



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

OCT - 8 2008

TO: Kerry Weems
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: Daniel R. Levinson
Inspector General

*1 Morris
for*

SUBJECT: Review of Louisiana's Hurricane Katrina Healthcare Related Provider Stabilization Grant (A-06-08-00025)

Attached is an advance copy of our final report on Louisiana's Hurricane Katrina Healthcare Related Provider Stabilization grant (the grant). We will issue this report to the Louisiana Department of Health and Hospitals (the State agency) within 5 business days.

Section 6201(a)(4) of the Deficit Reduction Act of 2005 gave the Secretary of the Department of Health and Human Services the authority to make payments to eligible States for restoring access to health care in communities impacted by Hurricane Katrina. The Secretary made this funding available to Katrina-affected States through an initial and a supplemental grant so the States could make payments to hospitals and other providers facing higher wage rates that are not yet reflected in the Medicare prospective payments system.

Louisiana was awarded \$97,856,532 through the initial and a supplemental grant. In accordance with the terms of the initial and supplemental grants, payments were to be allocated only to facilities that were operating when the grant funds were disbursed and that were in impacted communities. The State agency administered the grant.

Our objective was to determine whether the State agency computed the grant payments in accordance with the terms of the grant award and Federal and State requirements.

The State agency followed the approved methodology for computing the grant payments to hospitals, skilled nursing facilities, community mental health centers, and inpatient psychiatric facilities that were eligible to receive payments. However, the State agency incorrectly recorded contract labor expenses and the number of hours contractors worked for 5 of the 60 hospitals. As a result of the data entry errors, most of the hospitals received an incorrect grant payment, ranging from a \$60,162 overpayment to a \$60,942 underpayment. Two hospitals received the correct amount, 55 hospitals received overpayments ranging from \$1 to \$60,162, and 3 hospitals

received underpayments ranging from \$651 to \$60,942. The overpayments and underpayments did not affect the total amount awarded under the grant.

We recommend that the State agency use the results of this review to adjust incorrect grant payments received by the hospitals.

In its written comments on our draft report, the State agency agreed with our recommendation. The State agency said that it would request refunds from hospitals that were overpaid and redistribute the funds to hospitals that were underpaid.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov or Gordon L. Sato, Regional Inspector General for Audit Services, Region VI, at (214) 767-8414 or through e-mail at Gordon.Sato@oig.hhs.gov. Please refer to report number A-06-08-00025.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Audit Services

Region VI
1100 Commerce, Room 632
Dallas, TX 75242

OCT 15 2008

Report Number: A-06-08-00025

Mr. Jerry Phillips
Medicaid Director
Louisiana Department of Health and Hospitals
628 N. 4th Street
7th Floor
Baton Rouge, Louisiana 70802

Dear Mr. Phillips:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Louisiana's Hurricane Katrina Healthcare Related Provider Stabilization Grant." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Trish Wheeler, Audit Manager, at (214) 767-6325 or through e-mail at trish.wheeler@oig.hhs.gov. Please refer to report number A-06-08-00025 in all correspondence.

Sincerely,

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Jackie Garner, Consortium Administrator
Consortium for Medicaid and Children's Health Operations
Centers for Medicare & Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF LOUISIANA'S
HURRICANE KATRINA
HEALTHCARE RELATED
PROVIDER STABILIZATION
GRANT**



Daniel R. Levinson
Inspector General

October 2008
A-06-08-00025

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Section 6201(a)(4) of the Deficit Reduction Act of 2005, which was not funded from the Medicare Trust Fund, gave the Secretary of the Department of Health and Human Services the authority to make payments to eligible States for restoring access to health care in communities impacted by Hurricane Katrina. Pursuant to 72 Fed. Reg. 9538 (Mar. 2, 2007) and 72 Fed. Reg. 48648 (Aug. 24, 2007), the Secretary made this funding available to Katrina-affected States through an initial and a supplemental Hurricane Katrina Healthcare Related Provider Stabilization grant (the grant) so the States could make payments to hospitals and other providers facing higher wage rates that are not yet reflected in the Medicare prospective payments system methodologies. Pursuant to 73 Fed. Reg. 34024 (June 16, 2008), a second supplemental grant was issued after our review period. This grant is not discussed in this report.

