



Memorandum

Date *MAR 21 2002*
From *Thomas D. Roslewicz*
Thomas D. Roslewicz
Deputy Inspector General
for Audit Services
Subject

To Review Of Medicaid Claims For Patients Between The Ages Of 21 To 64 In New Jersey's State Operated Institutions For Mental Diseases Who Were Temporarily Released To Acute Care Hospitals For Medical Treatment (A-02-00-01027)

Neil Donovan
Director, Audit Liaison Staff
Centers for Medicare & Medicaid Services

As part of self-initiated audits by the Office of Inspector General, we are alerting you to the issuance within 5 working days from the date of this memorandum of our final report entitled, "Review Of Medicaid Claims For Patients Between The Ages Of 21 To 64 In New Jersey's State Operated Institutions For Mental Diseases Who Were Temporarily Released To Acute Care Hospitals For Medical Treatment." A copy of the report is attached. This report is one of a series of reports involving our multi-State review of patients in institutions for mental diseases (IMD). We suggest you share this report with components of the Centers for Medicare & Medicaid Services (CMS) involved with program integrity, provider issues, and State Medicaid agency oversight, particularly the Center for Medicaid and State Operations.

The objective of our review was to determine if controls were in place to preclude New Jersey from claiming Federal financial participation (FFP) under the Medicaid program for 21 to 64 year old residents of State operated psychiatric hospitals that were IMDs. The audit focused on individuals who were temporarily released to acute care hospitals for medical treatment.

Our review found that improvements were needed in controls established by the State to preclude claiming FFP under the Medicaid program for 21 to 64 year old residents of State operated IMDs who were temporarily released to acute care hospitals for medical treatment. Although it was State policy not to claim FFP for 21 to 64 year old residents of IMDs who receive medical services provided outside of the psychiatric hospitals, we found that for the period July 1, 1997 through June 30, 2001, the State improperly claimed \$190,848 of FFP under the Medicaid program for inpatient acute care hospital services.

We recommended that the State: (1) refund \$190,848 to the Federal Government for the improper FFP claimed during the period July 1, 1997 through June 30, 2001; (2) identify and return the improper FFP claimed subsequent to June 30, 2001; and (3) strengthen

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procedures to ensure that claims for 21 to 64 year old residents of IMDs who receive medical services, including inpatient acute care hospital services, provided outside of the psychiatric hospitals, are not claimed for FFP.

New Jersey officials agreed with all of our recommendations and plan to begin efforts to identify and prevent FFP from being claimed for IMD residents between the ages of 21 to 64 who are temporarily released to acute care hospitals for medical treatment. In their response, State officials cited the significant analytical work the auditors performed to provide an accurate and reasonable report.

Any questions or comments on any aspect of this memorandum are welcome. Please address them to George M. Reeb, Assistant Inspector General for Health Care Financing Audits, at (410) 786-7104 or Timothy J. Horgan, Regional Inspector General for Audit Services, Region II, at (212) 264-4621.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICAID CLAIMS
FOR PATIENTS BETWEEN THE AGES OF 21 TO 64 IN
NEW JERSEY'S STATE OPERATED INSTITUTIONS
FOR MENTAL DISEASES WHO WERE TEMPORARILY
RELEASED TO ACUTE CARE HOSPITALS FOR
MEDICAL TREATMENT**



**JANET REHNQUIST
INSPECTOR GENERAL**

**MARCH 2002
A-02-00-01027**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office Of Inspector General
Office Of Audit Services

Region II
Jacob K. Javits Federal Building
26 Federal Plaza
New York, NY 10278

CIN: A-02-00-01027

MAR 25 2002

Ms. Deborah Bradley
Acting Director
New Jersey Division of Medical Assistance
and Health Services
Post Office Box 712
Trenton, New Jersey 08625

Dear Ms. Bradley:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of the Inspector General, Office of Audit Services' (OIG/OAS) final report entitled, "Review Of Medicaid Claims For Patients Between The Ages Of 21 To 64 In New Jersey's State Operated Institutions For Mental Diseases Who Were Temporarily Released To Acute Care Hospitals For Medical Treatment." Our audit covered the period July 1, 1997 through June 30, 2001. A copy of this report will be forwarded to the HHS 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. 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.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG/OAS reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR part 5.)

To facilitate identification, please refer to Common Identification Number A-02-00-01027 in all correspondence relating to this report.

