DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

Date JUN 1 1 2001

Michael Mangano

From Michael F. Mangano
Acting Inspector General

Subject Audit of the Louisiana Medicaid Disproportionate Share Hospital Program-Louisiana State University Medical Center Hospitals Overseen by the Health Care Services Division (A-06-00-00026)

To

Thomas Scully
Administrator
Health Care Financing Administration

This memorandum is to alert you to the issuance on Wednesday, June 13, 2001, of our final report entitled, "Audit of the Louisiana Medicaid Disproportionate Share Hospital Program-Louisiana State University Medical Center Hospitals Overseen by the Health Care Services Division." A copy of the report is attached. The objectives of this audit were to (1) review Louisiana's disproportionate share hospital (DSH) program and verify that State Fiscal Year (SFY) 1998 payments were calculated in accordance with the approved State plan and (2) verify that payments to individual hospitals did not exceed the uncompensated costs as mandated by the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993).

The Health Care Services Division (HCSD) maintains the accounting records for nine Louisiana hospitals under the Louisiana State University (LSU) Medical Center-Health Sciences Center system. The HCSD also prepares the Medicare and Medicaid cost reports for the nine hospitals and a combined uncompensated care costs (UCC) schedule that is submitted to the Department of Health and Hospitals (DHH) for payments under the DSH program. We also reviewed the DSH payments for the LSU Medical Center-Shreveport hospital, which maintains its own accounting records and is reported upon under separate cover (A-06-00-00058).

Based on our review, we determined the Medicaid DSH payments for SFY 1998 were calculated in accordance with the approved State plan. However, we found that DSH payments to individual hospitals exceeded UCC. The HCSD, therefore, needs to submit revised UCC schedules to the DHH, which incorporate our audit adjustments totaling $22,184,812. These adjustments consisted of the following:

- Total interim DSH payments to nine individual hospitals exceeded the total claimed uncompensated cost for SFY 1998 by $10,164,678.

- A net overstatement of claimed UCC totaling $7,797,339 was identified for the two hospitals reviewed.

- Payroll costs were overstated by $262,462 because appropriate year-end accruals were not made.

- One interim DSH payment of $59,871 was not recorded on the UCC schedule.

- Bond interest expense was overstated by $3,900,462 for SFY 1999.

We are not expressing an opinion on $4,150,405 of claimed overhead costs because we could not determine the reasonableness of the methodology used to calculate the costs. We recommended that HCSD:

(1) Submit corrected UCC schedules to DHH which incorporate our audit adjustments totaling $22,184,812 to ensure that (a) the appropriate financial adjustments are made to the DSH program and (b) the exact amount of the Federal share of overpayments are calculated and returned to the Federal Government. (see Schedule A)

(2) Review the UCC adjustments for the other seven hospitals that it administers for the types of errors that were identified for Medical Center of Louisiana at New Orleans and Earl K. Long and make any necessary adjustments to the UCC schedules. Submit any corrected UCC schedules to DHH to ensure that appropriate financial adjustments are made and the Federal share of overpayments are calculated and returned to the Federal Government.

(3) Provide DHH with supporting documentation regarding the $4,150,405 of Louisiana State University Medical School overhead costs and ensure that this is provided to the Health Care Financing Administration (HCFA) for final adjudication and possible additional recoupment of Federal expenditures.

(4) Implement controls to assure that adjustments to the UCC schedules are prepared accurately in the future.

The HCSD generally agreed with the findings and recommendations and agreed to implement the recommendations contained in our report. However, HCSD disagreed in principle with the finding that pertained to the net interim DSH payments exceeding UCC because the excess payments had been included as a liability in its financial statements for SFY 1998. The HCSD also agreed with the findings concerning the overstatement of bond interest expense for SFYs 1998 and 1999 but disagreed with the amounts.

With regard to our finding on net interim DSH payments exceeding UCC, we acknowledge that the $10,164,678 was identified in the records as a liability for SFY 1998. However, one of the objectives of the audit was to verify that payments to individual hospitals did not exceed the UCC as mandated by OBRA 1993. Because this amount had not been returned to HCFA at the time of our audit, we continue to believe that this is a reportable item that should be included in our report.

We also continue to believe that the amounts included in our findings on overstated bond interest expense for SFYs 1998 and 1999 are valid. The amount of overstated interest expense in our audit report was used by HCSD in making the corrections to the bond interest expense schedules. By making these corrections to the bond interest schedules with these Office of Inspector General reported amounts, the overstated interest has been removed by HCSD from the interest calculation, as we recommended.

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 Gordon L. Sato, Regional Inspector General for Audit Services, Region VI, at (214) 767-8414.

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE LOUISIANA MEDICAID DISPROPORTIONATE SHARE HOSPITAL PROGRAM-LOUISIANA STATE UNIVERSITY MEDICAL CENTER HOSPITALS OVERSEEN BY THE HEALTH CARE SERVICES DIVISION

JUNE 2001

A-06-00-00026

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 6B6
Dallas, TX 75242

Common Identification Number: A-06-00-00026

Mr. James L. Brexler
Chief Executive Officer
LSU Health Sciences Center
Health Care Services Division
8550 United Plaza Boulevard, Suite 400
Baton Rouge, Louisiana 70809

Dear Mr. Brexler:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled, "Audit of the Louisiana Medicaid Disproportionate Share Hospital Program-Louisiana State University Medical Center Hospitals Overseen by the Health Care Services Division." A copy of this report will be forwarded to the HHS action official noted below for 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 (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR part 5.)

