



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Region IX
Office of Audit Services
50 United Nations Plaza
Room 171
San Francisco, CA 94102

October 20, 2003

Report Number: A-09-03-00050

Jean I. Thorne, Director
Oregon Department of Human Services
500 Summer Street NE, E15
Salem, Oregon 97301-1097

Dear Ms. Thorne:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General's (OIG) report titled *Audit of Oregon's Medicaid Reimbursement Rates for Nursing Facilities for the Period July 1, 2001 through June 30, 2003*. A copy of the report will be forwarded to the action official noted below for his review and any action deemed necessary.

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 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.

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To facilitate identification, please refer to report number A-09-03-00050 in all correspondence relating to this report.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

John Hammarlund
Acting Regional Administrator, Region X
Centers for Medicare & Medicaid Services, HHS
2201 Sixth Avenue, MS-40
Seattle, Washington 98121

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF OREGON'S
MEDICAID REIMBURSEMENT RATES
FOR NURSING FACILITIES
FOR THE PERIOD JULY 1, 2001
THROUGH JUNE 30, 2003**



October 2003
A-09-03-00050

Office of Inspector General

<http://oig.hhs.gov/>

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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 awarding agency will make final determination on these matters.





October 20, 2003

Report Number: A-09-03-00050

Jean I. Thorne, Director
Oregon Department of Human Services
500 Summer Street NE, E15
Salem, Oregon 97301-1097

Dear Ms. Thorne:

This report provides the results of our review of the statewide Medicaid reimbursement rates for nursing facilities in Oregon (the State) for the 2-year period July 1, 2001 through June 30, 2003. The State uses data from the cost reports submitted annually by each nursing facility to establish the statewide rates.

EXECUTIVE SUMMARY

OBJECTIVES

The objectives of our audit were to determine whether (1) the Medicaid nursing facility reimbursement rates were accurately computed and set in accordance with Federal regulations and the State Medicaid plan and (2) controls were in place to ensure that nursing facility costs used to set reimbursement rates were allowable in accordance with the State plan.

SUMMARY OF FINDINGS

Our audit disclosed that the State's Medicaid nursing facility reimbursement rates were overstated, resulting in overpayments to nursing facilities of \$488,182 (\$290,768 Federal share) during the 20-month period July 2001 through February 2003.¹ These overpayments occurred because the rates included unallowable costs and/or an incorrect number of resident days.

The State's procedures were to exclude unallowable costs by performing desk reviews of the cost reports submitted by the nursing facilities. However, the State had not completed desk reviews of all cost reports when the State legislative budget committee requested budget information for the next fiscal year. This budget information was based on the preliminary statewide rates calculated before all of the desk reviews were completed. The State used these preliminary rates as the basis for payments to the facilities without adjusting them for unallowable costs disclosed

1. The information to determine the overpayment amount for the 4-month period March through June 2003 was not available while we were performing our audit.

by subsequent desk reviews of the remaining cost reports. Consequently, the rates were overstated, resulting in overpayments to the nursing facilities.

The State operated on a 2-year budget cycle and, at the time of our audit, the budget period was July 1, 2001 through June 30, 2003. Due to the timing of our fieldwork, resident day information for the 4 months, March through June 2003, was not available and we were not able to calculate the overpayments for that period.

RECOMMENDATIONS

We recommend that the State:

1. Refund \$290,768 to the Federal Government for the 20-month period July 2001 through February 2003.
2. Identify the amount overpaid for the 4-month period March through June 2003 and refund it to the Federal Government.
3. Ensure that nursing facility cost reports are reviewed timely and all adjustments are reflected in the calculations of the reimbursement rates to help avoid future overpayments to nursing facilities.

STATE AGENCY COMMENTS

The State did not indicate whether it would make the recommended refunds but agreed to take corrective action to minimize the potential for overpayments to nursing facilities. The State's response is included as the APPENDIX to this report.

INTRODUCTION

BACKGROUND

MEDICAID PROGRAM

Title XIX of the Social Security Act (the Act) created the Medicaid program authorizing grants to states to provide medical assistance for persons with limited income and resources. The Medicaid program is jointly financed by the Federal and State Governments and is administered by each State in accordance with a State plan approved by the Centers for Medicare & Medicaid Services. One part of the program is to provide medical assistance to eligible beneficiaries that are residents of Medicaid certified nursing facilities.

STATE PLAN

Under the Oregon State plan, each nursing facility was required to submit a cost report summarizing the costs incurred in providing services to eligible beneficiaries. The cost report also identified the total number of resident days that services were provided. The costs and days were used to calculate the “total cost per resident day.” The State’s procedures were to review the accuracy and allowability of the cost report data and make appropriate adjustments for costs that were not allowable for reimbursement under Medicaid regulations and the State plan.