Sincerely yours,

Timothy J. Horgan
Regional Inspector General
for Audit Services

Enclosures - as stated

Page 2 – Ms. Deborah Bradley

Direct Reply to HHS Action Official:

Mr. Peter Reisman
Associate Regional Administrator
Division of Financial Management
Centers for Medicare & Medicaid Services, Region II
Department of Health and Human Services
26 Federal Plaza, Room 38-130
New York, New York 10278

EXECUTIVE SUMMARY

Background

Federal regulations prohibit Federal financial participation (FFP) for any services, including inpatient hospital care, provided to institutions for mental diseases (IMD) residents within the 21 to 64 year old age group. Individuals residing in IMDs retain their IMD status when they are temporarily released to acute care hospitals for medical treatment and as such, the FFP exclusion for 21 to 64 year olds would apply.

Objective

The audit objective was to determine if controls were in place to preclude New Jersey from claiming FFP under the Medicaid program for 21 to 64 year old residents of State operated psychiatric hospitals that were IMDs. The audit focused on individuals who were temporarily released to acute care hospitals for medical treatment.

Summary of Findings

Our review showed that improvements are needed in controls established by the State to preclude claiming FFP under the Medicaid program for 21 to 64 year old residents of State operated IMDs who were temporarily released to acute care hospitals for medical treatment. Although it was State policy not to claim FFP for 21 to 64 year old residents of IMDs who receive medical services provided outside of the psychiatric hospitals, we found that for the period July 1, 1997 through June 30, 2001, the State improperly claimed \$190,848 of FFP under the Medicaid program for inpatient acute care hospital services.

The preventative control to preclude claiming FFP was that upon admission to a State operated psychiatric hospital, New Jersey officials would enroll aged 21 to 64 year old patients into their Medicaid program using a unique institutional identification number. When an outside provider submits a claim using the patient's institutional number, the claims processing system would classify and pay the claim with only State funds and no FFP. However, during our review, we determined that some patients also had county issued Medicaid identification numbers prior to being admitted to the psychiatric hospitals. We noted that the State did not cancel these county numbers, which resulted in the beneficiary having two active Medicaid identification numbers. If the outside provider billed using the active county number, the claim was categorized and paid with FFP. The current system does not have the capability to match these two numbers and correctly classify the payment as State funds only with no FFP.

We discussed this issue with State officials who agreed with our findings. In order to quantify the extent of the improper FFP claimed for the 21 to 64 year old residents of the IMDs, the State ran a computer application that identified improper FFP claims for both inpatient acute care and medical and ancillary services made for patients whose county numbers rather than institutional numbers were billed by the outside providers. This application covered the period July 1, 1997

through June 30, 2001. Based on our review of this computer match application, we determined that the State improperly claimed \$190,848 of FFP under the Medicaid program for 21 to 64 year old residents of IMDs who received inpatient acute care hospital services provided outside of the psychiatric hospitals.

Conclusion and Recommendations

As a result of the acute care hospitals using county Medicaid identification numbers versus the institutional numbers for 21 to 64 year old residents of the State operated IMDs, New Jersey improperly claimed \$190,848 of FFP under the Medicaid program when these individuals were temporarily released to the acute care hospitals for medical treatment.

We recommended that New Jersey:

1. Refund \$190,848 to the Federal Government for the improper FFP claimed during the period July 1, 1997 through June 30, 2001.
2. Identify and return the improper FFP claimed subsequent to June 30, 2001.
3. Strengthen procedures to ensure that claims for 21 to 64 year old residents of IMDs who receive medical services, including inpatient acute care hospital services, provided outside of the psychiatric hospitals, are not claimed for FFP.

Auditee's Comments

In comments dated January 25, 2002, State officials agreed with all of our recommendations. The State's response is included in its entirety as an appendix to this report.

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INTRODUCTION

Background

State Administration

In New Jersey, the Department of Human Services (NJDHS) is the single State agency responsible for operating the State's title XIX Medicaid program. Within NJDHS, the Division of Medical Assistance and Health Services (DMAHS) is responsible for administering the Medicaid program. Also, within NJDHS, the Division of Mental Health Services sets mental health policy and operates six psychiatric hospitals throughout the State. These include: Ancora Psychiatric Hospital, Greystone Park Psychiatric Hospital, Trenton Psychiatric Hospital, Arthur Brisbane Child Treatment Center, Ann Klein Forensic Center, and Senator Garrett W. Hagedorn Gero-Psychiatric Hospital. Another psychiatric hospital, Marlboro, was closed during 1998.