To facilitate identification, please refer to Common Identification Number A-06-00-00026 in all correspondence relating to this report.

Sincerely yours,

Gordon L. Sato

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

James R. Farris, MD
Regional Administrator
Health Care Financing Administration
1301 Young Street, Room 714
Dallas, Texas 75202

EXECUTIVE SUMMARY

Background

Section 13621 of Omnibus Budget Reconciliation Act of 1993 (OBRA 1993) amended section 1923 of the Social Security Act (the Act) to limit disproportionate share hospital (DSH) payments. For State fiscal years (SFY) beginning between July 1, 1994 and January 1, 1995, payments to public hospitals were limited to 100 percent of uncompensated costs with a special provision that allowed payments of up to 200 percent of uncompensated costs to those public hospitals qualifying as "high DSH hospitals." For SFYs beginning after January 1, 1995, payments to all hospitals were limited to 100 percent of uncompensated costs. Uncompensated costs were defined as costs of services to Medicaid patients, less the amount paid by the State under the non-DSH payment provisions; plus cost of uninsured patients, less any cash payments made by them.

Objectives

The objectives of the audit were to (1) review Louisiana's DSH program and verify that SFY 1998 payments were calculated in accordance with the approved State plan and (2) verify that payments to individual hospitals did not exceed the uncompensated care costs (UCC) as mandated by OBRA 1993.

Summary of Findings

For SFY 1998, the DSH payments were calculated in accordance with the State plan. However, we found that DSH payments to individual hospitals exceeded the UCC**.** The Health Care Services Division (HCSD), therefore, needs to submit revised UCC schedules to the Department of Health and Hospitals (DHH) which incorporate our audit adjustments totaling $22,184,812. These adjustments consisted of the following:

- Total interim DSH payments to nine individual hospitals exceeded the total claimed uncompensated cost for SFY 1998 by $10,164,678.

- A net overstatement of claimed UCC totaling $7,797,339 was identified for the two hospitals reviewed.

- Payroll costs were overstated by $262,462 because appropriate year-end accruals were not made.

- One interim DSH payment of $59,871 was not recorded on the UCC schedule.

- Bond interest expense was overstated by $3,900,462 for SFY 1999.

We are not expressing an opinion on $4,150,405 of claimed overhead costs because we could not determine the reasonableness of the methodology used to calculate the costs.

Recommendations

We recommended that HCSD:

(1) Submit corrected UCC schedules to DHH which incorporate our audit adjustments totaling $22,184,812 to ensure that: (a) the appropriate financial adjustments are made to the DSH program and (b) the exact amount of the Federal share of overpayments are calculated and returned to the Federal Government (see Schedule A).

(2) Review the UCC adjustments for the other seven hospitals that it administers for the types of errors that were identified for Medical Center of Louisiana at New Orleans (MCLNO) and Earl K. Long (EKL) and make any necessary adjustments to the UCC schedules. Submit any corrected UCC schedules to DHH to ensure that appropriate financial adjustments are made and the Federal share of overpayments are calculated and returned to the Federal Government.

(3) Provide DHH with supporting documentation regarding the $4,150,405 of Louisiana State University (LSU) Medical School overhead costs and ensure that this is provided to the Health Care Financing Administration (HCFA) for final adjudication and possible additional recoupment of Federal expenditures.

(4) Implement controls to assure that adjustments to the UCC schedules are prepared accurately in the future.

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INTRODUCTION

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 Health Care Financing Administration (HCFA), 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 disproportionate share hospital (DSH) program originated with the Omnibus Budget Reconciliation Act of 1981 which required State Medicaid agencies to make additional payments to hospitals serving disproportionate numbers of low-income patients with special needs. States had considerable flexibility to define DSH hospitals under sections 1923(a) and (b) of Social Security Act (the Act). States receive allocations of DSH funds as set forth by Federal statute. The DSH expenditures are matchable Medicaid expenses. Subject to State allocations, the Federal Government reimburses States for DSH expenditures based upon the applicable Medicaid matching percentage. States report Medicaid expenditures quarterly on HCFA Form 64, the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program.

Subsequent legislation established DSH parameters. Section 13621 of Omnibus Budget Reconciliation Act of 1993 (OBRA 1993) amended section 1923 of the Act to limit DSH payments. The specific language contained in the Act, as amended, is as follows:

> "Section 1923...
> (g) Limit on Amount of Payment to Hospital.--
> (1) Amount of adjustment subject to uncompensated costs.--
> (A) IN GENERAL.---A payment adjustment during a fiscal year shall not be considered to be consistent with... respect to a hospital if the payment adjustment exceeds the costs incurred during the year of furnishing hospital services (as determined by the Secretary and net of payments under this title, other than under this section, and by uninsured patients) by the hospital to individuals who either are eligible for medical assistance under the State plan or have no health insurance (or other source of third party coverage) for services provided during the year."

