Independent Accountant’s Report on the Examination of Disproportionate Share Hospital Verifications

State of Oklahoma
Department of Health Care Authority
Oklahoma City, Oklahoma 73105

DSH Year Ended September 30, 2013

Prepared by:

[Company Logo]
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Independent Accountant’s Report
and
Report on DSH Verifications
Independent Accountant's Report

We have examined the state of Oklahoma’s compliance with Disproportionate Share Hospitals (DSH) payment requirements listed in the Report on DSH Verifications as required by 42 CFR §455.301 and §455.304(d) for the year ending September 30, 2013. The state of Oklahoma is responsible for compliance with federal Medicaid DSH program requirements. Our responsibility is to express an opinion on the state of Oklahoma’s compliance with federal Medicaid DSH program requirements based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), and the standards applicable to attestation engagements contained in Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States, as well as General DSH Audit and Report Protocol as required by 42 CFR §455.301 and §455.304(d). Based on these standards, our examination included examining on a test basis, evidence about the state of Oklahoma’s compliance with those requirements and performing such other procedures we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of the state of Oklahoma’s compliance with federal Medicaid DSH requirements.

Our examination was conducted for the purpose of forming an opinion on the state of Oklahoma’s compliance with federal Medicaid DSH program requirements included in the Report on DSH Verifications. The Schedule of Annual Reporting Requirements provided in accordance with 42 CFR §447.299 is presented for purposes of additional analysis and is not a required part of the Report on DSH Verifications. Such information has not been subjected to the procedures applied in the examination of the Report on DSH Verifications, and accordingly, we express no opinion on it.

In accordance with GAGAS, we have also issued our report dated December 15, 2016, on our consideration of the state of Oklahoma’s internal control over the DSH program for the period ended September 30, 2013, as it relates to the six DSH verifications set forth in 42 CFR §455.301 and §455.304(d). The purpose of the report is to describe the scope of our testing of internal control and the results of testing, and not to provide an opinion on internal control. That report is an integral part of an examination performed in accordance with GAGAS and should be considered in assessing the results of our examination.

In our opinion, except for the effect of the items described in the Schedule of Data Caveats Relating to the DSH Verifications, the state of Oklahoma is in compliance with federal Medicaid DSH program requirements addressed by the DSH Verifications for the year ending September 30, 2013.
This report is intended solely for the information and use of the Oklahoma Health Care Authority (OHCA), the State Legislature, hospitals participating in the State DSH program and the Centers for Medicare and Medicaid Services (CMS) as required under 42 CFR §455.304 and is not intended to be, and should not be, used by anyone other than these specified parties and for the specified purpose contained in 42 CFR §455.304.

Myers and Stauffer LC

Myers and Stauffer LC
December 15, 2016
State of Oklahoma Disproportionate Share Hospital (DSH)
Report on DSH Verifications
For the Year Ended September 30, 2013

As required by 42 CFR §455.304(d) the state of Oklahoma must provide an annual independent certified examination report verifying the following items with respect to its disproportionate share hospital (DSH) program.

Verification 1: Each hospital that qualifies for a DSH payment in the State was allowed to retain that payment so that the payment is available to offset its uncompensated care costs for furnishing inpatient hospital and outpatient hospital services during the Medicaid State plan (MSP) rate year to Medicaid eligible individuals and individuals with no source of third party coverage for the services in order to reflect the total amount of claimed DSH expenditures.

Findings: Our examination identified that two hospitals did not certify that they were allowed to retain the DSH payment made by the State during MSP year 2013.

Verification 2: DSH payments made to each qualifying hospital comply with the hospital specific DSH payment limit. For each audited Medicaid State plan rate year, the DSH payments made in that audited Medicaid State plan rate year are measured against the actual uncompensated care cost in that same audited Medicaid State plan rate year.