Regulatory Background

Federal regulations prohibit Federal financial participation (FFP) for any services, including inpatient acute care hospital services, provided to institutions for mental diseases (IMD) residents within the 21 to 64 year old age group. Individuals residing in IMDs retain their IMD status when they are temporarily released to acute care hospitals for medical treatment and as such, the FFP exclusion for 21 to 64 year olds would apply.

The basis for the IMD exclusion of FFP was established in the 1950 amendments to the Social Security Act. Those amendments excluded all Federal assistance payments for patients of IMDs. The creation of the Medicaid program in 1965 permitted FFP for the first time for residents of IMDs in certain situations. Specifically, FFP was allowed for inpatient care provided to IMD residents age 65 and over. The 1972 amendments to the Social Security Act extended FFP for inpatient psychiatric care to individuals under the age of 21. Therefore, since the beginning of the Medicaid program, Federal medical assistance has never been available for residents of IMDs between the ages of 21 to 64 for any type of service.

The Social Security Act defines an IMD as a hospital, nursing facility, or other institution of more than 16 beds, that is primarily engaged in providing diagnosis, treatment, or care of persons with mental diseases, including medical attention, nursing care, and related services. State operated mental hospitals with more than 16 beds are always IMDs. However, IMDs do not always have to be psychiatric hospitals. An IMD can be a skilled nursing home or a community residence for the mentally ill that meets the above criteria.

Previous New Jersey IMD Reviews

On June 3, 1994, the Region II Centers for Medicare & Medicaid Services (CMS)¹ issued a report to New Jersey entitled, “Special Review of Patients Aged 22 to 64 in Institutions for Mental Diseases Serviced by the New Jersey Department of Human Services’ Division of Medical Assistance and Health Services under Title XIX of the Social Security Act for the Period January 1, 1990 – June 30, 1991.” In its report, Region II CMS determined that New Jersey improperly claimed over \$1 million of FFP for IMD patients between the ages of 22 to 64 who were temporarily transferred to acute care facilities for medical treatment and disallowed this amount.

New Jersey appealed CMS’ disallowance before the Departmental Appeals Board (DAB). In DAB decision number 1549, issued on November 20, 1995, the DAB upheld CMS’ findings and indicated that the IMD exclusion of FFP would apply. New Jersey sought judicial relief of DAB decision number 1549. On February 5, 1997, the U.S. District Court for the District of New Jersey upheld the DAB decision. In its decision, the U.S. District Court stated “The Act exempts payments for care or services for IMD patients between the ages of 22 and 64.”

Objective, Scope, and Methodology

The objective of this audit was to determine whether controls were in place to effectively preclude New Jersey from claiming FFP under the Medicaid program for 21 to 64 year old residents of State operated psychiatric hospitals that are IMDs. The primary focus of the audit was on individuals who were temporarily released to acute care hospitals for medical treatment during the period July 1, 1997 through June 30, 2001.

Our review was conducted in accordance with generally accepted government auditing standards. Audit field work was performed at the DMAHS office in Mercerville, New Jersey, and at five State operated psychiatric hospitals: Ancora Psychiatric Hospital, Greystone Park Psychiatric Hospital, Trenton Psychiatric Hospital, Ann Klein Forensic Center, and Senator Garrett W. Hagedorn Gero-Psychiatric Hospital.

During our audit, we did not review the overall internal control structure of the State agency or of the Medicaid program. Rather, our internal control review was limited to obtaining an understanding of the State agency’s controls in place to preclude claiming FFP under the Medicaid program for 21 to 64 year old residents of State operated psychiatric hospitals that are IMDs.