For State fiscal years (SFY) beginning between July 1, 1994 and January 1, 1995, payments to public hospitals were limited to 100 percent of uncompensated care costs (UCC) with a special provision that allowed payments of up to 200 percent of UCC to those public hospitals qualifying as high DSH hospitals. For SFYs beginning on or after January 1, 1995, payments to all hospitals were limited to 100 percent of UCC. According to the Louisiana State plan (State plan), UCC is defined as:

> “...the cost of furnishing inpatient and outpatient hospital services net of Medicare costs, Medicaid payments (excluding disproportionate share payments), costs associated with patients who have insurance for services provided, private payor payments, and all other inpatient and outpatient payments received from patients.”

The Health Care Services Division (HCSD) maintains the accounting records for nine Louisiana hospitals under the Louisiana State University (LSU) Medical Center-Health Sciences Center system. The HCSD also prepares the Medicare and Medicaid cost reports for the nine hospitals and a combined UCC schedule that is submitted to the Department of Health and Hospitals (DHH) for payments under the DSH program. Interim DSH payments to the hospitals are based on prior year data and HCSD cost projections. The SFY 1998 interim DSH payments to the nine HCSD hospitals totaled $521,158,884.

The UCC schedule identified the total hospital expenditures for each hospital for SFY 1998. Documentation for total hospital expenditures was in the form of detail transaction listings, invoices, contracts, and payroll records. The schedule also contained adjustments for cost increases as well as cost reductions. Documentation for the adjustments was primarily in the form of reports and schedules prepared by HCSD.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of the audit were to (1) review Louisiana’s DSH program and verify that SFY 1998 payments were calculated in accordance with the approved State plan and (2) verify that payments to individual hospitals did not exceed UCC as mandated by OBRA 1993.

To accomplish the first objective, we reviewed interim DSH payment data and relied on State of Louisiana Office of Legislative Auditor (LLA) work in this area. To accomplish the second objective, support was obtained and evaluated for selected elements of claimed UCC. The review focused on the two hospitals with the largest amount of UCC for SFY 1998, Earl K. Long (EKL), and Medical Center of Louisiana at New Orleans (MCLNO). For these two hospitals, we (1) judgmentally selected hospital expenditure items for review and (2) performed a detailed review of each cost adjustment in excess of $500,000 to determine if the cost was supported and accurately reported.

Due to the significance of the error in SFY 1998 bond interest expense cost adjustment at MCLNO, that cost adjustment for the prior and subsequent fiscal years was also reviewed. Additionally, because significant errors in certified registered nurse anesthetist (CRNA) payroll accrual were identified at MCLNO and EKL, that cost adjustment was reviewed at the other seven hospitals on the UCC schedule.

The audit was performed in accordance with generally accepted government auditing standards. However, we did not review the overall internal control structure of the hospitals’ accounting system. The internal control review was limited to interviewing responsible HCSD personnel to obtain an understanding of the process used to prepare the cost reports and the UCC schedule. We reviewed workpapers obtained from the LLA office on their work related to DSH payments. The LLA work met appropriate standards. Therefore, we were able to rely on their work during the course of the audit.

Correcting the overstated costs will decrease the amount of UCC eligible for reimbursement under the DSH program. However, because UCC must first be reduced by Medicare, Medicaid, and privately insured patient cost as well as patient payments, the ultimate impact on net UCC eligible for DSH payment cannot be determined at this time. Errors noted during this review will be corrected in amended Medicare and Medicaid cost reports, which will change costs incurred under these programs. A revised UCC schedule incorporating the results of this review along with corrected Medicare and Medicaid cost will result in corrected net UCC.

Field work was performed at the HCSD office in Baton Rouge, Louisiana from February to May 2000. Field work continued at our Little Rock, Arkansas field office into August 2000 due to the receipt of additional supporting documentation.

FINDINGS AND RECOMMENDATIONS

For SFY 1998, the DSH payments were calculated in accordance with the State plan. However, we found that DSH payments to individual hospitals exceeded UCC. The HCSD, therefore, needs to submit revised UCC schedules to DHH, which incorporate our audit adjustments totaling $22,184,812. Once these adjustments are made, the exact amount of Federal overpayments for DSH can be calculated and returned to the Federal Government. These adjustments consisted of the following:

< The total net interim DSH payments for the nine hospitals administered by HCSD exceeded the total claimed UCC by $10,164,678. Six of the hospitals had overpayments and three had underpayments. For the two hospitals we reviewed, MCLNO had an overpayment of $10,453,823 and EKL had an underpayment of $3,420,158 (see Schedule B).

< We determined that the total claimed UCC for SFY 1998 was overstated by a net amount of $7,797,339 for the two hospitals reviewed. (See Schedule C for a detailed listing of adjustments.) Findings at the two hospitals are summarized as follows:

    1. Bond interest expense was overstated by $3,747,784 due to clerical errors.

    2. Commercial insurance cost reduction adjustments were understated by $1,819,954 and as a result, the UCC was overstated. This occurred

because the Medicare rather than Medicaid cost reports were used to compute the adjustments and the most current statistical information was not used in the calculation.

3. The private payor cost reduction adjustment was understated by $342,010 because amounts received from accounts previously written-off as bad debts were not considered in the adjustment. As a result, the UCC was overstated.

4. Human immunodeficiency virus (HIV) outpatient drug cost reduction adjustments were overstated by $339,747 because the calculation incorrectly included costs associated with testing and excluded costs associated with drugs administered to prisoners. As a result, the UCC was understated.

