

**State of Delaware Department of  
Health and Social Services  
Division of Medicaid and  
Medical Assistance  
Disproportionate Share Hospital  
Payments Program  
of Delaware Psychiatric Center**

Year Ended June 30, 2008

Issuance Date: September 30, 2011

**State of Delaware Department of Health and Social Services  
Division of Medicaid and Medical Assistance  
Disproportionate Share Hospital Payments Program  
of Delaware Psychiatric Center**

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Year Ended June 30, 2008

**State of Delaware Department of Health and Social Services  
Division of Medicaid and Medical Assistance  
Disproportionate Share Hospital Payments Program  
of Delaware Psychiatric Center  
Audit Report**

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## Independent Auditors' Report

State of Delaware Department of Health  
and Social Services  
Division of Medicaid and  
Medical Assistance  
Lewis Building  
Herman Holloway Campus  
1901 N. DuPont Highway  
New Castle, DE 19720

We have audited the State of Delaware, Department of Health and Social Services, Division of Medicaid and Medical Assistance, Disproportionate Share Hospital Payments Program (the Program) of Delaware Psychiatric Center for the Year Ended June 30, 2008. Management of the program is responsible for complying with the six verifications required by the Code of Federal Regulations - 42 CFR, Parts 447 and 455. Our responsibility is to express an opinion on the Program in accordance with the six verifications.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Program complies with the six verifications. An audit includes examining, on a test basis, evidence and documentation supporting the Program. An audit also includes assessing the accounting principles and Medicaid principles of cost reimbursement used and significant estimates made by management, as well as evaluation of the overall Program. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the State of Delaware, Department of Health and Social Services, Division of Medicaid and Medical Assistance, Disproportionate Share Hospital Payments Program of Delaware Psychiatric Center referred to above is in compliance with the six verifications, in all material respects, as required by the Code of Federal Regulations - 42 CFR, Parts 447 and 455, for the Year Ended June 30, 2008 in conformity with accounting principles generally accepted in the United States of America and the State of Delaware Medicaid principles of cost reimbursement.

In accordance with *Government Auditing Standards*, we also issued our report dated September 28, 2011, on our consideration of the Delaware Psychiatric Center's internal control over reporting for the Program and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Independent Auditors' Report (Cont'd.)

The Disproportionate Share Report for the Year Ended June 30, 2008 on page 15 is presented for purposes of additional analysis and is not a required part of the audit report. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*BDO USA, LLP*

Wilmington, DE  
September 28, 2011

## Executive Summary

### *Background*

Section 1923 of the Social Security Act (the Act) provides for additional Medicaid payments to be made to hospitals that serve a disproportionate number of low-income or special needs patients. These disproportionate share hospital (DSH) payments are limited to the hospital's uncompensated care costs, which are the annual costs incurred to provide the services to eligible patients less payments received for those patients.

States also have the flexibility to further define their DSH program under Section (a) and (b) of the Act. Each state prepares a State plan defining their program and submits the plan to the Centers for Medicare and Medicaid Services (CMS) for approval. The State of Delaware's Medicaid State Plan, Section 4.19A, further defines the hospital-specific limit by restricting payments to 90 percent of their UCC.

CMS published the Federal Register CFR 42, Parts 447 and 455 which specifically require an independent audit of the DSH program.

### *Objectives*

Our objectives were to (1) verify that the Disproportionate Share Hospital Payments Program at the Delaware Psychiatric Center (DPC) met the six verifications as outlined in the Code of Federal Regulations - 42 CFR, Parts 447 and 455 and (2) verify that the Program met the requirements of the State of Delaware's Medicaid State Plan Section 4.19A.

### *Summary of Findings*

The DSH Program at DPC met all six verifications outlined by the Federal Register CFR 42, Parts 447 and 455.

The DSH Program at DPC met the requirement of the State of Delaware's Medicaid State Plan Section 4.19A.

## Full Report

### *Background*

#### Federal and State Statutes

The Omnibus Budget Reconciliation Act (OBRA) of 1981 established the Disproportionate Share Hospital (DSH) program by adding Section 1923 to the Social Security Act (the Act). Section 1923 required state Medicaid agencies to make additional payments to hospitals which served a disproportionate number of low-income patients with special needs.

In subsequent legislation, OBRA of 1993 established additional inpatient DSH parameters by amending Section 1923 to limit DSH payments to the hospital's incurred uncompensated care costs (UCC). UCC is limited to annual costs of medical services provided to Medicaid and uninsured patients less payments received for those patients. This limit is known as the hospital-specific limit.