¹ Formerly known as the Health Care Financing Administration

In order to accomplish our audit objective we:

- Held discussions with CMS Regional Office program managers and obtained an understanding of CMS' reviews and the guidance provided to New Jersey officials regarding IMD issues. Additionally, we obtained a listing of State owned and private psychiatric hospitals in New Jersey from CMS.
- Held discussions with State agency officials to ascertain State policies and procedures for claiming FFP under the Medicaid program for 21 to 64 year old residents of State operated psychiatric hospitals in New Jersey who were temporarily released to acute care hospitals for medical treatment.
- Obtained an understanding of computer edits and controls regarding the claiming of FFP for services to aged 21 to 64 year old residents of State operated psychiatric hospitals who were temporarily released to acute care hospitals for medical treatment.
- Obtained a universe of all residents between the ages of 21 to 64 for each State operated psychiatric hospital.
- Requested and received from the State, a computer generated Exception Report that identified \$4,505,741 (\$2,252,871 FFP) of potentially unallowable FFP claims for inpatient acute care hospital services made on behalf of 21 to 64 year old residents of State operated psychiatric hospitals whose county numbers rather than institutional numbers were billed by outside providers.
- Reviewed and removed from the Exception Report the following claimed amounts: \$262,000 of claims paid with only State funds (no FFP), and \$3,024,814 (\$1,512,407 FFP) of claims where the last day of the inpatient acute care hospital stay was the first day of the IMD admission (therefore, the patients were not residents of the IMDs). Upon completing this step, the revised Exception Report contained 444 claims totaling \$1,218,927 (\$609,464 FFP).
- Reviewed all 444 claims that were identified as potentially unallowable FFP claims. This decision was based on two factors. The first was that the database used by the State to produce the Exception Report always showed the date of discharge as the last day of the month rather than the patient's actual discharge date. Second, for 200 of the 444 claims, the discharge date was listed as 99999999, indicating that the patient was still a resident of the IMD as of June 30, 2001 (our audit cut-off date). Our review determined the 99999999 dates were not always accurate.

- Performed on-site reviews at five State operated psychiatric hospitals. For the 444 claims selected for review, we verified the patients' admission and discharge dates to the IMD records, and from the patients' IMD medical records, we verified the inpatient acute care hospital stays.
- Discussed the audit results with New Jersey officials.

FINDING AND RECOMMENDATIONS

Preventative Controls Not Always Effective

Our review showed that improvements are needed in the controls established by the State to preclude claiming FFP under the Medicaid program for 21 to 64 year old residents of State operated IMDs who were temporarily released to acute care hospitals for medical treatment. Although it was State policy not to claim FFP for 21 to 64 year old residents of IMDs who receive medical services provided outside of the psychiatric hospitals, we found that from July 1, 1997 through June 30, 2001, the State improperly claimed \$190,848 of FFP under the Medicaid program for inpatient acute care hospital services.

Section 1905 (a) of the Social Security Act and 42 CFR 441.13 and 42 CFR 435.1008 preclude FFP for any services provided to residents under the age of 65 who are in an IMD except for inpatient psychiatric services provided to individuals under the age of 21, and in some cases for those who are under the age of 22. This exclusion of FFP was designed to assure that States, rather than the Federal Government, continue to have principal responsibility for funding care provided to 21 to 64 year old inpatients in IMDs. Under this broad exclusion, no FFP payments should be made for services provided either in or outside the facility for IMD patients in this age group.

At the entrance conference, we were advised that the State does not claim FFP for residents of IMDs between the ages of 21 to 64 who receive either inpatient acute care or medical and ancillary services. The preventative control to preclude claiming FFP was that upon admission to a State operated psychiatric hospital, New Jersey officials would enroll aged 21 to 64 year old patients into their Medicaid program using a unique institutional identification number. When an outside provider submitted a claim using the patient's institutional number, the claims processing system would classify the claim as federally non-participating. However, during our review, we determined that some patients also had county Medicaid identification numbers prior to their admission to the psychiatric hospitals. We noted that the State did not cancel these county numbers, which resulted in the beneficiary having two active Medicaid identification numbers. If the outside provider billed using an active county number, the claim was categorized and paid with FFP. Our review determined that the current system does not have the capability to match these two numbers and correctly classify the payment using only State funds.

We discussed this issue with State officials who agreed with our finding. In order to quantify the extent of the improper FFP claimed for the 21 to 64 year old residents of the IMDs, the State ran a computer application that identified improper FFP claims for both inpatient acute care and medical and ancillary services made for patients whose county numbers rather than institutional numbers were billed by the outside providers. This application covered the period July 1, 1997 through June 30, 2001.