5. The CRNA cost reduction adjustments were understated by $332,793 because actual payroll information for the MCLNO CRNA employees was not used and year-end accrued payroll cost was not included for both hospitals. As a result, the UCC was overstated.

6. The psychiatric sub-provider cost addition adjustments were overstated by $259,520 because a portion of costs was claimed twice. As a result, the UCC was overstated.

7. Capital acquisitions/major repairs cost reduction adjustments were understated by $216,405 because (a) all items that should have been capitalized were not included in the adjustment and (b) a math error was made. This caused the UCC to be overstated.

8. A Medicare cost reduction adjustment was understated by $24,025 due to a math error. Therefore, the UCC was overstated.

9. Costs totaling $1,394,595 were unsupported.

< An overstatement of $262,462 in payroll cost was also identified for the other seven hospitals. These costs were related to omitted year-end cost reduction payroll accruals.

< One interim DSH payment totaling $59,871 was not recorded on the UCC schedule. Therefore, the total amount of interim DSH payments was understated. We have included this amount as an adjustment to the UCC (see Schedule C).

- Bond interest expense was overstated by $3,900,462 for SFY 1999 for MCLNO due to clerical errors.

In addition, we are not expressing an opinion on $4,150,405 of claimed overhead costs because we could not determine the reasonableness of the methodology and no assurance was received that other sources of reimbursement were considered in calculating these costs.

NET INTERIM DSH PAYMENTS EXCEED UCC

We reviewed the DSH payments made during SFY 1998 and found that the total net interim DSH payments for the nine hospitals administered by HCSD exceeded the total claimed UCC by $10,164,678. This occurred because the interim payments were based on estimates and the amounts had not been adjusted to actual uncompensated costs at the time of our audit. Six of the hospitals had overpayments and three had underpayments. For the two hospitals we reviewed, MCLNO had an overpayment of $10,453,823 and EKL had an underpayment of $3,420,158 (see Schedule B).

OVERSTATED UCC AT TWO HOSPITALS: EKL AND MCLNO

We found that a net overstatement of claimed UCC for SFY 1998 totaling $7,797,339 was identified for the two hospitals reviewed. (See Schedule C for a detailed listing of adjustments.) Findings at the two hospitals are summarized as follows:

Bond Interest Expense Adjustment Overstated by $3,747,784

The bond interest expense adjustment was overstated by $3,747,784 because a prior year bond interest expense figure was incorrectly included in the SFY 1998 calculations for MCLNO. The overstated bond interest expense was comprised of two amounts, $3,609,984 for the Series 1992-A bonds and $137,800 for the Series 1992 bonds.

The interest expense reported for the Series 1992-A bonds for SFY 1998 was $3,619,706. However, the SFY 1997 interest of $3,609,984 for the Series 1992 bonds was incorrectly included in the Series 1992-A bond interest expense for SFY 1998. Therefore, the SFY 1998 interest expense for Series 1992-A bonds was overstated by $3,609,984. Likewise, this same $3,609,984 was reported as the Series 1992 bond interest expense for SFY 1998. However, the correct amount of Series 1992 bond interest expense for SFY 1998 was $3,472,184. As a result, the Series 1992 bond interest expense for SFY 1998 was overstated by $137,800. These overstatements were the result of clerical errors.

Commercial Insurance Adjustments Understated by $1,819,954

The commercial insurance cost reduction adjustments were understated by a net of $1,819,954 because (1) the Medicare rather than the Medicaid cost reports were used to compute the adjustments and (2) the most current statistical information was not used in the calculations. As a result, the UCC was overstated.

The State plan requires UCC be "...net of...costs associated with patients who have insurance for services provided.…" Accordingly, the UCC schedule contained adjustments reducing UCC for commercial insurance patient cost. These adjustments are based on cost report and hospital patient data.

The HCSD used the Medicare rather than Medicaid cost reports to prepare the commercial insurance adjustments for the nine hospitals. We discussed this issue with officials at DHH and HCFA's regional office. These officials agreed that the Medicaid cost reports were the correct reports to use for these adjustments. After discussing this with HCSD officials, they also agreed that the Medicaid cost reports should have been used.

Additionally, the adjustment for MCLNO was not computed using the most current statistical information for inpatient days/outpatient visits. Updated information was made available, but this data was not used to amend the commercial insurance adjustment for the UCC schedule.

We prepared revised commercial insurance adjustments for MCLNO and EKL hospitals using the Medicaid cost report information and the most current statistical information for inpatient days/outpatient visits. The revised computations showed that the commercial insurance cost reduction adjustment for MCLNO was understated by $2,034,224 and EKL was overstated by $214,270, a net understatement of $1,819,954 for these two hospitals.

Private Payor Adjustment Understated by $342,010

The MCLNO cost reduction adjustment for private payor payments was understated by $342,010 because amounts received from accounts previously written-off as bad debts were not considered in the adjustment. As a result, the UCC was overstated.

The State plan requires UCC be "...net of...private payor payments, and all other inpatient and outpatient payments received from patients." Accordingly, the UCC schedule contained an adjustment reducing UCC for private payor payments.