States have considerable flexibility in defining their DSH program under sections 1923 (a) and (b) of the Act. The State of Delaware's Medicaid State Plan, Section 4.19A, further defines the hospital-specific limit by restricting payments to 90 percent of their UCC.

#### Recent Legislation

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) implemented new reporting and audit requirements for the DSH program. For fiscal years beginning in 2004, each State is required to submit an annual, independently certified audit that covers six verifications as set forth by the Center for Medicare and Medicare Services 42 CFR, Parts 447 and 455 "Medicaid Program, Disproportionate Share Hospital Payments, Final Rule."

#### Delaware DSH Program at Delaware Psychiatric Center

The State of Delaware administers the Delaware DSH program under Section 1923 of the Act and under 4.19A of the Medicaid State Plan. There is one hospital in Delaware which falls under the DSH program, the Delaware Psychiatric Center (DPC).

DPC is a state-run Institute for Mental Disease (IMD) located in New Castle, Delaware. There are three main components of care provided: an intermediate care facility/institution for mental disease (ICF/IMD), a psychiatric hospital IMD, and a forensic unit for the criminally insane. The only segment of the facility eligible for the DSH program is the psychiatric hospital IMD segment.

## Definition of Uncompensated Care Costs and Calculation of Hospital-Specific Limit

Under the provisions of the Medicaid State Plan, the State defines incurred inpatient (IP) hospital and outpatient (OP) hospital costs for furnishing IP/OP hospital services to Medicaid eligible individuals and individuals with no source of third party coverage for the IP/OP hospital services they received as follows:

Uncompensated care is defined as the cost of services to Medicaid patients, less the amount paid by the State under the non-disproportionate share hospital payment provisions of the State Plan. Uncompensated care is defined as the cost of services to uninsured patients (those who have no health insurance or source of third party payments) less the amount of payments made by these patients.

The DPC uses the following methodology to calculate UCC:

- Total costs are compiled from the State's Delaware Financial Management Systems (DFMS) Report, broken down by object and source code.
- Costs relating to the ICF/IMD that are not eligible for DSH are excluded, leaving costs associated with the psychiatric hospital IMD services and the forensic unit for the criminally insane.
- Bed days are summarized by nursing unit from DPC's accounting system.
- Psychiatric hospital IMD costs are divided by bed days relating to psychiatric hospital IMD units to calculate a cost per patient day.
- Costs relating to the IMD services provided in the forensic (criminally insane) unit are calculated by multiplying cost per day by the number of bed days in the forensic unit, and excluded from total costs.
- Remaining costs are divided by allowable IMD patient days to calculate the allowable IMD cost per day.
- Private self-pay and uninsured patient days are multiplied by the psychiatric hospital IMD cost per day to determine the cost of private self-pay and uninsured patients.
- Revenue received from private self-pay and uninsured patients is deducted from the calculated cost to determine total UCC.

The hospital-specific limit for DPC as specified by the State of Delaware's Medicaid State Plan, Section 4.19A, is 90 percent of the uncompensated care costs.

## Summary of Verifications

### Verification 1 - Hospital Eligibility

In order to be eligible for DSH payments, hospitals are required to qualify under the Social Security Act Sections 1923(d) and (b), and the Medicaid State Plan Section 4.19A.

Requirements of the Social Security Act §1923(d):

1. The hospital has at least two obstetricians who have staff privileges at the hospital and who have agreed to provide obstetric services to individuals who are entitled to medical assistance for such services under such State plan. This requirement shall not apply to a hospital if:
  - (i) the inpatients are predominantly individuals under 18 years of age; or
  - (ii) the hospital does not offer nonemergency obstetric services to the general population.
2. The hospital has a Medicaid inpatient utilization rate (as defined in subsection (b)(2)) of not less than 1 percent.

The term "Medicaid inpatient utilization rate" means, for a hospital, a fraction (expressed as a percentage), the numerator of which is the hospital's number of inpatient days attributable to patients who (for such days) were eligible for medical assistance under a State plan approved under this title in a period (regardless of whether such patients receive medical assistance on a fee-for-service basis or through a managed care entity), and the denominator of which is the total number of the hospital's inpatient days in that period. In this paragraph, the term "inpatient day" includes each day in which an individual (including a newborn) is an inpatient in the hospital, whether or not the individual is in a specialized ward and whether or not the individual remains in the hospital for lack of suitable placement elsewhere.

