

**SHANDS JACKSONVILLE
INDIGENT CARE AGREEMENT
DECEMBER 10, 2003**

REPORT NO. 585

**Audit of Shands Jacksonville Indigent Care Agreement
Report #585**

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Executive Summary

December 10, 2003

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INTRODUCTION

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 primarily to modify City funding and update the financial responsibility criteria and documentation for clients. The ordinance became effective 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.

The Charity Costs reported to the City by Shands Jacksonville for the period of July 1, 2001 through June 30, 2002 totaled \$29,462,887. The total City contribution for the 2001/2002 fiscal year was \$23,775,594 as authorized by Resolution 2001-844-A. Of this total appropriation from the City, \$23,596,467 was sent directly to the State's Disproportionate Share Program and \$179,127 was sent directly to Shands.

AUDIT OBJECTIVE

The objective of our audit was 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.

AUDIT CONCLUSIONS

- Overall, patients whose bills were charged to the City were qualified indigents per the Indigent Care Agreement. We did note four instances in which charges were inappropriately written off to the Charity Services Contractual Account. However, these errors were not considered material to the total charges written off to charity care.
- An inherent limitation exists within the computer system used to account for City Charity charges and write-offs that allows Departments other than the Financial Evaluation Department to write off charges to the Charity Services Contractual Account.

The auditee's response is attached as Exhibit B of our report.

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



December 10, 2003

Report No. 585

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.) from October 1, 2002 through March 31, 2003.

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 primarily to modify City funding and update the financial responsibility criteria and documentation for clients. The ordinance became effective July 1, 1999.

BACKGROUND

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. Shands Jacksonville engages its independent auditors to complete an Agreed-Upon Procedures Report on the annual Charity Cost Report. For the fiscal year ended June 30, 2002, the independent auditors did not note any matters that would impact Shands' compliance with the Indigent Care Agreement. The Charity Cost Report for the fiscal year ended June 30, 2003 has not been completed by Shands since it is not required to be submitted to the City until March 31, 2004.

The Charity Costs reported to the City by Shands for the period of July 1, 2001 through June 30, 2002 totaled \$29,462,887. The total City contribution for the 2001/2002 fiscal year was \$23,775,594

as authorized by Resolution 2001-844-A. 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 approximately \$.85 of Federal dollars (\$20,060,051), with both amounts totaling \$43,656,518 ultimately being sent to Shands. The additional funding obtained through the State Disproportionate Share Program allows Shands to provide services to indigent patients who do not qualify for charity care through the City's Indigent Care Program. The remaining City appropriation of \$179,127 was sent directly to Shands. Refer to Attachment A for a historical account of Charity Costs incurred by Shands and the level of funding provided by the City each 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.

AUDIT OBJECTIVE

The objective of our audit was 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.

STATEMENT OF SCOPE

The audit period of our examination of patient files was October 1, 2002 through March 31, 2003.

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.

For the testing of Charity write-offs, we first determined a sample size and then generated a random sample of inpatient and outpatient transactions charged to the Charity Services Contractual Account (the account used to accumulate indigent patient charges). 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

Overall, patients whose bills were charged to the City were qualified indigents per the Indigent Care Agreement. We did note four instances in which charges were inappropriately written off to the Charity Services Contractual Account, as described in further detail below under Audit Objective #1.

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 the following strengths and weakness.

Management Control Strength #1

The Financial Evaluation Department of Shands continues to perform quality control reviews of patient files to ensure compliance with the Indigent Care Agreement. As part of its quality control review, the Financial Evaluation Department verifies that every patient that receives charity care has been properly evaluated. If a quality control employee discovers that a patient was not given the proper financial rating, he/she has the ability to change the rating or, if necessary, revoke the charity card.

Management Control Strength #2

The Financial Evaluation Department reviews several reports on a daily basis to ensure that write-offs to the Charity Services Contractual Account are appropriate and to verify that no other funding sources are available to cover the patient's charges. These tools help Shands maximize its revenue potential and also serve as a check and balance system for all write-offs to the Charity Services Contractual Account.