Findings: Our examination identified that six hospitals exceeded their hospital-specific DSH payment limit calculated based on the DSH Rule. In addition, two hospitals did not certify that they met the obstetrician requirement. As a result, these hospitals are considered to have not qualified for DSH payments and, as a result, any payments made to these hospitals would have exceeded their DSH limit.

Verification 3: Only uncompensated care costs of furnishing inpatient and outpatient hospital services to Medicaid eligible individuals and individuals with no third party coverage for the inpatient and outpatient hospital services they received as described in Section 1923(g) (1) (A) of the Act are eligible for inclusion in the calculation of the hospital-specific disproportionate share limit payment limit, as described in Section 1923 (g) (1) (A) of the Act.

Findings: The state of Oklahoma is in compliance with Verification 3 as the total uncompensated care costs reflected in the Report on DSH Verifications (table) reflects the uncompensated care costs of furnishing inpatient and outpatient hospital services to Medicaid eligible individuals and individuals with no third party coverage for the inpatient and outpatient hospital services received.

Verification 4: For purposes of this hospital-specific limit calculation, any Medicaid payments (including regular Medicaid fee-for-service rate payments, supplemental/enhanced Medicaid payments, and Medicaid managed care organization payments) made to a disproportionate share hospital for furnishing inpatient hospital and outpatient hospital services to Medicaid eligible individuals, which are in excess of the Medicaid incurred costs of such services, are applied against the uncompensated care costs of furnishing
inpatient hospital and outpatient hospital services to individuals with no source of third party coverage for such services.

**Findings:** The state of Oklahoma is in compliance with Verification 4 as the hospital-specific DSH limit represented in the Report on DSH Verifications (table) reduced the total uncompensated care costs if a hospital had total Medicaid payments in excess of the calculated Medicaid costs.

**Verification 5:** Any information and records of all of its inpatient and outpatient hospital service costs under the Medicaid program; claimed expenditures under the Medicaid program; uninsured inpatient and outpatient hospital service costs in determining payment adjustments under this Section; and any payments made on behalf of the uninsured from payment adjustments under this Section have been separately documented and retained by the State.

**Findings:** Our examination identified that each hospital is responsible for maintaining its own supporting documents and records related to information reported to OHCA on the annual DSH survey in accordance with the MSP. We found that 2 of 47 hospitals were not able to provide documentation to support inpatient and outpatient hospital service costs under the Medicaid program; claimed expenditures under the Medicaid program; uninsured inpatient and outpatient hospital service costs in determining payment adjustments under the DSH Rule; and any other payments made on behalf of the uninsured from payment adjustments under the DSH Rule.

**Verification 6:** The information specified in Verification 5 above includes a description of the methodology for calculating each hospital’s payment limit under Section 1923(g)(1) of the Social Security Act. Included in the description of the methodology, the audit report must specify how the State defines incurred inpatient hospital and outpatient hospital costs for furnishing inpatient hospital and outpatient hospital services to Medicaid eligible individuals and individuals with no source of third party coverage for the inpatient hospital and outpatient services they received.

**Findings:** Our examination identified that the information specified in the 2013 State MSP does not provide a description of the methodology for calculating hospital-specific DSH limits; therefore, it does not comply with Federal Regulation under Section 1923(g)(1) of the Social Security Act. Although the MSP does not define inpatient hospital and outpatient hospital Medicaid reimbursable services, the State relies on the Oklahoma Administrative Code for the definitions of inpatient hospital and outpatient hospital Medicaid reimbursable services when calculating the hospital-specific DSH limits, and is thus in compliance with this part of the verification.

Inpatient services are defined as follows:

a) Covered hospital inpatient services are those medically necessary services which require an inpatient stay ordinarily furnished by a hospital for the care and treatment of inpatients and which are provided under the direction of a physician or dentist in an institution approved under OAC:317:30:5-40.1 (a) or (b). Effective October 1, 2005, claims for inpatient admissions provided on or after October 1st
in acute care or critical access hospitals are reimbursed utilizing a Diagnosis Related Groups (DRG) methodology.

b) Inpatient status. OHCA considers a member an inpatient when the member is admitted to the hospital and is counted in the midnight census. In situations when a member inpatient admission occurs and the member dies, is discharged following an obstetrical stay, or is transferred to another facility on the day of admission, the member is also considered an inpatient of the hospital.

