

**AN EXAMINATION OF
THE IOWA MEDICAL ASSISTANCE DISPROPORTIONATE
SHARE HOSPITAL PAYMENTS PROGRAM
ADMINISTERED BY THE IOWA
DEPARTMENT OF HUMAN SERVICES
FOR THE YEAR ENDED JUNE 30, 2009**

Table of Contents

		<u>Page</u>
Independent Accountant's Report		3
Required Verifications		5
Findings and Recommendations		5-7
Other Required Information:	<u>Schedule</u>	
Medicaid State Plan Rate Year Ended June 30, 2009	1	8-9



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Accountant's Report

To Charles M. Palmer, Director
of the Iowa Department of Human Services:

We have examined the Iowa Medical Assistance Disproportionate Share Hospital Payments Program (the Program) and the accompanying schedule identified as Schedule 1 for the Iowa Department of Human Services (Department) for the year ended June 30, 2009. The Iowa Department of Human Services' management is responsible for complying with the six verifications required by the Code of Federal Regulations – 42 CFR, Parts 447 and 455. Our responsibility is to express an opinion on the Program's six verifications based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the Program and other required information and performing such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion.

Our examination disclosed four findings which are identified following the listing of required verifications.

In our opinion, except for the findings noted in the preceding paragraph, the Iowa Medical Assistance Disproportionate Share Hospital Payments Program and the accompanying schedule referred to above are in compliance with the six verifications as required by the Code of Federal Regulations – 42 CFR, Parts 447 and 455, in all material respects, for the year ended June 30, 2009.

This report, a public record by law, is intended solely for the information and use of the Iowa Department of Human Services and other parties to whom the Iowa Department of Human Services may report. This report is not intended to be and should not be used by anyone other than these specified parties.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 29, 2012

**Iowa Medical Assistance Disproportionate
Share Hospital Payments Program**

Required Verifications

We evaluated the Iowa Medical Assistance Disproportionate Share Hospital (DSH) Payments Program to determine compliance with each of the following verifications:

- (1) Each hospital qualifying for a DSH payment in the State is allowed to retain the payment so it is available to offset the hospital's uncompensated care costs for furnishing inpatient hospital and outpatient hospital services during the Medicaid State plan rate year to Medicaid eligible individuals and individuals with no source of third party coverage for the services in order to reflect the total amount of claimed DSH expenditures.
- (2) DSH payments made to each qualifying hospital comply with the hospital-specific DSH payment limit and are measured against actual uncompensated care cost in the same audited Medicaid State plan rate year.
- (3) Only uncompensated care costs of furnishing inpatient and outpatient hospital services to Medicaid eligible individuals and individuals with no third party coverage for the inpatient and outpatient hospital services they received are eligible for inclusion in the calculation of the hospital-specific DSH payment limit.
- (4) For purposes of the hospital-specific DSH payment limit calculation, any Medicaid payments made to a disproportionate share hospital which are in excess of the Medicaid incurred costs of such services are applied against the uncompensated care costs of furnishing inpatient hospital and outpatient hospital services to individuals with no source of third party coverage for such services.
- (5) Information and records of all of its inpatient and outpatient hospital service costs under the Medicaid program, claimed expenditures under the Medicaid program, uninsured inpatient and outpatient hospital service costs in determining payment adjustments and any payments made on behalf of the uninsured from payment adjustments have been separately documented and retained by the State.
- (6) The information in (5) above includes a description of the methodology for calculating each hospital's DSH payment limit. The disproportionate share data shown in the accompanying schedule describes how the Iowa Department of Human Services defines incurred inpatient hospital and outpatient hospital costs for furnishing inpatient hospital and outpatient hospital services to Medicaid eligible individuals and individuals with no source of third party coverage for the inpatient hospital and outpatient hospital services they received.

