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Fact Sheet for the Committee on the District of Columbia, House of Representatives

August 1992

D.C. GOVERNMENT

District Medicaid Payments to Hospitals

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GAO

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General Government Division

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August 24, 1992

The Honorable Ronald V. Dellums
Chairman
The Honorable Thomas J. Bliley, Jr.
Ranking Minority Member
Committee on the District
of Columbia
House of Representatives

This fact sheet responds to your January 31, 1992, request for information on two aspects of the operation of the District of Columbia's Medicaid Program. You asked that we determine (1) the causes of the legal action taken by District of Columbia hospitals against the District Medicaid Program and (2) whether the District could be using federal Medicaid money to fund other District programs.

BACKGROUND

In October 1990, the District of Columbia Hospital Association, in conjunction with 12 District hospitals, filed a lawsuit against the District of Columbia. The suit contended that the District's Department of Human Services, which has responsibility for the District Medicaid Program, underpaid District hospitals approximately $46 million for inpatient hospital services provided during fiscal year 1985 through fiscal year 1989. The suit alleged that the underpayment was the result of the District consistently underestimating hospital usage and, thereby, underpaying the hospitals. The suit alleged further that the District failed to make year-end settlements. In March 1991, the District and the plaintiffs settled the suit. As part of the settlement the District agreed to pay the various claims.

RESULTS

Your questions and the information we developed follow.

1. What were the causes of the legal action taken by District hospitals against the District Medicaid Program?

Under the terms of the March 1991 settlement, the court retained jurisdiction over the Medicaid payment process and established procedures to deter the occurrence of the problems stated in the lawsuit. Therefore, at a May 1992 meeting, we agreed with the Committee to terminate work related to this question and to report on the conditions of the settlement.

As noted, the settlement requires that the District and the plaintiffs accept the continuing jurisdiction of the court through March 15, 1995. As part of the continuing jurisdiction the settlement enumerates six procedures that both parties to the case are to follow. The first procedure requires the District to "make interim payments during each plaintiff hospital's fiscal year that realistically approximate the plaintiff's actual entitlement to Medicaid payments." The next two procedures require the District to issue accurate and timely tentative year-end determinations of total Medicaid payments and to make initial year-end settlements based on the tentative determinations. The fourth procedure establishes how the District is to pay determinations made on individual Medicaid claims between the tentative year-end notice of total Medicaid reimbursement and the final year-end notice. The fifth procedure requires the District's best effort to issue final Medicaid payment notices, which are based on final Medicare settlements, within 6 months of the final Medicare payment notices and to make payment within 60 days of the issuance of the final Medicaid notice. The sixth procedure establishes how the District is to pay Medicaid determinations made after the final year-end notice is issued.

We were told by the Director of the District Medicaid Program that the Medicaid Program, the District Hospital Association, and District hospitals are in the process of negotiating a new payment process that is to take effect in March 1993.

2. What internal controls prevent the District from using federal Medicaid money to fund other District programs?

The Department of Health and Human Services' (HHS) Health Care Financing Administration (HCFA) provides financial and management review oversight to the states' and the District's Medicaid programs. The HCFA oversight process includes reviewing the District's justified quarterly request for funds, maintenance of the District's quarterly federal Medicaid funds in HHS' Payment Management System, limiting District drawdowns of the federal funds on a monthly basis and requiring quarterly expenditure reports that are reviewed by HCFA. An HCFA official said that he believed it would be difficult for the District to use its federal Medicaid funds in other District programs. The oversight process is discussed next.

To initiate the oversight process, HCFA's regional office reviews the District's quarterly request for Medicaid funding. After reviewing this request, the HCFA regional office can recommend funding at the requested level or at a reduced level. The regional office recommendation is forwarded to the HCFA central office for final approval. The central office issues the Medicaid grant.

According to HCFA officials, the federal funds for the District's Medicaid Program are maintained in HHS' Payment Management System. Under HCFA funding controls, the District may draw down up to 40 percent of its approved quarterly Medicaid funds during the first month and an additional 30 percent during both the second and third months of the quarter. These restrictions can be waived by HCFA if the District can demonstrate a valid reason for increased funding during a specific month.

Also, within 30 days of the end of a quarter the District must file a report with HCFA that details the District's actual Medicaid expenditures for the quarter. The HCFA regional office then conducts an on-site review of these expenditures to ensure that documentary support is available to verify actual expenditures. On the basis of its review, the regional office files a report with the HCFA central office commenting on the allowability of expenditures and recommending deferrals or disallowances.

SCOPE AND METHODOLOGY

To answer your questions, we interviewed individuals involved in the lawsuit, staff of the District Medicaid Program, and officials at both HCFA's central office and its Philadelphia regional office. We reviewed documentation on the lawsuit, the District Medicaid Program, and HCFA Medicaid internal controls. Our work was done from March 1992 to July 1992 in accordance with generally accepted government auditing standards.

AGENCY COMMENTS

The District's only comment was that the implementation date for the new Medicaid payment system has been moved to March 1993.

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We are sending copies of this fact sheet to interested congressional committees and subcommittees and other interested parties. We will also make copies available to others upon request.

The major contributor to this fact sheet was Thomas G. Keightley, Evaluator-in-Charge. If you have any questions or need additional information, please call me on (202) 275-8387.

J. William Gadsby
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Management Issues

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