1) Same day admission. If a member is admitted and dies before the midnight census on the same day of admission, the member is considered an inpatient.

2) Same day admission/discharge C-obstetrical and newborn stays. A hospital stay is considered inpatient stay when a member is admitted and delivers a baby, even when the mother and baby are discharged on the date of admission (i.e., they are not included in the midnight census). This rule applies when the mother and/or newborn are transferred to another hospital.

Outpatient services are defined as follows:

a) Hospitals providing outpatient hospital services are required to meet the same requirements that apply to OHCA contracted, non-hospital providers performing the same services. Outpatient services performed outside the hospital facility are not reimbursed as hospital outpatient services.

b) Covered outpatient hospital services must meet all of the criteria listed in 1) through 4) of this subsection.

1) The care is directed by a physician or dentist.

2) The care is medically necessary.

3) The member is not an inpatient.

4) The service is provided in an approved hospital facility.

c) Covered outpatient hospital services are those services provided for a member who is not a hospital inpatient. A member in a hospital may be either an inpatient or an outpatient, but not both (see OAC 317:30-5-41).

d) Separate payment is made for prosthetic devices inserted during the course of surgery when the prosthetic devices are not integral to the procedure and are not included in the reimbursement for the procedure itself.

e) Physical, occupational, and speech therapy services are covered when performed in an outpatient hospital based setting. Coverage is limited to one evaluation/re-evaluation visit (unit) per discipline per calendar year and 15 visits (units) per discipline per date of service per calendar year. Claims for these services must include the appropriate revenue code(s).
<table>
<thead>
<tr>
<th>Hospital</th>
<th>DSH Payment for Medicaid State Plan Rate Year (In-State and Out-of-State)</th>
<th>Total Uncompensated Care Costs for Medicaid State Plan Rate Year</th>
<th>DSH Payment Under or &gt;Over Total Uncompensated Care Costs (UCC)</th>
<th>DSH Payment Complies with the Hospital-Specific DSH Limit</th>
<th>Were only IP and O/P Hospital Costs to Medicaid eligible and Uninsured Included in UCC?</th>
<th>If Medicaid Payments were in excess of Medicaid cost was the Total UCC reduced by this amount?</th>
<th>Have all claimed expenditures and payments for Medicaid and Uninsured been documented and retained?</th>
<th>Does the retained documentation include a description of the methodology used to calculate the UCC?</th>
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<td>Page 6</td>
<td>See Independent Accountant's Report</td>
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State of Oklahoma Disproportionate Share Hospital (DSH)  
Schedule of Data Caveats Relating to the DSH Verifications  
For the Year Ended September 30, 2013

Finding 1

Criteria:
Section 42 CFR Part 455.304(d)(1) requires that each hospital that qualifies for a DSH payment in the State is allowed to retain that payments so that the payment is available to offset its uncompensated care costs for furnishing inpatient hospital and outpatient hospital services during the MSP rate year to Medicaid eligible individuals and individuals with no source of third party coverage for the services in order to reflect the total amount of claimed DSH expenditures.

Condition:
We were unable to determine that 2 of 47 hospitals were able to retain 100 percent of their DSH payment. In addition, based on the most stringent reading of the April 7, 2014 CMS DSH audit guidance related to the obstetrician requirement for DSH eligibility, two hospitals may not have met the obstetrician requirements in Section 1923(d) of the Social Security Act. This determination is based solely on self-reported obstetrician data for DSH MSP rate year 2013.

Cause:
We found that two hospitals did not respond to the documentation request provided my Myers and Stauffer LC. As a result, we did not receive certification from the provider that they were allowed to retain the DSH payment that they received during the 2013 MSP rate year. Additionally, we did not receive certification from the provider that they met the obstetrician requirement as described in section 1923(d) of the Social Security Act.