The private payor adjustment is based on accounts receivable data. This adjustment is computed by totaling the amount of payments received from self-pay patients. When these patient accounts are determined to be uncollectible, they are written-off as bad debts. Any payments subsequently collected from these accounts should be included in this adjustment.

During SFY 1998, $342,010 was received as bad debt recoveries but was not included in this adjustment. As a result, the private payor cost reduction adjustment was understated by $342,010.

HIV Outpatient Drugs Adjustments Overstated by $339,747

The cost reduction adjustments for HIV outpatient drugs were overstated by $339,747. This amount was the net result of omitting State prisoner drug cost of $157,094 and including testing cost, explained below, of $496,841. As a result, the UCC was understated.

Medicare Coverage for Hospital Services guidelines state that UCC cannot include the cost of self-administered drugs. Accordingly, the UCC schedule contained cost reduction adjustments for self-administered HIV outpatient drugs cost. In computing the adjustment for MCLNO, HCSD incorrectly excluded $157,094 of cost for self-administered HIV drugs provided to State prisoners.

Additionally, in computing the HIV outpatient drugs adjustments for both MCLNO and EKL, HCSD incorrectly included $496,841 ($365,432 for MCLNO and $131,409 for EKL) of HIV testing cost. According to an HCSD official, tests are not self-administered drugs but are diagnostic lab tests billed for reimbursement to third-party coverage or the patient themselves. They are not, therefore, eligible uncompensated costs.

CRNA Adjustments Understated by $332,793

The CRNA cost reduction adjustment was understated by $332,793 ($280,779 for MCLNO and $52,014 for EKL) because (1) actual payroll information for the MCLNO CRNA employees was not used and (2) year-end accrued payroll cost was not considered. As a result, the UCC was overstated.

Actual payroll information not used: The CRNA cost reduction adjustment represented salary and related benefits for CRNA employees involved in providing patient services that are billable under Medicare Part B. Therefore, these costs should be removed from the UCC. For MCLNO, a report based on actual payroll data by employee showed CRNA salary and related benefits cost totaling $5,280,736. This amount included CRNA Instructor cost of $1,430,054. The difference of $3,850,682 represented actual cost for 49 employees and is the correct amount to be used as the basis for the cost reduction adjustment. However, the amount claimed was $3,739,164, resulting in an understatement of $111,518.

Year-end payroll accrual not considered: The UCC schedule contained an "Accrual Payroll" cost addition adjustment totaling $11,436,525 for all nine hospitals. However, UCC cost reduction adjustments, which included payroll costs, did not include year-end accrued payroll costs. We believe that if payroll accruals are made for cost addition adjustments, then payroll accruals should also be made for cost reduction adjustments. We calculated CRNA payroll accruals for MCLNO and EKL using the same methodology used to compute the “Accrual Payroll” cost addition adjustment. We determined that CRNA payroll accruals of approximately $221,275 ($169,261 for MCLNO and $52,014 for EKL) should be added to this cost reduction adjustment.

We also prepared an accrual for the remaining seven hospitals. This is discussed later in this report in the section entitled, **Omission of CRNA Accrual-Other Seven Hospitals-UCC Overstated by $262,462.**

Psychiatric Sub-Provider Adjustment Overstated by $259,520

The psychiatric sub-provider cost adjustment was overstated by $259,520 at MCLNO because costs were claimed twice. The adjustment represented costs in excess of the amount stated in the contract between MCLNO and the psychiatric sub-provider.

The adjustment was computed from a DHH worksheet. However, this adjustment was overstated because $259,598 for acute and emergency services was included twice. A minor math error of $78 was identified, which reduced the overstated amount to $259,520.

Capital Acquisition/Major Repair Adjustments Understated by $216,405

The cost reduction adjustments for capital acquisitions/major repairs were understated by a total of $216,405 ($211,886 for EKL and $4,519 for MCLNO) because (1) costs that should have been capitalized were not included and (2) a math error occurred. This caused the UCC to be overstated.

The capital acquisition/major repair adjustments remove the cost of items that are capitalized and recovered through depreciation expense claimed in future periods. The policy for MCLNO was to capitalize items costing $250 or more while EKL capitalized items costing $500 or more.

The accounting records for EKL showed that capital acquisitions/major repairs totaled $2,819,616, but the amount shown on the UCC schedule was $2,607,731, a difference of $211,885. This difference consisted of three capitalized major repairs totaling $211,886 that were not included in the UCC adjustment (the difference of $1 is due to rounding).

Also, the capital acquisitions/major repairs adjustment for MCLNO was understated due to a math error. The accounting records showed that the adjustment should have been $5,725,865; however, the adjustment recorded on the UCC schedule was $5,721,346, a difference of $4,519.

Medicare Cost Adjustment Understated by $24,025

According to the State plan, UCC must be "...net of Medicare costs...." The UCC schedule contained a cost reduction adjustment for Medicare cost; however, the adjustment was understated by $24,025 for EKL. This caused the UCC to be overstated.

This adjustment is calculated using Medicare cost report information. We reviewed the calculation with the assistance of an HCSD official, and determined the adjustment was understated by $24,025. After conferring with another HCSD official, both agreed that the adjustment on the UCC schedule was in error.

