 21 to 64 in private and county-operated psychiatric hospitals subsequent to January 31, 2001.

4. Identify and refund any unallowable FFP claimed under the Medicaid program for inpatient psychiatric care provided to IMD residents aged 21 to 64 in private and county-operated psychiatric hospitals for the period July 1, 1987 through June 30, 1997.

DHS will identify and refund any unallowable FFP claimed under the Medicaid program for inpatient psychiatric care provided to IMD residents aged 21 to 64 in private and county-operated psychiatric hospitals for the period July 1, 1987, through June 30, 1997.

If you need further inquiry or assistance, please contact Mr. Roberto B. Martinez, Chief of the Medi-Cal Policy Division, at (916) 657-1542.

Sincerely,

Gail L. Margolis, Esq.
Deputy Director
Medical Care Services

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