Requirements of SSA §1923(b):

1. The hospital's Medicaid inpatient utilization rate (see above) is at least one standard deviation above the mean Medicaid inpatient utilization rate for hospitals receiving Medicaid payments in the State; or
2. The hospital's low-income utilization rate (as defined in paragraph (3)) exceeds 25 percent.

The term "low-income utilization rate" means, for a hospital, the sum of—

- (A) the fraction (expressed as a percentage):
  - (i) the numerator of which is the sum (for a period) of (I) the total revenues paid to the hospital for patient services under a State plan under this title (regardless of whether the services were furnished on a fee-for-service basis or through a managed care entity) and (II) the amount of the cash subsidies for patient services received directly from State and local governments, and
  - (ii) the denominator of which is the total amount of revenues of the hospital for patient services (including the amount of such cash subsidies) in the period; and

- (B) the fraction (expressed as a percentage):
  - (i) the numerator of which is the total amount of the hospital's charges for inpatient hospital services which are attributable to charity care in a period, less the portion of any cash subsidies described in clause (i)(II) of subparagraph (A) in the period reasonably attributable to inpatient hospital services, and
  - (ii) the denominator of which is the total amount of the hospital's charges for inpatient hospital services in the hospital in the period.

Requirements of the Medicaid State Plan, Section 4.19A:

1. Hospitals must meet the provisions of the Social Security Act, Section 1923.
2. Psychiatric hospitals which serve a disproportionate share of low-income patients are eligible for a disproportionate payment adjustment when sixty percent or more of service revenue is attributable to any combination of the following:
  - (A) public funds, excluding Medicare and Medicaid
  - (B) bad debts
  - (C) free care

### **Verification 2 - DSH Limits**

DSH payments made to each qualifying hospital must 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 must be measured against the actual uncompensated care cost in that same audited Medicaid State Plan rate year.

Uncompensated care costs and the hospital-specific limit calculations are described above.

### **Verification 3 - Patient Eligibility**

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

### **Verification 4 - Revenue Offset**

For purposes of the 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.

### **Verification 5 - Documentation of costs and records**

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 has been separately documented and retained by the State.

*Verification 6 - Methodology of calculating DSH limit*

The information specified in Section 1923(d)(5) of the Act includes a description of the methodology for calculating each hospital's payment limit under Section 1923(g)(1) of the 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 hospital services they received.

Uncompensated care costs and the hospital-specific limit calculations are described above.

## Objective, Scope, and Methodology

### Objective

Our objectives were to (1) verify that the Disproportionate Share Hospital Payments Program at the Delaware Psychiatric Center met the six verifications as outlined in the Code of Federal Regulations - 42 CFR, Parts 447 and 455 and (2) verify that the Program met the requirements of the State of Delaware's Medicaid State Plan Section 4.19A.

### Scope

Our audit covers the Disproportionate Share Hospital Payments Program at the Delaware Psychiatric Center for the period July 1, 2007 through June 30, 2008.

### Methodology

To accomplish our objectives, we:

- Consulted and reviewed applicable laws, regulations, guidelines, and the Medicaid State Plan applicable to the Medicaid DSH program.
- Reviewed and discussed internal controls at Delaware Psychiatric Center (DPC).
- Obtained State of Delaware's calculation of the hospital-specific limit.
- Collected and reviewed data used to calculate UCC.
- Tested for compliance with the six verifications.
- Tested for compliance with the Medicaid State Plan requirements.

### **Conclusions**

The DSH Program at DPC met all six verifications outlined by the Federal Register CFR 42, Parts 447 and 455.

The DSH Program at DPC met the requirement of the State of Delaware's Medicaid State Plan Section 4.19A.

#### **Verification 1 - Hospital Eligibility**

DPC meets all of the requirements of Verification #1. DPC is not subject to the obstetrician requirements under the Act as it does not offer obstetric services to the general public. The Medicaid inpatient utilization rate is 58.36 percent, and the low-income utilization rate is 93.25 percent. Free care accounts for 87.1 percent of DPC's services provided to patients.

#### **Verification 2 - DSH Limits**

DPC meets the requirements of Verification #2. Actual uncompensated care costs associated with the psychiatric hospital IMD unit eligible for DSH payments were \$34,753,536 (net of revenue). The hospital-specific limit per the Medicaid State Plan is 90 percent, or \$31,278,182. DSH payments made during the Year Ended June 30, 2008 were \$2,814,038, which is significantly under the hospital-specific limit.

DPC complies with the hospital-specific limit as defined by the State of Delaware's Medicaid State Plan, Section 4.19A.