UNSUPPORTED COST OF $1,394,595

Unsupported LSU Medical School overhead costs of $1,394,595: The UCC schedule contained a cost addition adjustment of $5,545,000 for LSU Medical School overhead cost. According to an HCSD official, this adjustment was for cost in excess of the contracts between MCLNO and LSU Medical School for physicians providing professional and supervisory services to the hospital.

During the course of the audit, we requested the documentation to support this adjustment. An HCSD official stated that the individual who prepared this adjustment was no longer employed by the LSU Medical School and the files containing these computations could not be located, but the supporting calculations would be re-created. However, this information had not been provided by the conclusion of our on-site field work in May 2000. At the pre-exit conference, this official stated that this adjustment was actually an estimate based on the prior year and adjusted for inflation.

In August 2000, HCSD submitted the results of a September-October 1997 physician time study to support the LSU Medical School overhead charges. The 3-week time study claimed to support physician cost of $25,461,175 for SFY 1998. Contracts totaling $21,310,770 were awarded and paid to LSU Medical School for physician services. The difference between the calculated cost and the total of the contracts is $4,150,405, which is $1,394,595 less than the $5,545,000 claimed on the UCC schedule. Therefore, $1,394,595 of LSU Medical School overhead is unsupported (see Schedule D).

OMISSION OF CRNA ACCRUAL-OTHER SEVEN HOSPITALS-UCC OVERSTATED BY $262,462

We determined that the CRNA cost reduction adjustments for the other seven hospitals on the UCC schedule were understated by a total of $262,462. This was based on the same methodology used to calculate the CRNA payroll accruals for MCLNO and EKL. **(See the section above entitled, Year-end payroll accrual not considered.)**

INTERIM DSH PAYMENT OF $59,871 NOT RECORDED ON UCC

In reviewing the payment data from LLA, an interim DSH payment of $59,871 was identified for Washington-St. Tammany hospital but was not recorded on the UCC schedule. We have included this as an adjustment on Schedule A.

BOND INTEREST EXPENSE OVERSTATED BY $3,900,462 FOR SFY 1999

Due to the significance of the bond interest errors identified for SFY 1998 at MCLNO, we reviewed the adjustments for SFY 1997 and SFY 1999 to determine if these amounts were calculated correctly. The SFY 1997 calculation was correct; however, the SFY 1999 calculation was overstated by a total of $3,900,462 at MCLNO, due to the same type of errors described in the SFY 1998 bond interest section.

The SFY 1999 interest expense for the Series 1992-A bond issue was overstated by $3,609,984. The correct amount of interest was $9,210 but the amount claimed was $3,619,194 because the Series 1992 interest was incorrectly included.

The SFY 1999 interest expense for the Series 1992 bond issue was overstated by $290,478. The correct amount of interest was $3,319,506 but the amount claimed was $3,609,984.

The SFY 1999 UCC schedule had not been officially prepared at the time of our review. However, an HCSD official informed us the incorrect information would have been used to prepare the SFY 1999 UCC schedule. We obtained a copy of the SFY 1999 cost report and verified that the bond interest expense was overstated by $3,900,462.

NO OPINION ON $4,150,405 OF LSU MEDICAL SCHOOL OVERHEAD

We are also not expressing an opinion on $4,150,405 of LSU Medical School overhead costs and are setting these costs aside for awarding agency adjudication (see Schedule D for details). These overhead costs were based on a 3-week time study conducted in September-October 1997. After reviewing the time study computations, we could not determine the reasonableness of the methodology and we had no assurance that other sources of reimbursement were considered in calculating these costs. We asked the HCSD official who provided the time study data if other sources of reimbursement were considered in the calculations. He stated that he could not provide assurance that these were considered.

RECOMMENDATIONS

We recommended that HCSD:

(1) Submit corrected UCC schedules to DHH which incorporate our audit adjustments totaling $22,184,812 to ensure that: (a) the appropriate financial adjustments are made to the DSH program and (b) the Federal share of overpayments are calculated and returned to the Federal Government (see Schedule A).

(2) Review the UCC adjustments for the other seven hospitals that it administers for the types of errors that were identified for MCLNO and EKL and make necessary adjustments to the UCC schedules. Submit any corrected UCC schedules to DHH to ensure that appropriate financial adjustments are made and the Federal share of overpayments are returned to the Federal Government.

(3) Provide DHH with supporting documentation regarding the $4,150,405 of LSU Medical School overhead costs and ensure that this is provided to HCFA for final adjudication.

(4) Implement controls to assure that adjustments to the UCC schedules are prepared accurately in the future.

Auditee's Comments and OIG's Response

The HCSD generally agreed with the findings and recommendations and agreed to implement the recommendations contained in our report. However, HCSD disagreed in principle with the finding that pertained to the net interim DSH payments exceeding UCC because the excess payments had been included as a liability in its financial statements for SFY 1998. The HCSD agreed with the findings concerning the overstatement of bond interest expense for SFYs 1998 and 1999 but disagreed with the amounts. The auditee's comments are presented in Appendix A.

With regard to our finding on net interim DSH payments exceeding UCC (see page 4 of the report), we acknowledge that the $10,164,678 was identified in the records as a liability for SFY 1998. However, one of the objectives of the audit was to verify that payments to individual hospitals did not exceed the uncompensated costs as mandated by OBRA 1993. Because this amount had not been returned to HCFA at the time of our audit, we continue to believe that this is a reportable item that should be included in our report.

