DEPARTMENT OF HEALTH & HUMAN SERVICES

Memorandum

Refer to:

Region VII
Federal Office Building
601 East 12th Street
Kansas City, Missouri 64106-2898

Date : APR 08 2003

From : James P. Aasmundstad
Regional Inspector General for Audit Services, Region VII

Subject: Review of Medicaid Disproportionate Share Funds Flow in the State of Missouri (Report Number: A-07-02-02097)

To : Joe L. Tilghman
Regional Administrator
Centers for Medicare & Medicaid Services (CMS)

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services (OAS) report entitled *Review of Medicaid Disproportionate Share Funds Flow in the State of Missouri.* Should you have any questions or comments concerning the matters presented in this report, please contact me or have your staff contact Mr. Terry Eddleman, Audit Manager, at (816) 426-3591.

To facilitate identification, please refer to Report Number A-07-02-02097 in all correspondence relating to this report.

Enclosures – as stated

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF MEDICAID DISPROPORTIONATE SHARE FUNDS FLOW IN THE STATE OF MISSOURI

JANET REHNQUIST
INSPECTOR GENERAL

APRIL 2003
A-07-02-02097

Office of Inspector General

http://oig.hhs.gov/

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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.

DEPARTMENT OF HEALTH & HUMAN SERVICES

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Region VII
Federal Office Building
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Date : APR 08 2003

From : James P. Aasmundstad
Regional Inspector General for Audit Services, Region VII

Subject: Review of Medicaid Disproportionate Share Funds Flow in the State of Missouri
(Report Number: A-07-02-02097)

To : Joe L. Tilghman
Regional Administrator
Centers for Medicare & Medicaid Services (CMS)

This report provides the results of our "Review of Medicaid Disproportionate Share Funds Flow in the State of Missouri". Our objective was to review the role of the Missouri Hospital Association (MHA) and its subsidiary corporation MHA Management Services Corporation (MHA/MSC), in the disbursement of Medicaid disproportionate share (DSH) funds to hospital providers. A further objective was to determine whether DSH funds were received by Missouri hospitals in accordance with Federal regulations and the Missouri Medicaid State plan (State plan). During the three-year period of our review, the State of Missouri claimed $1.5 billion in Federal financial participation (FFP) for DSH payments to hospitals.

We found that Missouri hospitals receive DSH payments in accordance with Federal regulations and the State plan. However, subsequent voluntary redistributions of DSH funds by the MHA/MSC result in DSH funds being used to support Missouri's Federal Reimbursement Allowance (FRA) program rather than to provide financial support to hospitals that serve a disproportionate share of Medicaid patients.

The Department of Social Services, Division of Medical Services (State agency) makes Medicaid DSH payments directly to accounts established by the respective hospital providers. This satisfies the distribution of DSH funds in accordance with the State plan and Federal regulations. For those hospitals that have a voluntary agreement with MHA/MSC, the money is then removed from the provider's account by MHA/MSC, as directed by the account holder, and pooled along with the payments from other participants. Pooled funds are then redistributed based on pooling formulas established by MHA/MSC and transferred back to the hospitals. As a result, some Missouri hospitals received pool payments, which in addition to their DSH payments, result in those hospitals receiving total Medicaid payments in excess of their DSH limits according to Federal regulation and the State Plan. In State fiscal year (SFY) 2001, 30 hospitals received a total of $53,561,550 in excess of their DSH limits. But, because the transfers are voluntary on the part of the hospital providers, we are not recommending recovery of pooled payments in excess of DSH limits.

Background

In 1965, Medicaid was established as a jointly funded Federal and State program providing medical assistance to qualified low income people. At the Federal level, the program is administered by the Centers for Medicare and Medicaid Services (CMS), an agency within the Department of Health and Human Services (HHS). Within broad legal framework, each state designs and administers its own Medicaid program.

The DSH program originated with the Omnibus Budget Reconciliation Act (OBRA) of 1981, which required state Medicaid agencies to make additional payments to hospitals serving disproportionate numbers of low-income patients with special needs. States have considerable flexibility to define DSH hospitals under sections 1923(a) and (b) of the Social Security Act (the Act). States receive allocations of DSH funds as set forth by Federal statute.

