

**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, 2011**

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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, 2011. The Department's 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, in all material respects, with the six verifications required by the Code of Federal Regulations – 42 CFR, Parts 447 and 455, for the year ended June 30, 2011.

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.

MARY MOSIMAN, CPA
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December 22, 2014

**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 hospital 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 hospital and outpatient hospital service costs under the Medicaid program, claimed expenditures under the Medicaid program, uninsured inpatient hospital 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 one of eight hospitals. 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 Medicaid Inpatient Utilization Rate (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 beginning with DSH year 2011. The Department uses claim information from the data warehouse for in-state dual-eligible members during the hospital-specific limit (HSL) calculations. The Iowa Medicaid Enterprise will work with hospital providers to ensure the out-of-state dual eligible information is correctly reported on the submitted DSH survey. This will also help ensure the providers have the necessary supporting documentation for the amounts reported.

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 2011, we reviewed 25 recipients of medical care from Broadlawns Medical Center and 35 recipients of medical care from University of Iowa Hospitals and Clinics who were included in both the Medicaid population and the uninsured population. The following were noted:

- a) Of the 25 recipients tested for Broadlawns Medical Center, one recipient was classified as both Medicaid eligible and uninsured for the same month of service.
- b) Of the 35 recipients tested for University of Iowa Hospitals and Clinics, 3 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 these hospitals.

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 IME will make a determination whether uncompensated care is being correctly reported on the submitted disproportionate share hospital survey. Regarding Broadlawns Medical Center (BMC) specifically, a letter was sent to them by the former 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) Uninsured Pharmacy Service Costs – When calculating the total uninsured uncompensated care costs for Broadlawns Medical Center for fiscal year 2011, a component of these costs included approximately \$3.5 million 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 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 its Medicare cost report, line 56. As a result, retail pharmacy costs were included in the original State Estimated Hospital-Specific DSH limit calculation. These costs were excluded from total eligible uncompensated care costs in Schedule 1.

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. The Department should also repay approximately \$3.5 million in Enhanced Disproportionate Share Hospital funding received for the retail pharmacy service costs.

Response – The Department is working on the process to repay the enhanced disproportionate share hospital funding in excess of the hospital-specific limit (HSL). The changes and verifications for future DSH audit periods have already been conducted and will continue to be reviewed to ensure retail pharmacy costs are not included in the HSL calculation.

Conclusion – Response accepted.

- (4) Hospital-Specific Limit Overpayment – The calculation of the DSH hospital-specific limit for University of Iowa Hospitals and Clinics (UIHC) identified a \$5,346,307 overpayment of DSH funds, as identified in Schedule 1.

Recommendation – The Department should implement procedures to ensure disproportionate share amounts paid to hospitals do not exceed the total eligible uncompensated care costs of those hospitals. The Department should recoup the overpayment from UIHC and repay the excess DSH funds received.

Response – The Department will recoup the disproportionate share hospital funding amount in excess of the HSL calculation.

Conclusion – Response accepted.

Iowa Medical Assistance Disproportionate
Share Hospital Payments Program

Medicaid State Plan Rate Year Ended June 30, 2011

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
Keokuk Area Hospital (0600080)	\$ 3,022,427	25.94%	15.75%	N/A	\$ 2,459,088	161,979	-
St. Luke's Regional Medical Center (0600114)	2,154,215	32.30%	30.45%	N/A	24,488,345	842,133	495,383
Unity HealthCare (0600155)	4,010,977	38.28%	24.15%	N/A	4,018,830	4,150,421	-
Alegent Health - Mercy Hospital (0600288)	6,507,604	33.74%	26.90%	N/A	17,719,431	2,305,929	4,708
Jennie Edmundson Memorial Hospital (0600478)	5,079,766	37.64%	23.64%	N/A	15,342,721	957,222	22,100
University of Iowa Hospitals and Clinics (0600585)	26,457,463	38.82%	24.79%	EDSH	229,116,696	3,780,947	16,944,815
Iowa Methodist Medical Center - Blank Children's Hospital (0600825)	4,427,871	10.53%	7.80%	Children's Hospital	33,704,658	882,851	-
Broadlawns Medical Center (0601013)	17,116,950	40.99%	109.93%	EDSH	35,271,301	1,201,028	1,180,345

Out-of-State DSH Hospitals (amounts represent Iowa and Nebraska)

Children's Memorial Hospital, Omaha, NE (0902148)	^	16,958,681	51.14%	27.49%	N/A	35,141,502	15,256,914	-
St. Joseph Hospital, Omaha, NE (0992917)	^	16,229,167	38.65%	20.79%	N/A	30,207,393	6,983,889	1,164,666
Immanuel Medical Center, Omaha, NE (900837)	^	24,446,389	36.19%	14.73%	N/A	23,051,187	7,029,744	-
Nebraska Medical Center, Omaha, NE (507459)	^	49,157,246	31.55%	11.57%	N/A	88,984,988	18,208,989	1,244,346

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. The effect on the calculation of eligible uncompensated care costs could not be determined.

& - As explained in Finding (3), uncompensated care costs included retail pharmacy service costs in the original State Estimated Hospital - Specific DSH limit calculation. These costs were excluded from total eligible costs in column P.

^ - 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
2,621,067	4,116,605	1,495,538	205,220	-	1,732,109	1,526,889	3,022,427	60,560
25,825,861	24,685,768	(1,140,093)	403,147	-	3,697,455	3,294,308	2,154,215	326,107
8,169,251	10,238,707	2,069,456	218,401	-	2,159,922	1,941,521	4,010,977	62,998
20,030,068	20,386,504	356,436	356,612	-	6,507,780	6,151,168	6,507,604	208,902
16,322,043	18,792,729	2,470,686	457,852	-	3,066,932	2,609,080	5,079,766	139,281
249,842,458	269,586,556	19,744,098	1,764,461	-	6,318,914	4,554,453	24,298,551	29,644,858 %
34,587,509	38,861,952	4,274,443	263,820	-	417,248	153,428	4,427,871	1,947,131
37,652,674	47,886,129	10,233,455	762,530	-	7,646,025	6,883,495	17,116,950	20,632,425 % &

50,398,416	*	*	*	*	*	*	*	3,972,030
38,355,948	*	*	*	*	*	*	*	1,194,499
30,080,931	*	*	*	*	*	*	*	1,340,885
108,438,323	*	*	*	*	*	*	*	17,305,520