Management Control Weakness #1

An inherent limitation exists within the computer system used to account for City Charity charges and write-offs. Although the Financial Evaluation Department of Shands is the main department responsible for ensuring that Shands is in compliance with the Indigent Care Agreement, other Departments have the capability to write-off charges to the Charity Services Contractual Account. As a result, the Financial Evaluation Department loses some of its control over the write-offs made on the system that ultimately impact the amount written off to the Charity Services Contractual Account.

Recommendation to Management Control Weakness #1

In order to ensure that the Financial Evaluation Department maintains the utmost control over the write-offs made to the Charity Services Contractual Account, we recommend that the Financial Evaluation Department review a list of who currently has access to write off any charges to the Charity Services Contractual Account and determine whether any of these users should be denied access to the system. By limiting the number of authorized users, the Financial Evaluation Department can better protect the integrity of the data currently written off to the Charity Services Contractual Account.

AUDIT OBJECTIVE #1

Based on an evaluation of 128 inpatient and 136 outpatient files and the transactions associated with these files, we found four exceptions. More specifically, we found the following:

Of the 128-inpatient files tested, we found that in one-instance charges totaling \$32,720.07 were improperly written off to the Charity Services Contractual Account rather than to Medicaid. This error occurred as a result of an employee in the Medicaid Billing Department entering an incorrect transaction code for the write-off to a Medicaid account. As a result of this exception, total charity charges were overstated by an immaterial amount.

Of the 128-inpatient files tested, we found that in one-instance charges totaling \$5,666.81 were improperly reversed to the Charity Services Contractual Account, thereby understating the total amount written off to the Charity Services Contractual Account. This error occurred as a result of a system problem, which has since been rectified by Shands. This error is not considered material to the total charges written off to charity care.

Of the 128 inpatient files tested, we found that in one instance a patient was improperly rated as a part-pay patient rather than a full charity patient. The improper rating resulted in \$500 in charges being written off to the patient's account rather than to the Charity Services Contractual Account, thereby understating the total charges written off to the Charity Services Contractual Account. However, the patient never actually remitted any funds, and this account has been subsequently corrected to reflect a balance of zero owed by the patient. This error occurred due to the use of an incorrect Weekly Income Schedule relied upon to determine the patient's financial rating. This error is not considered material to the total charges written off to charity care.

Of the 136 outpatient files tested, we found that in one-instance charges totaling \$28 were improperly written off to the Charity Services Contractual Account rather than to Medicaid. In this instance, Shands discovered that although the patient was provided a charity card, he subsequently

became eligible for Medicaid. However, Shands failed to reverse the write-off to the Charity Services Contractual Account upon finding that the patient was eligible for Medicaid. This error is not considered material to the total charges written off to charity care.

Recommendation

Shands Jacksonville is highly committed to ensuring that all charges written off to the Charity Services Contractual Account are accurate and appropriate. Given that the four exceptions noted above are not material to the total charges written off to charity care it is not necessary that Shands make any adjustments to its Charity Cost Report. However, we do recommend that Shands continue its diligent efforts in the area of Quality Control and report monitoring to ensure that future charges are properly written off to the Charity Services Contractual Account.

We wish to thank the staff at Shands Jacksonville for their courtesy and cooperation extended to us during the course of our audit. Staff members were extremely professional and provided records requested for the audit in an expeditious manner.

Respectfully submitted,

Richard Wallace, CPA
Council Auditor

Audit Prepared by:

Kim Taylor, CPA

Sonia Summerford

**Council Auditor's Office
Shands Jacksonville Indigent Care Agreement
Summary of Charity Costs and City Funding**

(Attachment A)