Subsequent legislation further defined DSH parameters and limited DSH payments. According to section 13621 of OBRA 1993, for SFY's beginning on or after January 1, 1995, payments to all hospitals were limited to 100 percent of uncompensated care costs.

The MHA has a long of history serving as an intermediary in the payment process from the State to the hospital. Initially, MHA received checks from the State agency, and wired funds to member hospitals, to improve the timeliness of cash flow for the member hospitals. As of November 22, 1991, the Federal government enacted legislation that permitted matching FFP on broad-based provider assessments. In response, Missouri enacted legislation that codified a FRA assessment on Missouri hospitals. The MHA reviewed the law, and concluded that private sector entities could engage in a pooling arrangement on behalf of hospitals to mitigate the impact of a broad-based assessment. Consequently, MHA, through a for-profit subsidiary, MHA Management Services Corporation, began a voluntary pooling program.

Scope of Review

Our review was performed in accordance with generally accepted government auditing standards except that we did provide the MHA or the Missouri Department of Human Services with a draft of our results and did not solicit a response to our report.

The objective of our review was to review the role of MHA and MHA/MSC as intermediaries in the funds flow process. A further objective was to determine whether Missouri hospitals received DSH payments in accordance with Federal regulations and the State Plan.

We reviewed the State agency's quarterly expenditure reports, Forms HCFA-64, at CMS to determine the DSH claimed by Missouri for FFP for FFYs 1999, 2000, and 2001. We interviewed CMS officials to obtain an understanding of the methodology used by the State agency to disburse DSH funds to hospitals.

At the State agency, for judgmentally selected hospitals and fiscal years, we (i) obtained bank account and direct deposit agreements for the disbursement of DSH funds; (ii) reviewed the hospitals' 1099 reports to verify the reporting of DSH payments; and, (iii) reconciled DSH payments claimed on the HCFA-64 to DSH payments reported as paid on the 1099.

We performed field work at the State agency, MHA, its subsidiary MHA Management Services Corporation and at judgmentally selected hospitals. We reviewed the hospitals' bank account information to verify the receipt of DSH payments reported on 1099s. We determined whether the hospitals had cash flow to, and from, MHA/MSC. We reviewed the hospitals' agreements with MHA/MSC. We reviewed accounting statements from MHA/MSC to determine the sources and uses of funds by MHA/MSC on behalf of the hospitals. We interviewed hospital officials to determine the nature of their relationships with MHA/MSC.

RESULTS OF REVIEW

Cash Flow Process from the State Agency to Providers

The State agency calculates DSH payments based on prior years' cost report data trended forward for hospital market basket and anticipated growth indices. For example, the State's 1999 DSH payments were based on 1995 Medicare/Medicaid cost reports. The State agency provided calculations of projected annual DSH payments to providers. The State agency then made bimonthly payments to providers based on its calculations of annual payments. Consequently, 1/24 of the annual DSH payment was paid to each provider twice a month. Payments were made directly to accounts established by the respective hospital providers. This satisfied the disbursement requirements of the State plan and Federal regulations.

The DSH payment was part of a larger bimonthly payment to each provider. The other parts of the payment were medical claims payments and Medicaid shortfall payments. Medical claims payments were for Medicaid inpatient and outpatient claims. Medicaid shortfall payments were non-DSH payments for the difference between total Medicaid per diem cost and the Medicaid per diem reimbursed by the State agency. Generally, providers directed the State agency to deduct their FRA assessment from total Medicaid payments. The FRA assessment was based on the provider's net operating revenues and other operating revenues as reported in the provider's cost reports.

The State of Missouri claimed the following amounts for FFP for DSH payments to Missouri hospitals for FFP on its HCFA-64 reports:

Federal Fiscal Year	Amount
1999	$635,727,964
2000	$455,431,524
2001	$455,068,472

Of the amount paid in 2001, about $248 million (or 54%) went to critical care hospitals and was made available to MHA/MSC for the pooling process. The remainder of the DSH funds went to providers that did not participate in the pooling process, primarily State owned mental health facilities. As previously noted, the funds that were pooled were first paid to accounts established by the respective hospital providers. The State agency provided CMS with a listing of the DSH amounts paid to each provider, and there were no reporting errors.