STATEWIDE RATES

Starting July 1, 1997, the State began using a statewide average to determine the reimbursement rates for nursing facilities. To determine the rates, the State started with the total cost per resident day from each cost report. This cost was adjusted for inflation and multiplied by the total number of resident days to determine the weighted average costs for each facility. These costs were added together and divided by the total Medicaid days for all facilities to arrive at the statewide average.

Using this weighted average, the State calculated the reimbursement rates for three levels of care: basic, complex medical add-on, and pediatric. The basic rate was increased by 40 percent for the complex medical add-on level of service that was paid in addition to the basic rate when there was a documented need for additional services. The pediatric rate was calculated the same way as the basic rate, using the weighted costs and days for the four facilities in the State that provided pediatric services.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether (1) the Medicaid reimbursement rates for nursing facilities were accurately computed and set in accordance with Title XIX of the Act and the State plan and (2) controls were in place to ensure that only allowable nursing facility administrative costs were used to set reimbursement rates.

To accomplish our objectives, we:

- reviewed Federal and State regulations and the approved State plan,
- gained an understanding of the rate setting process,
- interviewed State officials,
- examined State documentation supporting the rate computations, and
- recalculated the statewide rates.

The State operated on a 2-year budget cycle and, at the time of our audit, the budget period was July 1, 2001 through June 30, 2003. To determine the impact of the findings disclosed by our audit, we obtained the most recent payment data available for the 20-month period, July 2001 through February 2003. Due to the timing of our fieldwork, resident day information for the 4 months, March through June 2003, was not available and we were not able to calculate the overpayments for that period.

Our audit was performed in accordance with generally accepted government auditing standards. We performed the audit from March through July 2003 with fieldwork conducted at the State offices in Salem, Oregon.

FINDINGS AND RECOMMENDATIONS

Our audit disclosed that the State's Medicaid nursing facility reimbursement rates were overstated, resulting in overpayments to nursing facilities of \$488,182 (\$290,768 Federal share) during the 20-month period July 2001 through February 2003. These overpayments occurred because the rates included unallowable costs and/or an incorrect number of resident days.

The State's procedures were to exclude unallowable costs by performing desk reviews of the cost reports submitted by the nursing facilities. However, the State had not completed desk reviews of 36 of the 136 cost reports used to calculate the reimbursement rates when the State legislative budget committee requested budget information for the next fiscal year. This budget information was based on the preliminary statewide rates calculated before all of the desk reviews were completed. The State used these preliminary rates as the basis for payments to the facilities without adjusting them for unallowable costs disclosed by subsequent desk reviews of the remaining cost reports.

Of the 36 cost reports that had not been reviewed, 18 included unallowable costs and/or an incorrect number of resident days. These errors were included in the calculation of the reimbursement rates and, consequently, the rates were overstated, resulting in overpayments to the nursing facilities.

The State operated on a 2-year budget cycle and, at the time of our audit, the budget period was July 1, 2001 through June 30, 2003. Due to the timing of our fieldwork, resident day information for the 4 months, March through June 2003, was not available and we were not able to calculate the overpayments for that period. When final information on the resident days for the 4 months, March through June 2003, is available, the State should calculate the overpayment and refund that amount to the Federal Government.

COST REPORT DESK REVIEWS

The State's system of controls over the rate setting process included performing desk reviews of the cost reports submitted by the nursing facilities. Unallowable costs identified by the State during the desk reviews were excluded from the calculation of the rates. For the 2001-2002 rate setting cycle, all nursing facilities submitted cost reports prior to the deadline set by the State

plan. However, we were informed that the State was not able to complete reviews of 36 of the 136 cost reports because of a reduction in staff devoted to the review process. Subsequent review of these 36 reports identified 18 that included unallowable costs and/or an incorrect number of resident days that had been included in the calculation of the reimbursement rates.

OVERSTATED RATES

In April 2001, the legislative budget committee requested the budget information for the 2001-2002 fiscal year. The State used the cost report information that was available at that time, even though not all of it had been reviewed. As a result, unallowable costs were included and the rates were overstated by \$0.08 for basic services and by \$0.12 for complex medical add-on services. Also, the pediatric rates were overstated by \$4.77 for 2001-2002 and \$4.92 for 2002-2003 because the incorrect number of resident days was used in the calculations for two of the four pediatric facilities.