Louisiana was awarded \$97,856,532 through the initial and a supplemental grant. The initial grant funds, totaling \$71,633,492, were to be allocated among all eligible hospitals and skilled nursing facilities (SNF). The supplemental grant funds, totaling \$26,223,040, were to be allocated among all eligible hospitals, SNFs, community mental health centers (CMHC), and inpatient psychiatric facilities (IPF). In accordance with the terms of the initial and supplemental grants, payments were to be allocated only to facilities that were operating when the grant funds were disbursed and that were in impacted communities. The Louisiana Department of Health and Hospitals (the State agency) administered the grant.

OBJECTIVE

Our objective was to determine whether the State agency computed the grant payments in accordance with the terms of the grant award and Federal and State requirements.

SUMMARY OF FINDINGS

The State agency followed the approved methodology for computing the grant payments to hospitals, SNFs, CMHCs, and IPFs that were eligible to receive payments. However, the State agency incorrectly recorded contract labor expenses and the number of hours contractors worked for 5 of the 60 hospitals. As a result of the data entry errors, most of the hospitals received an incorrect grant payment, ranging from a \$60,162 overpayment to a \$60,942 underpayment. Two hospitals received the correct amount, 55 hospitals received overpayments ranging from \$1 to \$60,162, and 3 hospitals received underpayments ranging from \$651 to \$60,942. (See Appendix A for the overpayment or underpayment that each hospital received.) The overpayments and underpayments did not affect the total amount awarded under the grant.

RECOMMENDATION

We recommend that the State agency use the results of this review to adjust incorrect grant payments received by the hospitals.

STATE AGENCY COMMENTS

In its written comments on our draft report, the State agency agreed with our recommendation. The State agency said that it would request refunds from hospitals that were overpaid and redistribute the funds to hospitals that were underpaid. The State agency's comments are included in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

Since Hurricane Katrina hit the Gulf Coast in 2005, hospitals, skilled nursing facilities (SNF), community mental health centers (CMHC), and inpatient psychiatric facilities (IPF) in impacted communities may have had difficulty hiring and retaining staff because of increased wage rates paid by employers competing for health care workers. Section 6201(a)(4) of the Deficit Reduction Act of 2005 (DRA) gave the Secretary of the Department of Health and Human Services the authority to make payments to States for restoring access to health care in communities impacted by Hurricane Katrina.¹ Pursuant to 72 Fed. Reg. 9538 (Mar. 2, 2007) and 72 Fed. Reg. 48648 (Aug.24, 2007), the Secretary made this funding available to Katrina-affected States through an initial and a supplemental Hurricane Katrina Healthcare Related Provider Stabilization grant (the grant) so the State could make payments to hospitals and other providers facing higher wage rates that are not yet reflected in the Medicare prospective payments system methodologies.^{2 3}

Louisiana was awarded \$97,856,532 through the initial and a supplemental grant. The initial grant funds, totaling \$71,633,492, were to be allocated among all eligible hospitals and SNFs. The supplemental grant funds, totaling \$26,223,040, were to be allocated among all eligible hospitals, SNFs, CMHCs, and IPFs. In accordance with the terms of the initial and supplemental grants, payments were only to be allocated to facilities that were operating when the grant funds were disbursed and that were in impacted communities. The Louisiana Department of Health and Hospitals (the State agency) administered the grant.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency computed the grant payments in accordance with the terms of the grant award and Federal and State requirements.

Scope

Our audit included \$97,856,532 in grant funds that the State agency paid to hospitals, SNFs, CMHCs, and IPFs. The grant payments began in February 2007 and were to be completed by the end of Federal fiscal year 2009. As of the end of our fieldwork, all of the grant funds had been paid to the eligible facilities.

¹Section 6201(a)(4) of the DRA was not funded from the Medicare Trust Fund.

²The grant is referred to as the Medicare Wage Index Stabilization grant in other Office of Inspector General Katrina audits.

³Pursuant to 73 Fed. Reg. 34024 (June 16, 2008), a second supplemental grant was issued after our review period. This grant is not discussed in this report.

We did not review the State agency's overall internal control structure. We limited our review to obtaining an understanding of the methodology the State agency used to determine the grant amount to be awarded to each provider. The State obtained wage data from surveys of qualifying hospitals. We did not independently verify the validity of these responses.

