

**SHANDS JACKSONVILLE
INDIGENT CARE AGREEMENT
December 9, 2002**

REPORT NO. 567

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



December 9, 2002

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Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we examined select charity records of Shands Jacksonville (formerly known as University Medical Center, Inc.) for the year ended June 30, 2001. We also reviewed the Charity Cost Report for the period of July 1, 2000 through June 30, 2001 which we received November 1, 2002 and present this report thereon.

As outlined in Ordinance 81-551-381, University Medical Center agreed to provide medical treatment to indigent patients who could not afford to pay for their own medical care. In return, the City agreed to provide the hospital annual funding to partially offset the cost of this care. This agreement was referred to as the Indigent Care Agreement. Ordinance 84-78-800 amended the original agreement and incorporates the Hill-Burton guidelines as the criteria used to determine eligibility for care as a county indigent. This determination is to be made by the hospital. Hill-Burton guidelines define the level and type of income to be used to determine eligibility for assistance and are based on the federal poverty guidelines. On March 1, 1999, Ordinance 98-952-E was approved and amended the Indigent Care Agreement; however, it did not become effective until July 1, 1999.

Effective October 1, 1999, University Medical Center merged with Methodist Medical Center under the leadership of the Shands Hospital. This new affiliation is referred to as Shands Jacksonville. In addition to determining whether patients are eligible to receive charity medical care, the Indigent Care Agreement requires Shands Jacksonville to submit the Charity Cost Report annually. The Charity Cost Report is the means whereby Shands reports to the City details of their services provided to charity patients and their related costs and is due to the City by March 31 following the close of their fiscal year.

The Indigent Care Agreement defines costs and how reimbursable costs associated with indigent care are to be determined. The Agreement stipulates that the full step-down cost method will be applied to county indigent charges on the same basis as applied to Medicare and Medicaid patients. Costs will be determined utilizing Title XVIII (Medicare) definitions and guidelines with a few exceptions as outlined in Section 7 of the Agreement attached to Ordinance 84-78-800.

The step-down cost method is a means whereby all allowable hospital expenses as defined by Medicare rules and regulations and the Indigent Care Agreement are stepped down and distributed to ancillary cost centers. These costs are then compared to charges generated in these cost centers and an overall cost to charge ratio is determined for each cost center. This procedure is used for all outpatient charges, and all inpatient ancillary charges. Inpatient routine service costs are determined by calculating an average cost per diem and applying that per diem to the number of indigent patient days. The sum of these components, outpatient, inpatient ancillary and inpatient routine, comprise the aggregate cost of indigent care chargeable to the City.

STATEMENT OF OBJECTIVES

The objectives of our audit were:

1. To determine if the patients whose bills are charged to the City are qualified indigents per the Indigent Care Agreement between the City and Shands Jacksonville.
2. To determine if Shands Jacksonville's Charity Cost Report is in compliance with the Indigent Care Agreement between the City and Shands Jacksonville.

STATEMENT OF SCOPE

The audit period of our examination of patient files was July 1, 2000 through June 30, 2001 and the period for the Charity Cost Report was July 1, 2000 through June 30, 2001.

STATEMENT OF METHODOLOGY

Our examination consisted of the documentation and assessment of management controls, a review of the laws and regulations governing indigent care, a review of written policies and operating procedures, discussions with Shands Jacksonville employees, and detailed testing of select City charity write-offs.

Because Shands' independent auditors prepared an Agreed-Upon Procedures Report relating to the Charity Cost Report and noted no exceptions, our examination of the Charity Cost Report for the period of July 1, 2000 through June 30, 2001 consisted of reviewing the methodology of the report to ensure its consistency with previous years. We also verified the City and State funding received by Shands through the State Disproportionate Share Program.

The random sample generated by the City's Information Technology Division for detailed testing consisted of 75 inpatient and 75 outpatient transactions charged to the Charity Services Contractual Account (the account used to accumulate indigent patient charges) during the fiscal year ended June 30, 2001. We examined the patient files associated with the visits from which these transactions were derived. This included a review of the accuracy of the financial evaluations performed on these patients and the appropriateness of the amounts written off to

the Charity Services Contractual Account. It should be noted that we did not perform an evaluation of the quality or appropriateness of care provided to indigent patients.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. This audit also included an assessment of applicable management controls and compliance with requirements of laws and regulations when necessary to satisfy audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSIONS

1. Patients whose bills were charged to the City were qualified indigents per the Indigent Care Agreement.
2. Shands Jacksonville's Charity Cost Report was in compliance with the Indigent Care Agreement.

ASSESSMENT OF MANAGEMENT CONTROLS

In order to determine that proper management controls were in place at Shands Jacksonville related to the Indigent Care Agreement, we reviewed and documented the processes Shands has implemented to ensure that patients are properly evaluated for financial eligibility, that charges are properly written off to the City and that these write-offs are reported to the City in accordance with the Agreement. Based on our discussions with Shands Jacksonville personnel and our observations, we noted no matters relating to problems with internal controls that would have a material impact on Shands Jacksonville's compliance with the Indigent Care Agreement.

Audit Objective #1

Based on an evaluation of 75 inpatient and 75 outpatient files and the transactions associated with these files, we found no exceptions. Shands Jacksonville is highly committed to ensuring that all charges written off to the City are appropriate.

AUDIT OBJECTIVE #2

The charity costs reported to the City by Shands for the period of July 1, 2000 through June 30, 2001 totaled \$31,709,087. The total City contribution for the 2000/2001 fiscal year was \$23,540,000 as authorized by Resolution 2000-781-A. Ordinance 2001-620-E appropriated an additional \$235,594 for additional matching funds for the Disproportionate Share Program

bringing the total City contribution to \$23,775,594. Of this total appropriation from the City, \$23,596,467 was sent directly to the State's Disproportionate Share Program where each dollar was matched with State dollars and sent to Shands. Shands Jacksonville received a total of \$12,804,334 from the State to match the City's contribution. The remaining City appropriation of \$179,127 was sent directly to Shands.

Based on the independent auditor's agreed-upon procedures report related to the Charity Cost Report that found no exceptions and our limited review of the Charity Cost Report, we found no instances of noncompliance with the Indigent Care Agreement.

Respectfully submitted,

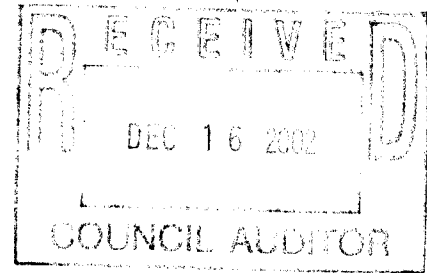
Robert O. Johnson, C.P.A.
Council Auditor

Audit Prepared by:

Allison M. Luker

SHANDS

Jacksonville



December 13, 2002

Ms. Pamela Markham
City of Jacksonville, Florida
Office of the Council Auditor
117 West Duval Street
Suite 200, St. James Building
Jacksonville, FL 32202-3701

Dear Ms. Markham:

I have received Report # 567 entitled Shands Jacksonville Indigent Care Agreement, dated December 9, 2002.

I have reviewed the Report and was very pleased with the results and conclusions resulting from your audit of our records. I am proud of our staff and thank you for the comment contained in the Report---"Shands Jacksonville is highly committed to ensuring that all charges written off to the City are appropriate". We appreciate the support we receive from the City of Jacksonville and thank you for the collaborative working relationship that you have nurtured.

Sincerely,

Handwritten signature of William J. Ryan in cursive script.

William J. Ryan
Interim CFO
Shands Jacksonville

cc: Robert O. Johnson, CPA