### **Verification 3 - Patient Eligibility**

DPC meets the requirements of Verification #3. Total IMD costs for DPC were \$37,232,003, and total IMD bed days were 59,176, resulting in cost per day of \$629.17. Eligible private self-pay and uninsured days were 56,868, which calculates to \$35,779,869 (rounded) of uncompensated care costs related to uninsured individuals.

### **Verification 4 - Revenue Offset**

DPC meets the requirements of Verification #4. There were no Medicaid payments received relating to the psychiatric hospital IMD unit; therefore, there were no payments in excess of costs.

### **Verification 5 - Documentation of costs and records**

DPC meets the requirements of Verification #5. All pertinent records and documentation were available for review. Of the sample selected for testing, all payments made on behalf of uninsured patients were separately documented.

### **Verification 6 - Methodology of calculating DSH limit**

DPC meets the requirements of Verification #6. As stated in the Background section:

Medicaid defines uncompensated care as the cost of services to Medicaid patients, less the amount paid by the State under the non-disproportionate share hospital payment provisions of the State Plan. Uncompensated care is defined as the cost of services to uninsured patients (those who have no health insurance or source of third party payments) less the amount of payments made by these patients.



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270 Presidential Drive  
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**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on a Financial Audit  
Performed in Accordance With *Government Auditing Standards***

State of Delaware Department of Health  
and Social Services  
Division of Medicaid and  
Medical Assistance  
Lewis Building  
Herman Holloway Campus  
1901 N. DuPont Highway  
New Castle, DE 19720

We have audited the State of Delaware, Department of Health and Social Services, Division of Medicaid and Medical Assistance, Disproportionate Share Hospital Payments Program (the Program) of Delaware Psychiatric Center (DPC) for the Year Ended June 30, 2008, and have issued our report thereon dated September 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered DPC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Program but not for the purpose of expressing an opinion on the effectiveness of DPC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DPC's internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a misstatement of the DPC's financial data relating to the Disproportionate Share Hospital Payments Program ("program data") will not be prevented or detected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

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We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DPC's program data is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of reported amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Office of Auditor of Accounts of the State of Delaware, the Department of Health and Social Services of the State of Delaware and the Board of Directors and management of the Delaware Psychiatric Center, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Office of the State Treasurer, and the Department of Finance. However, under 29 Del. C. Section 10002, this report is public record and its distribution is not limited.

*BDO USA, LLP*

Wilmington, DE  
September 28, 2011

State of Delaware Department of Health and Social Services  
Division of Medicaid and Medical Assistance  
Disproportionate Share Hospital Payments Program  
of Delaware Psychiatric Center

Schedule of Findings and Responses

June 30, 2008

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CURRENT YEAR FINDINGS:

NONE

## Supplemental Material

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State of Delaware Department of Health and Social Services  
 Division of Medicaid and Medical Assistance  
 Disproportionate Share Hospital Payments Program  
 of Delaware Psychiatric Center  
 Disproportionate Share Report

Year Ended June 30, 2008

Data Element	Description	Submission
1.	Hospital Name	Delaware Psychiatric Center
1a.	Type of Hospital	IMD
2.	Estimate of hospital-specific DSH limit	\$ 31,278,182
3.	Medicaid inpatient utilization rate	58.36%
4.	Low-income utilization rate	93.25%
5.	State defined DSH qualification criteria	(1)
6.	IP/OP Medicaid fee-for-service basic rate payments	\$ -
7.	IP/OP Medicaid managed care organization payments	\$ -
8.	Supplemental/enhanced Medicaid IP/OP payments	\$ -
9.	Total Medicaid IP/OP payments	\$ -
10.	Total cost of care for Medicaid IP/OP services	\$ -
11.	Total Medicaid uncompensated care	\$ -
12.	Uninsured IP/OP revenue	\$ 1,026,333
13.	Total applicable Section 1011 payments	\$ -
14.	Total cost of care for the uninsured	\$ 35,779,869
15.	Total uninsured IP/OP uncompensated care costs	\$ 34,753,536
16.	Total annual uncompensated care costs	\$ 34,753,536
17.	Disproportionate share hospital payments	\$ 2,814,038
18.	Total State disproportionate share payments to all hospitals	\$ 2,814,038
(1)	State defined DSH criteria:	
	- Comply with requirements of Social Security Act Section 1923 (d) and (b)	
	- Sixty percent or more of service revenue is attributable to public funds (excluding Medicare and Medicaid), bad debts, or free care	

*See accompanying independent auditors' report.*