Findings and Recommendations

- (1) Dual Eligibility – Section 1923(g) of the Social Security Act defines hospital-specific limits on Federal financial participation (FFP) for Medicaid DSH payments. Under the hospital-specific limits, a hospital's DSH payment must not exceed the costs incurred by the hospital in furnishing services during the year to Medicaid and uninsured patients, less payments received for those patients. There is no exclusion in section 1923(g)(1) for costs for, and payments made on behalf of, individuals dually eligible for Medicare and Medicaid. Hospitals which include dually-eligible days to determine DSH qualification must also include the costs attributable to dual eligibles when calculating the uncompensated costs of serving Medicaid eligible individuals. Hospitals must also take into account payments made on behalf of the individuals, including all Medicare and Medicaid payments made on behalf of dual eligibles. In calculating the Medicare payment for service, the hospital is to include the Medicare DSH adjustment and any other Medicare payments (including, but not limited to Medicare Indirect Medical Education (IME) and Graduate Medical Education (GME)) with respect to that service.

Based on our review of Iowa DSH hospitals, payments for services for individuals dually eligible for Medicaid and Medicare were not separately identified for five of eight hospitals. In addition, of the three hospitals which identified payments and costs for individuals dually eligible, certain payment data was not provided. Accordingly, these costs and payments are not included in Schedule 1 when calculating the hospital specific limit. In addition, according to cost report data, dual eligibles were not included in the DSH hospital's Medicaid cost population. These uncompensated care costs were also not included in determining DSH qualification. The effect, if any, of including the uncompensated care costs for the dually eligible population in the calculation of eligible uncompensated care costs could not be determined.

Recommendation - The Department should not exclude costs for, and payments made on behalf of, individuals dually eligible for Medicare and Medicaid in calculating hospital-specific limits for Medicaid DSH payments. In addition, the Department should ensure inpatient days for patients dually eligible for Medicare and Medicaid are included when calculating the MIUR percentage in determining DSH qualification.

Response - The Department's procedures were changed to add the dual eligible costs into the hospital-specific limits for DSH calculations in calendar year 2011. The reporting and collection of this information is required. Additionally, Iowa Medicaid has begun a new project, which will result in obtaining Medicare paid claims data for dual eligible individuals beginning in calendar year 2012 for up to five years' historical claims. This Medicare payment information will be incorporated into the calculations for the hospital-specific limits.

Conclusion - Response accepted.

- (2) Computer Match - Uninsured Costs - A computer match of claim data was performed for recipients of medical care classified as both Medicaid eligible and uninsured. For fiscal year 2009, we reviewed 25 recipients of medical care from Broadlawns Medical Center who were included in both the Medicaid population and the uninsured population. Of the 25 recipients tested, 4 recipients were classified as both Medicaid eligible and uninsured for the same month of service. Per hospital officials, this was primarily due to individuals becoming eligible for Medicaid after initially being classified as uninsured. As a result, total eligible uncompensated care costs could not be verified for this hospital.

Recommendation - The Department should implement procedures to ensure uninsured, uncompensated care costs used for the hospital-specific DSH payment limit do not contain costs for Medicaid eligible recipients.

Response - The Department's Medicaid Provider Cost Audit and Rate Setting (PCA) contractor conducts an annual DSH survey. Beginning with the State Fiscal Year 2012 survey, detailed information will be gathered regarding uncompensated care costs. Hospitals will be required to provide specific patient information, including patient identifier, dates of service, charges, number of days of care and payments. Staff of the PCA unit will make a determination whether uncompensated care is being correctly reported. Regarding Broadlawns Medical Center (BMC) specifically, a letter was sent to them by the Iowa Medicaid Director, Jennifer Vermeer, after the State Fiscal Year 2008 DSH audit alerting BMC to the issues found regarding uncompensated care.

Conclusion - Response accepted.

- (3) Supporting Documentation - The Low Income Utilization Rate (LIUR) percentage and the Medicaid Inpatient Utilization Rate (MIUR) percentage are required reporting elements which are used by the Department in determining DSH qualification. These percentages are calculated using required data elements. For the year ended June 30, 2009, St. Luke's Regional Medical Center did not provide support for Charity Care Charges and Ottumwa Regional Health Center did not provide support for Iowa Care days. As a result, the MIUR and LIUR calculations used to calculate DSH eligibility for St. Luke's Regional Medical Center and Ottumwa Regional Health Center could not be verified.