We conducted our fieldwork at the State agency in Baton Rouge, Louisiana, in November 2007.

Methodology

To accomplish our objective, we:

- reviewed the notice of grant awards, the DRA, Federal Registers, and Louisiana's applications for Federal assistance for the grant;
- interviewed Centers for Medicare & Medicaid Services (CMS) officials to obtain an understanding of the grant process;
- interviewed State employees to obtain an understanding of the methodology the State agency used in determining the grant amounts for each provider;
- verified that the information entered on the initial and supplemental grant payment spreadsheets matched the supporting documentation;
- determined whether facilities that received grant payments were located in "impacted" communities affected by Hurricane Katrina;
- determined whether facilities that received grant payments were operating when the grant funds were disbursed; and
- determined whether grant payments were allocated based on the CMS-approved methodology.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATION

The State agency followed the approved methodology for computing the grant payments to hospitals, SNFs, CMHCs, and IPFs that were eligible to receive payments. However, the State agency incorrectly recorded contract labor expenses and the number of hours contractors worked for 5 of the 60 hospitals. As a result of the data entry errors, most of the hospitals received an incorrect grant payment, ranging from a \$60,162 overpayment to a \$60,942 underpayment. Two hospitals received the correct amount, 55 hospitals received overpayments ranging from \$1 to

\$60,162, and 3 hospitals received underpayments ranging from \$651 to \$60,942. (See Appendix A for the overpayment or underpayment that each hospital received.) The overpayments and underpayments did not affect the total amount awarded under the grant.

FEDERAL AND STATE REQUIREMENTS

Section 6201(a)(4) of the DRA gave the Secretary of the Department of Health and Human Services the authority to make payments to eligible States for restoring access to health care in communities impacted by Hurricane Katrina. Pursuant to 72 Fed. Reg. 9538 (Mar. 2, 2007) and 72 Fed. Reg. 48648 (Aug. 24, 2007), the Secretary made this funding available to Katrina-affected States through the initial and a supplemental grant so the States could make payments to hospitals and other providers facing higher wage rates that are not yet reflected in the Medicare prospective payments system methodologies.

Pursuant to the Federal Register notices, payments were to be allocated only to facilities that were operating when the grant funds were disbursed and that were in impacted communities.⁴ The States' payment methodologies were subject to the approval of CMS. The States had some flexibility in determining the methodology to determine the timing and amount of provider payments, but the methodology had to reflect each provider's share of total Medicare payments during a specified period of time.

The State agency submitted two applications to CMS—one for the initial grant and one for the supplemental grant. Each application detailed the methodology that would be used by the State to determine the provider payments. The methodology was different for each type of facility. CMS approved the applications submitted by the State for the initial and supplemental grants.⁵

The initial grant funds were to be allocated among all eligible hospitals and SNFs. The supplemental grant funds were to be allocated among all eligible hospitals, SNFs, CMHCs, and IPFs.

DATA ENTRY ERRORS ON HOSPITAL PAYMENT SPREADSHEETS

For the pool of grant funds designated for "Hospitals-Medicare Inpatient Part A," Louisiana's CMS-approved applications for the initial and supplemental grants both state that each qualifying hospital will be paid its proportionate share of the grant pool based on its Medicare Part A inpatient acute prospective payments for dates of service in the first two quarters of calendar year

⁴For purposes of the grant, CMS defined "impacted communities" as the counties or parishes located in Louisiana, Alabama, or Mississippi that the Federal Emergency Management Agency designated to receive individual and public assistance as authorized by Section 408 of the Robert T. Stafford Act.

⁵Each State application was approved through a Notice of Award from CMS. The terms and conditions of each Notice of Award required the State to adhere to the approved payment methodology in the State's application, unless the Project Officer approved a change to that methodology.

2005.⁶ Payments were to be weighted by the State agency based on the percentage of change in wage index data between the second calendar year quarter of 2005 and the fourth calendar year quarter of 2006. The wage data was to be obtained by the State agency from surveys of qualifying hospitals.

In its grant payment spreadsheets, the State agency incorrectly entered contract labor expenses, which include expenses for wages and fringe benefits, and contract labor hours obtained from five hospital surveys. Specifically, the State agency entered the number of hours worked in the cell for contract labor expense and left blank the cell for hours worked.