The State's computer application identified \$4,505,741 (\$2,252,871 FFP) of potentially improper FFP claims made for inpatient acute care hospital services for IMD residents between the ages of 21 to 64 whose county numbers rather than institutional numbers were billed by the outside providers. We reviewed and removed from the computer generated Exception Report the following amounts: \$262,000 of claims paid with only State funds (no FFP was claimed), and \$3,024,814 (\$1,512,407 FFP) of claims where the last day of the inpatient acute care hospital stay was the first day of IMD admission (therefore, the patients were not residents of the IMDs). Upon completing this step, the revised Exception Report contained 444 claims totaling \$1,218,927 (\$609,464 FFP).

After further analysis of the Exception Report, we decided to review all 444 claims that were identified as potentially unallowable for FFP because of two factors. The first was that the database used by the State to produce the Exception Report always showed the date of discharge as the last day of month rather than the patient's actual discharge date. Second, for 200 of the 444 claims, the discharge date was listed as 99999999, indicating that the patient was still a resident of the IMD as of June 30, 2001 (our audit cut-off date). Our review determined the 99999999 dates were not always accurate.

We performed on-site reviews at five State operated psychiatric hospitals to review the 444 FFP claims for inpatient acute care hospital services that were made on behalf of the 21 to 64 year old residents of the IMDs. For the 444 claims selected for review, we verified the patients' admission and discharge dates to the IMD records and from the patients' IMD medical records, we verified the inpatient acute care hospital stays.

Our review showed that 123 of the 444 claims were improperly claimed for FFP. The improper FFP claims totaled \$381,696 (\$190,848 FFP). Specifically, we found that:

- 86 claims totaling \$307,470 (\$153,735 FFP) represented instances where a 21 to 64 year old patient received inpatient acute care hospital services during the period they were a resident of the IMD. As an example, a 59 year old patient was admitted to Ancora Psychiatric Hospital on September 13, 1999. On October 5, 1999 the patient was admitted to the William B. Kessler Memorial Hospital and returned to the IMD on October 11, 1999. Since the hospital billed using the patient's county number rather than the institutional number, \$2,317 of improper FFP was claimed. The patient was discharged from Ancora Psychiatric Hospital on October 14, 1999.

- 37 claims totaling \$74,226 (\$37,113 FFP) represented instances where the IMD medical records could not be located. The majority of these claims were for Marlboro Psychiatric Hospital that was closed in 1998.

The remaining 321 claims totaling \$837,231 (\$418,616 FFP) were not questioned for the following reasons:

- 107 claims totaling \$326,416 (\$163,208 FFP) represented inpatient acute care hospital stays that were after the patients' date of discharge from the IMDs but prior to the end of the month discharge dates shown on the Exception Report.
- 144 claims totaling \$342,553 (\$171,277 FFP) represented inpatient acute care hospital stays that were made after the patients were discharged from the IMDs. This occurred because the Exception Report listed the patients ending eligibility dates as 99999999 indicating that the patients were still residents of the IMDs on June 30, 2001 (our audit cut-off date). However, we found that these patients had been discharged. We analyzed the differences between the discharge dates per the IMD patients' medical records to the dates shown on the State's Exception Report and noted differences from 5 to 136 months. We discussed this problem with State agency officials and they are in the process of updating and correcting their files.
- 70 claims totaling \$168,262 (\$84,131 FFP) represented inpatient acute care stays where the patients' IMD records showed that they were on conditional release. Section 4390.1 of CMS' State Medicaid Manual indicates that patients on conditional release are not considered IMD residents and as such, FFP would be permitted.

Conclusion and Recommendations

As a result of the acute care hospitals using county Medicaid identification numbers versus the institutional numbers for 21 to 64 year old residents of the State operated IMDs, New Jersey improperly claimed \$190,848 of FFP under the Medicaid program when these individuals were temporarily released to the acute care hospitals for medical treatment.

We recommended that New Jersey:

1. Refund \$190,848 to the Federal Government for the improper FFP claimed during the period July 1, 1997 through June 30, 2001.
2. Identify and return the improper FFP claimed subsequent to June 30, 2001.
3. Strengthen procedures to ensure that claims for 21 to 64 year old residents of IMDs who receive medical services, including inpatient acute care hospital services, provided outside of the psychiatric hospitals, are not claimed for FFP.

Auditee's Comments

In comments dated January 25, 2002, State officials agreed with all of our recommendations. The State's response is included in its entirety as an appendix to this report.

With respect to recommendation number one, New Jersey officials noted that a review of available documentation indicated that this amount was improperly claimed for the audit period. Officials stated that a decreasing adjustment will be included on the Quarterly Statement of Medicaid Expenditures for this amount upon issuance of the final audit report.