We also continue to believe that the amounts included in our findings on overstated bond interest expense for SFYs 1998 and 1999 are valid. The amount of overstated interest expense in our audit report was used by HCSD in making the corrections to the bond interest expense schedules. By making these corrections to the bond interest schedules with these reported amounts, the overstated interest has been removed by HCSD from the interest calculation as we recommended.

Schedule A

Summary Schedule of Audit Adjustments

EXCESS INTERIM DSH PAYMENTS (See Schedule B)	$10,164,678
TOTAL NET ADJUSTMENTS FOR THE TWO HOSPITALS REVIEWED (See Schedule C)	7,797,339
Calculated CRNA Payroll Accurals	262,462
Interim DSH Payment Not Recorded	59,871
Bond Interest Cost-SFY 1999	3,900,462
TOTAL FINANCIAL ADJUSTMENTS	$22,184,812

Schedule B

Schedule of Adjustments for Interim Disproportionate Share Payments for SFY 1998

Hospital[1]	Total Uncompensated Care Costs	Total Interim DSH Payments	Balance Due Hospital (Owed Government)
EAC	$ 38,359,164	($ 39,484,252)	($ 1,125,088)
EKL	$ 57,606,285	($ 54,186,127)	$ 3,420,158
HPL	$ 26,524,082	($ 29,077,196)	($ 2,553,114)
UMC	$ 39,302,267	($ 38,309,181)	$ 993,086
WOM	$ 19,810,795	($ 19,939,853)	($ 129,058)
LK	$ 16,939,203	($ 17,302,975)	($ 363,772)
WST	$ 10,439,879	($ 7,814,548)	$ 2,625,331
LJC	$ 31,116,422	($ 33,694,820)	($ 2,578,398)
MCLNO	$270,896,109	($281,349,932)	($10,453,823)
Total	$510,994,206	($521,158,884)	($10,164,678)

[1] See Schedule E.

Schedule C

Summary of OIG Net Adjustments
For SFYs 1998 and 1999

Description	Total Net Adjustment	MCLNO	EKL	Other Seven Hospitals
UCC Cost Adjustments				
Bond Interest Expense	$3,747,784	$3,747,784		
Commercial Insurance	1,819,954	2,034,224	(214,270)	
Private Payor	342,010	342,010		
HIV Outpatient Drugs	(339,747)	(208,338)	(131,409)	
CRNA Payroll	332,793	280,779	52,014	
Psych. Sub-Provider	259,520	259,520		
Cap. Acq./Major Rep.	216,405	4,519	211,886	
Medicare Cost	24,025		24,025	
Unsupported Costs LSU Overhead (See Schedule D)	1,394,595	1,394,595		
Total Net Adjustments for the two Hospitals Reviewed	$7,797,339	$7,855,093	($57,754)	
Calculated CRNA Payroll Accruals	262,462			$262,462
Interim DSH Payment Not Recorded	59,871			59,871
Bond Interest Cost-SFY 1999	$ 3,900,462	$3,900,462		
Overhead costs set aside For SFY 1998 (See schedule D)	$ 4,150,405	$ 4,150,405		

Schedule D

LSU Medical School Overhead
Schedule of Questioned Cost and Cost with No Opinion Expressed

Total amount of LSU overhead calculated by time study	$ 25,461,175	
Total actual LSU overhead payments	$ 21,310,770	
Difference between amount calculated by time study and actual amount paid	$ 4,150,405	(No opinion)
Additional amount claimed as LSU overhead on UCC schedule	$ 5,545,000	
Difference between additional amount claimed and the remaining amount calculated by time study	$ 1,394,595	(Questioned)

Schedule E

Hospital Abbreviations Defined

Abbreviation Used	Name of State Hospital
EAC	E. A. Conway
EKL	Earl K. Long
HPL	Huey P. Long
UMC	University Medical Center
WOM	W. O. Moss
LK	Lallie Kemp
WST	Washington-St. Tammany
LJC	L. J. Chabert
MCLNO	Medical Center of Louisiana at New Orleans

LSU Health Sciences Center
HEALTH CARE SERVICES DIVISION

School of Medicine in New Orleans
School of Medicine in Shreveport
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
Health Care Services Division

March 29, 2001

Mr. Gordon L. Sato
Regional Inspector General For Audit Services
1100 Commerce, Room 696
Dallas, TX 75242

RE: Common Identification Number
A-06-00-00026
Louisiana Disproportionate Share Hospital (DSH) Program
Medical Center of Louisiana At New Orleans (MCLNO)
Earl K. Long Medical Center (EKL)

Dear Mr. Sato:

Please find enclosed the formal written response to the Office of Inspector General "Draft" audit report of the Louisiana Disproportionate Share Hospital (DSH) Program. This response is based upon the Office of Inspector General (OIG) audit of the Louisiana State University Health Sciences Center-Health Care Service Division (LSUHSC-HCSD) Hospitals, Medical Center of Louisiana at New Orleans (MCLNO) and Earl K. Long Medical Center (EKL) Medicaid DSH, also known as Uncompensated Care Cost (UCC), schedules for fiscal year ending June 30, 1998.