Because the State agency incorrectly entered the contract labor expense and hours-worked information into the payment spreadsheets that calculated each hospital's pro rata share of the grant pool, most hospitals were awarded an incorrect amount. The incorrect grant payments ranged from a \$60,162 overpayment to a \$60,942 underpayment. Two hospitals received the correct amount, 55 hospitals received overpayments ranging from \$1 to \$60,162, and 3 hospitals received underpayments ranging from \$651 to \$60,942.

RECOMMENDATION

We recommend that the State agency use the results of this review to adjust incorrect grant payments received by the hospitals.

STATE AGENCY COMMENTS

In its written comments on our draft report, the State agency agreed with our recommendation. The State agency said that it would request refunds from hospitals that were overpaid and redistribute the funds to hospitals that were underpaid. The State agency's comments are included in their entirety as Appendix B.

⁶In addition, the application for the supplemental grant contains a methodology for making payments to hospitals that were not operational in the first two calendar quarters of 2005 but became operational before the end of calendar year 2006.

APPENDIXES

**HURRICANE KATRINA HEALTHCARE RELATED PROVIDER STABILIZATION
GRANT OVERPAYMENTS AND UNDERPAYMENTS TO HOSPITALS**

Hospital	Overpayment (Underpayment)	Hospital	Overpayment (Underpayment)
1	\$168	31	\$2,543
2	245	32	1
3	1,451	33	3
4	1,268	34	225
5	(24,164)	35	118
6	3	36	692
7	84	37	9
8	1,523	38	5
9	5	39	22
10	1	40	(60,942)
11	274	41	118
12	365	42	176
13	259	43	1,136
14	1,379	44	11
15	0	45	225
16	53	46	1,371
17	981	47	27
18	(651)	48	522
19	358	49	944
20	166	50	60,162
21	599	51	127
22	575	52	7
23	1,476	53	0
24	337	54	17
25	722	55	186
26	1,594	56	249
27	179	57	902
28	267	58	46
29	283	59	82
30	1,183	60	32

Bobby Jindal
GOVERNOR



Alan Levine
SECRETARY

State of Louisiana
Department of Health and Hospitals
Bureau of Health Services Financing

September 15, 2008

Gordon L. Sato
Regional Inspector General
Office of Inspector General
Office of Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

RE: Report Number A-06-08-00025

Dear Mr. Sato:

We have reviewed the Office of Inspector General's (OIG) draft report entitled "Review of Louisiana's Hurricane Katrina Healthcare Related Provider Stabilization Grant" dated July 18, 2008. The OIG draft report indicates that 55 hospitals received overpayments ranging from \$1 to \$60,162 and 3 hospitals received underpayments ranging from \$651 to \$60,942. After a thorough review of our original calculations and the supporting documentation, we concur with the report findings that incorrect payment amounts were issued to several hospitals as a result of data entry errors.

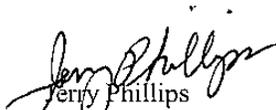
As a corrective action to adjust for the grant overpayments, we propose to contact those applicable hospitals and request that the overpayment amounts be refunded to the Department. Upon receipt of the grant refunds, the Department will redistribute the funds to the three hospitals that received underpayments.

Please note that the correspondence received from the Department of Health and Human Services (DHHS) clearly states that "payments to general acute care hospitals, skilled nursing facilities, inpatient psychiatric facilities and community mental health centers under this program are not to be considered payments for Medicare, Medicaid or other specific services." Furthermore, the DHHS letter states "the payments cannot be made conditional on the provision of any particular items or services by the facilities." It should also be noted that most of these hospitals are continuing to experience financial difficulties and may be unable to refund the overpayments. Consequently, the Department may have little legal recourse against hospitals that do not repay the funds.

Office of the Inspector General
Office of Audit Services
September 15, 2008
Page 2

If you have any questions or comments regarding our proposed corrective action plan, you may contact Sandra Victor, Policy Development & Implementation Section Chief, by telephone at (225) 342-0941 or through e-mail at svictor@dhh.la.gov.

Sincerely,


Jerry Phillips
Medicaid Director

JP/SV