For recommendation number two, State officials replied that they will develop an automated reporting process similar to the procedures used by the auditors to identify improper FFP claimed. Additionally, officials indicated that decreasing adjustments will be included on the Quarterly Statement of Medicaid Expenditures when this automated reporting process is implemented.

Finally, for recommendation number three, officials stated that they intend to implement improvements in the maintenance of the automated eligibility records to preclude the use of county issued Medicaid identification numbers for reimbursement of services to IMD patients between the ages of 21 to 64. In the interim, officials at the Division of Mental Health Services will be requested to advise acute care hospitals and other medical providers of the appropriate Medicaid identification numbers to be used for claiming reimbursement.



State of New Jersey
DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
P.O. Box 712
Trenton, NJ 08625-0712

JAMES E. MCGREEVEY
Governor

HHS-1114
OFFICE OF AUDIT
NEW YORK REGIONAL OFFICE

FEB 20 2002

JAMES W. SMITH, JR.
Acting Commissioner

RECEIVED

DEBORAH C. BRADLEY
Acting Director
Telephone 1-800-356-1561

January 25, 2002

Timothy J. Horgan
Regional Inspector General
for Audit Services
Office of the Inspector General
Office of Audit Services
Jacob K. Javits Federal Building
26 Federal Plaza
New York, New York 10278

Re: CIN A-02-01027

Dear Mr. Horgan:

This is in response to your correspondence of December 21, 2001 concerning the draft audit report titled "Review of Medicaid Claims for Patients Between the Ages of 21 to 64 in New Jersey's State Operated Institutions for Mental Diseases Who Were Temporarily Released to Acute Care Hospitals for Medical Treatment". Your letter provides an opportunity to comment on the audit report.

The draft report contains one finding and three recommendations. The report indicated that New Jersey improperly claimed \$190,848 federal financial participation (FFP) for inpatient, acute care hospital services for patients of State operated psychiatric hospitals between the ages of 21 to 64. Federal financial participation is not available for these services in accordance with the regulation at 42 CFR 436.1004 (a) (2). This amount reflects the federal share of acute care hospitals claims processed by the New Jersey Medicaid Management Information System (MMIS) using county issued Medicaid identification numbers. The use of these county issued Medicaid identification numbers thwarted the controls in place to preclude claiming of FFP for these expenditures. The existing controls are based on the use of a hospital specific Medicaid identification number.

Based on this finding it appears that improvements are needed in the controls established to implement our policy to not claim FFP for these services. The recommendations contained in the report and our responses are provided below:

1. New Jersey should refund \$190,484 to the Federal government for improper FFP claimed during the period July 1, 1997 through June 30, 2001.

A review of the available documentation indicates that this amount was improperly claimed for the period indicated. A decreasing adjustment will be included on the Quarterly

Timothy J. Horgan
January 25, 2002
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Statement of Medicaid Expenditures (form CMS-64) for this amount upon issuance of the final audit report.

2. New Jersey should identify and return the improper FFP claimed subsequent to June 30, 2001.

The Division of Medical Assistance and Health Services will develop an automated reporting process similar to the procedures used by the auditors to identify any improperly claimed FFP. Decreasing adjustments will be included on the Quarterly Statement of Medicaid Expenditures (form CMS-64) when this automated reporting process is implemented.

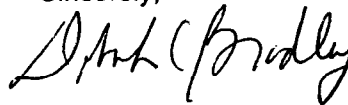
3. New Jersey should strengthen procedures to ensure that claims for 21 to 64 year old residents of IMD's who receive medical services, including inpatient care hospital services, provided outside of the psychiatric hospitals are not claimed for FFP.

The Division of Medical Assistance and Health Services intends to implement improvements in the maintenance of the automated eligibility records to preclude the use of county issued Medicaid identification numbers for reimbursement of services to IMD patients between the ages of 21-64. In the interim, the Division of Mental Health Services will be requested to advise acute care hospitals and other medical providers of the appropriate Medicaid identification number to be used for claiming reimbursement.

Please be advised that the extensive and professional efforts of the auditors responsible for this report are greatly appreciated. Your staff performed significant analytical work to provide an accurate and reasonable report.

If you have any questions or require additional information please contact me or David Lowenthal at (609) 588-2820.

Sincerely,



Deborah C. Bradley
Acting Director

DCB:L
C: James W. Smith, Jr.