Below are our written comments and response to each individual adjustment at this time:

Finding:

1. The total interim DSH payments for the nine hospitals administered by HCSD exceeded the total claimed UCC by $10,164,678. Six of the hospitals had overpayments and three had underpayment. For the two hospitals we reviewed, MCLNO had an overpayment of $10,453,823 and EKL had an underpayment of 3,420,158.

Response:

We disagree with the OIG finding:

We disagree in principle that this adjustment was not a finding due to the OIG Audit. The Louisiana Department of Health and Hospital (DHH) which administers the Medicaid Uncompensated Care Cost Program, was officially notified of the $10,164,678 liability on May 19, 1999 after the Medicare/Medicaid cost reports were amended. This amount was also recognized and included in the LSUHSC-HCSD financial statements for the fiscal year ending June 30, 1999.

Finding:

2. Bond interest expense was overstated by $3,747,784 due to clerical errors.

Response:

We agree with the OIG finding; but disagree with the amount.

The net interest expense after the reduction of interest income is $3,335,210 instead of $3,747,784. A difference of $412,574. The net interest amount is reimbursable cost included in the cost report.

Finding:

3. Commercial insurance cost reduction adjustments were understated by $1,819,954 as a result, the UCC was overstated. This occurred because the Medicare rather than Medicaid cost reports were used to compute the adjustments and the most current statistical information was not used in the calculation.

Response:

Agree with the OIG finding.

Finding:

4. The private payor cost reduction adjustment was understated by $345,010 because amounts received from accounts previously written off as bad debts were not considered in the adjustment. As a result, the UCC was overstated.

Response:

Agree with the OIG finding.

Finding:

5. HIV outpatient drug cost reduction adjustments were overstated by $339,747 because the calculation incorrectly included costs associated with viral load testing and excluded costs associated with drugs administered to prisoners. As a result, the UCC was understated.

Response:

Agree with the OIG finding.

Finding:

6. The CRNA cost reduction adjustments were understated by $332,793 because actual payroll information for the MCLNO CRNA employees were not used and year-end accrued payroll cost was not included for both hospitals. As a result, the UCC was overstated.

Response:

Agree with the OIG finding.

Finding:

7. The psychiatric sub-provider cost addition was overstated by $259,520 because a portion of costs were claimed twice. As a result, the UCC was overstated.

Response:

Agree with the OIG finding.

Finding:

8. Capital acquisitions/major repairs cost reduction adjustments were understated by $216,405 because (a) all items that should have been capitalized were not included in the adjustment and (b) a math error was made. This caused the UCC to be overstated.

Response:

Agree with the OIG funding.

Finding:

9. Medicare cost reduction adjustment was understated by $24,025 due to a math error. Therefore, the UCC was overstated.

Response:

Agree with the OIG finding.

Mr. Gordon L. Sato
March 29, 2001
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Finding:

10. Cost totaling $1,457,586 were unsupported. 1/

Response:

We agree with the OIG finding.

We have located and documented the missing invoices in the amount of $62,991. 1/
This amount should reduce the unsupported total we have included a copy of these invoices for your review.

Finding:

11. An overstatement of $262,462 in payroll cost was also identified for the other seven hospitals. These costs were related to omitted year-end cost reduction payroll accruals.

Response:

We agree with the OIG finding.

Finding:

12. One interim DSH payment totaling $59,871 was not recorded on the UCC. Therefore, the total amount of interim DSH payments is understated. We have included this amount as an adjustment to the UCC.

Response:

We agree with the OIG finding.

1/ **AUDITOR'S NOTE**: Because HCSD provided the missing invoices in the amount of $62,991, we reduced this finding in our final report down to $1,394,595. ($1,457,586 - $62,991)

Finding:

13. Bond interest expense was overstated by $3,900,462 for SFY 1999 due to clerical errors.

Response:

We agree with the OIG finding; but disagree with the amount.

We disagree with the amount. The net impact to interest expense after the reduction of interest income is $3,075,905 instead of $3,900,461, difference of $824,556. The net interest amount is reimbursable cost included in the cost reports.

Based upon your recommendation we will submit revised UCC schedules to DHH which incorporate these audited adjustments. We will also review the UCC adjustments for the other seven LSUHSC-HCSD Hospitals based on the audit findings. We will provide DHH with supporting documentation concerning the LSU Medical School overhead cost. We have already implemented the necessary controls to assure that adjustments to the UCC schedules are prepared accurately in the future by purchasing the comparative package from Klynveld Peat Marwick Goerdeler (KPMG) - which performs comparative analysis between fiscal years.

In summary we thank you for the opportunity to prepare our written comments, to this "Draft" report. We ask that we also be given the opportunity to respond to the Final report which is subject to your further review and revision. We do not think it is necessary for a formal exit conference at this time. We would like to reserve our right to a formal exit conference after we review the final OIG report, should there be any further changes to this document.

Mr. Gordon L. Sato
March 29, 2001
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Should you have any further questions, please contact Don Hutchinson and Michael Carter at (225) 922-0985.

Sincerely,

James L. Brexler
Chief Executive Officer

Attachments **

cc: Robert Plaisance
Cary Dougherty
Don Elbourne
Don Hutchinson
Ken Laney
Pat Landry
Judy Albin
Michael R. Carter

**NOTE: The documents included as attachments contain proprietary information. Therefore, we have not included the documents as part of our final report.