Recommendation - The Department should implement procedures to ensure all data elements utilized in the MIUR and LIUR calculations are properly supported.

Response - The Department's Medicaid Provider Cost Audit and Rate Setting (PCA) contractor conducts an annual DSH survey. Beginning with the SFY 2012 survey, detailed information is required to be submitted related to the Low Income Utilization Rate (LIUR) and Medicaid Inpatient Utilization Rate percentages with the DSH survey.

Conclusion - Response accepted.

- (4) Uninsured Pharmacy Service Costs - When calculating the total uninsured uncompensated care costs for Broadlawns Medical Center for fiscal year 2009, a component of these costs included \$4,044,064 classified as outpatient pharmacy claims. Per hospital officials, these costs represent the Center's pharmacy free care.

In accordance with the Federal Register/Vol. 73. No. 245 page 77915, "Pharmacy service costs are separately identified on the Medicare 2552-96 cost report and are not recognized as an inpatient or outpatient hospital service. Pharmacy service costs that are not part of an inpatient or outpatient rate and are billed as pharmacy service and reimbursed as such are not considered eligible for inclusion in the hospital specific uncompensated cost limit." Based on audit inquiry of hospital officials, Broadlawns Medical Center's "retail" pharmacy claims are included in the uninsured file as outpatient pharmacy claims and reported in the pharmacy line of their Medicare cost report, line 56. Since the uninsured, uncompensated care costs include retail pharmacy costs, total eligible uncompensated care costs could not be verified for this hospital.

Recommendation - The Department should implement procedures to ensure uninsured, uncompensated care costs used for the hospital-specific DSH payment limit do not contain retail pharmacy service costs and only include costs associated with outpatient hospital care.

Response - The Department's Medicaid Provider Cost Audit and Rate Setting (PCA) contractor has discussed this issue with Broadlawns Medical Center (BMC). BMC is in the process of re-calculating their Medicare cost report and DSH survey for State Fiscal Year 2011. It has been discussed with BMC that retail pharmacy cost must be broken out separately from hospital pharmacy cost on the Medicare cost report. Also, the reporting of uncompensated care data on the DSH survey cannot include information pertaining to retail pharmacy cost for purposes of calculating the hospital-specific limit.

Conclusion - Response accepted.

**Iowa Medical Assistance Disproportionate
Share Hospital Payments Program**

Medicaid State Plan Rate Year Ended June 30, 2009

Definition of Uncompensated Care: The Iowa Department of Human Services, for the purpose of the Medical Assistance Disproportionate Share Hospital Payments Program, defines Medicaid uncompensated care as the cost of services to Medicaid patients, less the amount paid by the State under the non-disproportionate share hospital payment provisions of the State Plan. Uninsured uncompensated care is defined as the cost of services to uninsured patients (those who have no health insurance or source of third party payments) less the amount of payments made by these patients.