Cash Flow Process from MHA/MSC to Providers

Most of Missouri's providers participate in a voluntary pooling arrangement with MHA/MSC. In accordance with the private agreements, net Medicaid payments were immediately transferred from the providers' accounts to an MHA/MSC account. Net Medicaid payments were generally comprised of Medicaid claims, DSH, and Medicaid shortfall payments, less deductions for the FRA assessment. Subsequently, the provider received a net (re-distributed) payment from MHA/MSC that included the effect of the pooling arrangement. Pooled funds generally included DSH and shortfall funds, while the portion of the payments representing Medicaid claims flowed through to the hospital provider. Under the pooling arrangement, funds were withheld from hospitals that were "winners" under the FRA assessment program, and transferred to "losers". Winners were hospitals that had certain designated Medicaid payments in excess of their FRA assessment, and losers were hospitals whose FRA assessment exceeded these designated Medicaid payments. This process was completed the same business day the provider initially received funds from the State agency.

We asked several hospital officials of "winner" hospitals to explain why they participated in the pooling program when that meant transferring their DSH payments to other Medicaid program participants. Hospital officials stated the pooling program substantially benefited the Missouri Medicaid program directly, and their hospitals indirectly. Specifically, the FRA assessments generated FFP that greatly expanded Medicaid coverage, benefits, and provider payments.

Consequently, these hospitals received net Medicaid funding that exceeded amounts that would have been received without the pooling program. Conversely, the "losers" had a direct financial incentive to participate in the pooling program. That is, these

hospitals had FRA assessments that exceeded designated Medicaid funding, and they received pool payments that reduced the burden of the FRA assessments.

Medicaid claims payments for medical services generally pass through directly to the provider. The remainder of Medicaid funds received by MHA/MSC are utilized for the purposes of the pooling arrangement. For SFY 2001, funds available to MHA/MSC were:

Medicaid Claims Paid	$665,676,845
Medicaid Disproportionate Share Payments	247,518,218
Medicaid Shortfall Payments	162,680,923
Less: Federal Reimbursement Allowance	(393,926,927)
Net Medicaid Funds in Excess of FRA Assessment	$681,949,059

Funds handled by MHA/MSC were passed through for claims paid, used for pool distributions, MHA/MSC administrative fee, Missouri Poison Control Center contribution, and MHA/MSC Board approved projects. For SFY 2001, funds were applied as follows:

Claims Payment Flow Through	$665,676,845
Pool Distributions to "Losers"	75,547,371
Pool Distributions to "Winners"	11,824,887
Contribution to E & R Trust	1,335,255
MHA/MSC Administrative Fee	1,232,802
Missouri Poison Control Center Contribution	1,275,771
Contribution to MHA/MSC Board Approved Projects	603,499
Balance; Pool payments from "Winners"	$(75,547,371)

In Appendix A, we included Medicaid Funds Sources and Uses Statements for SFYs 1999-2001 for MHA/MSC. In the above example, $75.5 million was redistributed from winning hospitals to losing hospitals, $11.8 million stayed with winning hospitals through the pooling process, $1.2 million was retained by MHA/MSC as an administrative fee and another $3.2 million went to other uses at the discretion of the MHA/MSC. In our opinion, this redistribution of DSH funds was inconsistent with the stated purpose of the DSH program… that being to compensate those hospitals that serve a disproportionate share of Medicaid patients. In some cases, the redistribution resulted in hospitals receiving funds in excess of their uncompensated care ceilings, as explained in the following paragraphs.

Medicaid Program DSH Payment Limits

The OBRA of 1993 limited DSH payments to 100 percent of uncompensated care cost as of January 1, 1995. According to the approved State plan, the uncompensated care cost for Missouri hospitals was calculated based on prior years' cost reports. In SFY 2001, Missouri DSH payments were paid at 77 percent of total uncompensated

care cost determined in accordance with the State plan. Consequently, each hospital's DSH limit equaled its actual DSH payments received, divided by 77 percent.