Recommendation:
We recommend that the Health Care Authority further educate providers that apply for and receive DSH payments that the provider is responsible for completing all documentation and responding to all request for data related to the DSH examination.

Finding 2

Criteria:
Social Security Act Section 1923(g)(1)(A) specifies that DSH payments to a hospital shall not exceed the cost incurred (net of the payments received) during the MSP rate year. Section 42 CFR Part 455.304(d)(2) further clarified that DSH payments made to each qualifying hospital shall comply with the hospital-specific DSH payment limit.

Condition:
We found that 47 in-state hospitals received DSH payments in MSP rate year 2013. We found that 6 of the 47 hospitals received DSH payments exceeding their hospital-specific DSH payment limits calculated on the DSH Rule. In addition, two hospitals did not certify that they met the obstetrician requirement and
would therefore not qualify to receive a DSH payment. As a result, these hospitals are considered to have exceeded their DSH limit.

**Cause:**
The State calculation of the hospital DSH payment limits is not in accordance with the DSH Final Rule. Additionally, hospitals did not complete requested documentation in order to determine that they were qualified for a DSH payment.

**Recommendation:**
We recommend the OHCA revise the hospital DSH payment limit calculation in accordance with the DSH Final Rule. We also recommend that the OHCA further educate providers that apply for and receive DSH payments that the provider is responsible for completing all documentation and responding to all request for data related to the DSH Examination.

Finding 3

**Criteria:**
Section 42 CFR §455.304(d)(5) requires that any information and records of all of its inpatient and outpatient hospital service costs under the Medicaid program; claimed expenditures under the Medicaid program; uninsured inpatient and outpatient hospital services costs in determining payment adjustments under this Section; and any payments made on behalf of the uninsured from payment adjustments under this Section has been separately documented and retained by the State. The State has conveyed the responsibility for the retention of the documentation to the hospitals under their provider agreements.

**Condition:**
There were 2 of 47 hospitals that did not retain and make available to us, during the course of this examination, supporting documentation for inpatient and outpatient hospital service costs under the Medicaid program; claimed expenditures under the Medicaid program; uninsured inpatient and outpatient hospital service costs in determining payment adjustments under the DSH Rule; and any other payments made on behalf of the uninsured from payment adjustments under the DSH Rule.

**Cause:**
Despite multiple attempts to obtain the documentation, two hospitals did not provide Myers and Stauffer with any documentation supporting hospital service costs and any payments made on behalf of Medicaid patients and uninsured patients.

**Recommendation:**
We recommend that the State implement periodic monitoring procedures to ensure disproportionate share hospitals maintain complete and accurate data and records to support all of its uninsured inpatient and outpatient hospital service costs in determining payment adjustments under this Section 42 CFR §455.304(d)(5) and any payments made on behalf of the uninsured from payment adjustments under this Section.
Finding 4

Criteria:
Section 42 CFR Part 455.304(d)(6) requires that the information specified in Verification 5 includes a description of the methodology for calculating each hospital’s payment limit under Section 1923(g)(1) of the Social Security Act including how the State defines incurred inpatient hospital and outpatient hospital costs for furnishing inpatient hospital and outpatient hospital services to Medicaid eligible individuals and individuals with no source of third party coverage for the inpatient hospital and outpatient hospital services they received.

Condition:
The MSP does not provide a description of the methodology for calculating hospital-specific DSH limits.

Cause:
The MSP refers to the calculation of the hospital specific DSH upper payment limit, but does not include the methodology for calculating the hospital specific DSH upper payment limit.