Fiscal Year	Cost per Charity Cost Report	City Appropriation	(Unfunded)	% Unfunded
1/1/82-9/30/82	\$ 13,650,869	\$ 12,154,185	\$ (1,496,684)	(10.96%)
10/1/82-9/30/83	\$ 18,588,083	\$ 16,705,580	\$ (1,882,503)	(10.13%)
10/1/83-9/30/84	\$ 21,073,934	\$ 18,705,702	\$ (2,368,232)	(11.24%)
10/1/84-9/30/85	\$ 20,397,684	\$ 18,705,580	\$ (1,692,104)	(8.30%)
10/1/85-9/30/86	\$ 20,114,109	\$ 18,580,000	\$ (1,534,109)	(7.63%)
10/1/86-9/30/87	\$ 19,118,858	\$ 18,000,000	\$ (1,118,858)	(5.85%)
10/1/87-9/30/88	\$ 21,991,869	\$ 18,000,000	\$ (3,991,869)	(18.15%)
10/1/88-9/30/89	\$ 20,777,952	\$ 17,483,457	\$ (3,294,495)	(15.86%)
10/1/89-9/30/90	\$ 23,138,457	\$ 17,960,193	\$ (5,178,264)	(22.38%)
10/1/90-9/30/91	\$ 29,099,036	\$ 18,026,035	\$ (11,073,001)	(38.05%)
10/1/91-6/30/92 (9 months)	\$ 23,904,478	\$ 13,500,000	\$ (10,404,478)	(43.53%)
7/1/92-6/30/93	\$ 34,932,621	\$ 18,405,000	\$ (16,527,621)	(47.31%)
7/1/93-6/30/94	\$ 30,539,744	\$ 18,540,000	\$ (11,999,744)	(39.29%)
7/1/94-6/30/95	\$ 35,500,499	\$ 18,540,000	\$ (16,960,499)	(47.78%)
7/1/95-6/30/96	\$ 36,150,893	\$ 18,540,000	\$ (17,610,893)	(48.71%)
7/1/96-6/30/97	\$ 31,545,779	\$ 18,540,000	\$ (13,005,779)	(41.23%)
7/1/97-6/30/98	\$ 36,245,963	\$ 20,430,041	\$ (15,815,922)	(43.63%)
7/1/98-6/30/99	\$ 30,959,798	\$ 18,540,000	\$ (12,419,798)	(40.12%)
10/1/99-6/30/00 (9 months)	\$ 24,542,250 (A)	\$ 15,405,000	\$ (9,137,250)	(37.23%)
7/1/00-6/30/01	\$ 31,709,087	\$ 23,540,000	\$ (8,169,087)	(25.76%)
7/1/01-6/30/02	\$ 29,462,887	\$ 23,775,594	\$ (5,687,293)	(19.30%)

Purpose: This schedule summarizes the costs incurred by Shands to provide medical care to qualified City indigents and the City's appropriations since January 1, 1982.

(A) The \$24,542,250 reflected above is only for the nine month period of 10/1/99 to 6/30/00. A Charity Cost Report was only prepared for nine months as Medicare did not want a report prepared for the entire year. This was due to the fact that for the first three months of the fiscal year, the entity was UMC and for the last nine months, the entity was Shands Jacksonville. The \$15,405,000 under the City Appropriation column is the amount of City funding given to Shands for the nine month period rather than the entire fiscal year. The total City appropriation for the FY 2000/01 was \$23,540,000.

SHANDS Jacksonville

December 2, 2003

Mr. Richard A. Wallace, C.P.A.
Council Auditor
City of Jacksonville
117 West Duval Street
Suite 200
Jacksonville, FL 32202-3701

Dear Mr. Wallace:

I have received report # 585 entitled Shands Jacksonville Indigent Care Agreement, dated November 12, 2003.

I have reviewed the report, and was very pleased with the results and conclusions resulting from the audit of our records. I agree with all of your findings, and concur with your assessment that there is an inherent control limitation within our computer system with respect to charge write-off capability. It is anticipated that future upgrades of our McKesson software will resolve this weakness at the system level, and in the meantime we have implemented a manual quality control process to ensure the accuracy of all adjustments for City Charity write-offs.

We truly appreciate the support we receive from the City of Jacksonville as well as your efforts and those of your staff. We look forward to a continued collaborative working relationship in the future.

Sincerely,



William J. Ryan
CFO
Shands Jacksonville

cc: Ms. Pamela Markham