A	B	C	D	E	F	G	H
Hospital Name	State Estimated Hospital- Specific DSH Limit	Medicaid IP Utilization Rate	Low- Income Utilization Rate	State- Defined DSH Eligibility Statistic	Regular IP/OP Medicaid FFS Rate Payments	IP/OP Medicaid MCO Payments	Supplemental/ Enhanced IP/OP Medicaid Payments
St. Anthony Regional Hospital (0600056)	\$ 734,488	9.41%	6.09%	N/A	\$ 1,604,281	-	-
Keokuk Area Hospital (0600080)	2,717,769	28.46%	15.85%	N/A	2,738,816	209,855	-
St. Luke's Regional Medical Center (0600114)	3,199,561	36.04%	16.58%	N/A	12,553,719	308,538	557,411
Alegent Health - Mercy Hospital (0600288)	5,985,173	36.12%	20.44%	N/A	9,906,672	2,280,908	-
University of Iowa Hospitals and Clinics (0600585)	42,155,109	37.65%	19.39%	EDSH	146,471,606	4,636,809	17,360,757
Iowa Methodist Medical Center - Blank Children's Hospital (0600825)	4,971,549	10.01%	6.41%	Children's Hospital	25,636,639	1,451	-
Ottumwa Regional Health Center (0600890)	3,681,806	24.91%	14.91%	N/A	7,094,345	488,443	-
Broadlawns Medical Center (0601013)	20,992,264	76.99%	96.32%	EDSH	24,763,570	945,043	1,274,055
Institute for Mental Health							
Mt. Pleasant MHI - IowaCare (0640045 & 2640045)	5,624,954	N/A	N/A	EDSH	731,045	226,225	1,491,893
Clarinda MHI - IowaCare (0640052 & 2640052)	869,054	N/A	N/A	EDSH	498,189	290,195	460,351
Out-of-State DSH Hospitals (amounts represent Iowa and Nebraska)							
Children's Memorial Hospital, Omaha, NE (0902148)	^ 3,638,000	44.01%	24.68%	N/A	36,435,031	8,204,398	-
St. Joseph Hospital, Omaha, NE (0992917)	^ 1,931,464	35.19%	22.42%	N/A	32,873,946	6,519,712	-

N/A - not applicable

EDSH - Hospital qualifies for Enhanced Disproportionate Share payments. To qualify, a hospital must meet one of the following:

- an Iowa state-owned hospital with more than 500 beds, having 8 or more separate and distinct residency specialty or subspecialty programs recognized by the American College of Graduate Medical Education
- a non-state government-owned acute care teaching hospital located in a county with a population over 350,000
- an Iowa state-owned hospital for persons with mental illness

% - As explained in Finding (2), certain uninsured, uncompensated care costs are also included in Medicaid uncompensated care costs. In addition, as explained in Finding (4), uncompensated care costs include retail pharmacy service costs for one hospital. The effect on the calculation of eligible uncompensated care costs could not be determined.

As explained in Finding (3), supporting data was not provided for certain required data elements. The unsupported data elements reported were used in the above calculations. The effect, if any, on eligibility or the calculation of eligible uncompensated care costs could not be determined.

^ - Information reported in columns B - I and column Q was provided by Nebraska DSH audit staff.

* - Per Federal Register 42 CFR, Part 447.299(18), reporting this information is not required for out-of-state hospitals.

I	J	K	L	M	N	O	P	Q
Total Medicaid IP/OP Payments	Total Cost of Care - Medicaid IP/OP Services	Total Medicaid Uncompensated Care Cost	Total IP/OP Indigent Care/Self-Pay Revenues	Total Applicable Section 1011 Payments	Total IP/OP Uninsured Cost of Care	Total Uninsured Uncompensated Care Cost	Total Eligible Uncompensated Care Costs	Total DSH Payments Received
1,604,281	2,230,482	626,201	385,471	-	493,758	108,287	734,488	35,748
2,948,671	3,971,987	1,023,316	304,915	-	1,999,368	1,694,453	2,717,769	131,694
13,419,668	13,712,699	293,031	410,579	-	2,759,698	2,349,119	2,642,150	257,800 #
12,187,580	12,620,323	432,743	385,203	-	5,937,633	5,552,430	5,985,173	545,948
168,469,172	191,390,223	22,921,051	2,112,680	-	20,450,680	18,338,000	41,259,051	11,391,340
25,638,090	30,415,050	4,776,960	165,158	-	359,747	194,589	4,971,549	1,432,727
7,582,788	8,147,665	564,877	415,085	-	3,532,014	3,116,929	3,681,806	155,030 #
26,982,668	35,072,645	8,089,977	409,385	-	13,209,346	12,799,961	20,889,938	20,755,968 %
2,449,163	625,471	(1,823,692)	-	-	7,448,646	7,448,646	5,624,954	1,269,916
1,248,735	468,150	(780,585)	-	-	1,649,639	1,649,639	869,054	189,590
44,639,429	*	*	*	*	*	*	*	3,781,050
39,393,658	*	*	*	*	*	*	*	2,019,411