Recommendation:
We recommend that OHCA update the MSP to include the methodology for calculating the hospital specific DSH upper payment limit.
Communication on Internal Control
Communication on Internal Control
For the State of Oklahoma
Related to the Six Disproportionate Share Hospital (DSH) Verifications Required Under 42 CFR
§455.301 and §455.304(d)
For Year Ended September 30, 2013

We have examined the compliance of the state of Oklahoma’s operation of the DSH Program for the
period ended September 30, 2013 with the requirements of the six DSH verifications set forth in 42 CFR
§455.304. We conducted our examination in accordance with the attestation standards established by the
American Institute of Certified Public Accountants and the standards applicable to attestation
engagements contained in Government Auditing Standards issued by the Comptroller General of the
United States.

Compliance
As part of obtaining reasonable assurance about the state of Oklahoma’s compliance with the six DSH
verifications set forth in 42 CFR §455.304(d), we performed tests of its compliance with certain provisions
of laws, regulations, and policies, noncompliance with which could have a direct and material effect on
the Report on DSH Verifications. However, providing an opinion on compliance with those provisions was
not an objective of our examination, and accordingly, we do not express such an opinion. The results of
our tests disclosed instances of noncompliance or other matters that are required to be reported under
Government Auditing Standards, which are described in the Schedule of Data Caveats Relating to the
DSH Verifications.

Internal Control over the Required Six DSH Verifications
In planning and performing our examination of the state of Oklahoma’s compliance with the six DSH
verifications set forth in 42 CFR §455.304(d) in accordance with attestation standards established by the
American Institute of Certified Public Accountants, we considered the state of Oklahoma’s internal control
over the DSH program (internal control), as a basis for designing our examination procedures for the
purpose of expressing our opinion on the state of Oklahoma’s compliance with the six DSH verifications,
but not for the purpose of expressing an opinion on the effectiveness of the state of Oklahoma’s internal
control. Accordingly, we do not express an opinion on the effectiveness of the state of Oklahoma’s
internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph
and was not designed to identify all deficiencies in internal control that might be significant deficiencies or
material weaknesses and therefore, there can be no assurance that all deficiencies, significant
deficiencies, or material weakness have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial information will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in internal control to be material weaknesses:

Findings 1, 2, 3, and 4 in the Schedule of Data Caveats Relating to the DSH Verifications

This communication is intended solely for the information and use of Oklahoma Health Care Authority the Oklahoma State Legislature, the hospitals participating in the state of Oklahoma’s DSH program, and the Centers for Medicare & Medicaid Services and is not intended to be and should not be used by anyone other than these specified parties.

Myers and Stauffer LC

Myers and Stauffer LC
December 15, 2016
Schedule of Annual Reporting Requirements
### Table: Hospital Name and Financial Data

<table>
<thead>
<tr>
<th>Hospital Name</th>
<th>State Estimated Medicaid Payments</th>
<th>Medicaid I/P</th>
<th>Enhanced IP/OP</th>
<th>Medicare Provider Number</th>
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</tbody>
</table>

**Definition of Uncompensated Care:**

Medicaid Crossover, and Uninsured individuals with no source of third party coverage for the inpatient and outpatient services they received. The CMS (for these patient groups) was calculated using Medicare cost reporting methods, and utilized the Medicare cost report, Medicaid Part C claims summary, and hospital Provided Care data. Total uncompensated care costs represents for uncompensated care costs of providing specified and specified hospital services to patients that fall into one of the following Medicaid in State and out of State payment categories: 'Free Service Medical provider for Free Service Indemnity Carrier, Managed Care Medical provider, Managed Care Indemnity carrier, and Indemnity carrier with no source of third party coverage for the inpatient and outpatient services they received. The CMS cost of care was calculated using the appropriate per diem or cost-to-charge ratio from each hospital's Medicare Cost Report. These costs were then included in the final report for use in the next period, including any legitimate payments and previous payments that were applicable.
Independence Declaration
To Whom It May Concern:

Myers and Stauffer LC declares it is independent of the state of Oklahoma and its DSH hospitals for the Medicaid State plan rate year ending September 30, 2013.

Myers and Stauffer LC

Myers and Stauffer LC
December 15, 2016