In SFY 2001, there were 76 Missouri hospitals that received pool payments totaling $75,547,371. Of these hospitals, there were 30 hospitals that received DSH payments, and pool payments, totaling $53,561,550 in excess of their DSH limits.

SUMMARY

Missouri hospitals received DSH payments in accordance with Federal regulations and the State plan. Most Missouri hospitals have entered into private agreements with MHA/MSC. These agreements resulted in the transfer of Medicaid funds to MHA/MSC, the pooling of Medicaid funds, and the transfer of Medicaid funds back to hospitals based on pooling formulas established by MHA/MSC. The voluntary arrangement the hospitals had with MHA/MSC resulted in DSH funds being diverted to purposes not intended by the DSH program and hospitals receiving DSH funds in excess of their DSH limits. However, because the agreements were voluntary between the hospital providers and the MHA/MSC, and because there are no regulations precluding the arrangement, we are not making any recommendations for recovery of the pooled payments in excess of DSH limits.

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REVIEW OF MEDICAID FUNDS FLOW IN THE STATE OF MISSOURI

Sources and Uses of Pooled Medicaid Funds
MHA Management Services Corporation
July 1, 1998 through June 30, 1999

FUND SOURCES FROM:

Medicaid Claims Paid	$469,567,036
Medicaid Disproportionate Share Payments	287,072,449
Medicaid Shortfall Payments	81,989,249
Less: Federal Reimbursement Allowance	(335,494,929)
Net Medicaid Funds in Excess of FRA Assessment	$503,133,805

LESS, FUND APPLIED TO:

Claims Payment Flow Through	$469,567,036
Pool Distributions to "Losers"	53,316,987
Pool Distributions to "Winners"	29,821,124
Contribution to E & R Trust	1,972,188
MHA Administrative Fee	874,921
Missouri Poison Control Center Contribution	677,491
Contribution to MHA Board Approved Projects	221,045
Balance; Pool payments from "Winners"	**$(53,316,987)**

REVIEW OF MEDICAID FUNDS FLOW
IN THE STATE OF MISSOURI

Sources and Uses of Pooled Medicaid Funds
MHA Management Services Corporation
July 1, 1999 through June 30, 2000

FUND SOURCES FROM:

Medicaid Claims Paid	$552,213,869
Medicaid Disproportionate Share Payments	210,075,865
Medicaid Shortfall Payments	102,474,688
Less: Federal Reimbursement Allowance	(330,358,784)
Net Medicaid Funds in Excess of FRA Assessment	$534,405,638

LESS, FUND APPLIED TO:

Claims Payment Flow Through	$552,213,869
Pool Distributions to "Losers"	57,885,596
Pool Distributions to "Winners"	(21,493,657)
Contribution to E & R Trust	611,232
MHA Administrative Fee	1,221,057
Missouri Poison Control Center Contribution	1,225,323
Contribution to MHA Board Approved Projects	627,814
Balance; Pool payments from "Winners"	**$(57,885,596)**

REVIEW OF MEDICAID FUNDS FLOW
IN THE STATE OF MISSOURI

Sources and Uses of Pooled Medicaid Funds
MHA Management Services Corporation
July 1, 2000 through June 30, 2001

FUND SOURCES FROM:

Medicaid Claims Paid	$665,676,845
Medicaid Disproportionate Share Payments	247,518,218
Medicaid Shortfall Payments	162,680,923
Less: Federal Reimbursement Allowance	(393,926,927)
Net Medicaid Funds in Excess of FRA Assessment	$681,949,059

LESS, FUND APPLIED TO:

Claims Payment Flow Through	$665,676,845
Pool Distributions to "Losers"	75,547,371
Pool Distributions to "Winners"	11,824,887
Contribution to E & R Trust	1,335,255
MHA Administrative Fee	1,232,802
Missouri Poison Control Center Contribution	1,275,771
Contribution to MHA Board Approved Projects	603,499
Balance; Pool payments from "Winners"	**$(75,547,371)**

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