Federal regulations prohibit Federal financial participation in expenditures for nursing facilities that are in excess of the amounts allowable.

BUDGET CYCLE AND RESIDENT DAYS

Since the State operates on a 2-year budget cycle, the State calculates a new reimbursement rate for the first year and then adjusts the rate for inflation for the second year. As a result, the payments to nursing facilities for the entire 2-year period included unallowable payments.

Due to the timing of our fieldwork, we were only able to get the number of resident days for which payments were made for the 20-month period July 2001 through February 2003. Based on the number of payments made for resident days during that period, the State overpaid nursing facilities \$488,182 (\$290,768 Federal share). When the payment data is available for the remaining 4-month period, March through June 2003, the State should calculate the overpayment and submit an adjustment to the Federal Government.

RECOMMENDATIONS

We recommend that the State:

1. Refund \$290,768 to the Federal Government for the 20-month period July 2001 through February 2003.
2. Identify the amount overpaid for the 4-month period March through June 2003 and refund it to the Federal Government.
3. Ensure that nursing facility cost reports are reviewed timely and all adjustments are reflected in the calculations of the reimbursement rates to help avoid future overpayments to nursing facilities.

STATE AGENCY COMMENTS

In a written response to our draft report, the State did not indicate whether it would make the recommended refunds to the Federal Government. The response stated that the individual rate and payment errors were non-material but that management would take corrective action to further minimize the potential for overpayments to nursing facilities. The complete text of the State's response is included as the APPENDIX to this report.

* * * * *

To facilitate identification, please refer to report number A-09-03-00050 in all correspondence relating to this report.

Sincerely,



Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Direct Reply to HHS Action Official:

John Hammarlund
Acting Regional Administrator, Region X
Centers for Medicare & Medicaid Services, HHS
2201 Sixth Avenue, MS-40
Seattle, Washington 98121

APPENDIX



Oregon

Theodore R. Kulongoski, Governor

Department of Human Services

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500 Summer St. NE, E15
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August 28, 2003

Lori A. Ahlstrand
Regional Inspector General
for Audit Services
Region IX
50 United Nations Plaza, RM 171
San Francisco, CA 94102

RE: Report Number A-09-03-00050

Dear Ms. Ahlstrand:

We have received and reviewed the above referenced report entitled "*Audit of Oregon's Medicaid Reimbursement Rates for Nursing Facilities for the Period July 1, 2001 through June 30, 2003.*" This communication will both respond to your findings and provide you with a status of actions taken pursuant to your findings.

Summary of OIG Findings:

The report finds that for the 20-month period beginning July 1, 2001, both the applied nursing facility rates and the payments made under those rates were overstated. The report specifically finds that the Oregon nursing facility *basic* rate was over stated by \$0.08; that the *complex medical* rate was overstated by \$0.12; and that the *pediatric* rate was overstated by \$4.77 for 2001-02 and \$4.92 for 2002-03. The aggregate overpayment for all three rate categories is \$290,768 of Federal Funds (\$488,182 Total Funds). The delineated errors were caused by the fact that the Department of Human Services (DHS) ran its nursing facility rebasing formulary before it had desk reviewed or audited 100 percent of the cost reports remitted by nursing facilities and because DHS did not adjust the rates once all desk reviews were completed.

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DO 2254 (01-03)

Lori A. Ahlstrand
August 28, 2003
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DHS Response:

DHS finds both the identified individual rate errors and payment error to be non-material. For the applicable time period of the audit, DHS paid in excess of \$391 million dollars in Total Funds for all Medicaid nursing facility care. Predicated on the identified error rate in the report, this amounts to less than a measurable percentage for the services rendered or specifically, .15 one hundreds of 1 percent (.15 of 1%).

Management Actions:

In order to further minimize the potential for an overpayment of nursing facility rates through the inclusion of unallowable costs, management will adopt an operational policy that the nursing facility rebasing formulary will only be run after 100 percent of all cost reports have been reviewed by DHS nursing facility auditors and costs adjusted according to existing administrative rules.

Thank you for the opportunity to comment on the report. If you have any questions regarding our response, please contact Luis Caraballo, Manager of our long-term care rates unit at (503) 945-5999.

Sincerely,



Jean I. Thorne
Director



ACKNOWLEDGMENTS

This report was prepared under the direction of Lori A. Ahlstrand, Regional Inspector General for Audit Services, Region IX. Other principal Office of Audit Services' staff that contributed includes:

Thomas Lenahan, *Audit Manager*

Shelton Jensen, *Senior Auditor*

Cheryl Oka, *Auditor in Charge*

For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619- 1343.