

**SHANDS JACKSONVILLE
INDIGENT CARE AGREEMENT
SEPTEMBER 18, 2001**

REPORT NO. 539

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



September 18, 2001

Report No. 539

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, 2000. We also reviewed the Charity Cost Report for the period of October 1, 1999 through June 30, 2000 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. Due to the fact that Shands Jacksonville did not come into existence until October 1, 1999, Medicare requested that a Charity Cost Report be prepared for the time period of October 1, 1999 through June 30, 2000. Therefore, the Charity Cost Report that was prepared was for only nine months rather than the entire 1999/2000 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, 1999 through June 30, 2000 and the period for the Charity Cost Report was October 1, 1999 through June 30, 2000.

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 October 1, 1999 through June 30, 2000 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, 2000. 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. This is evidenced by the continued effort of the Quality Control Departments as well as ongoing training of employees with regards to the Indigent Care Agreement.

AUDIT OBJECTIVE #2

The charity costs reported to the City by Shands for the period of October 1, 1999 through June 30, 2000 totaled \$24,542,250. The City's appropriation for this nine-month period was \$15,405,000. The total City contribution for the 1999/2000 fiscal year was \$20,540,000 as authorized by Resolution 98-695-A. Of the \$20,540,000 appropriation from the City, \$18,360,872 was sent directly to the State's Disproportionate Share Program where each dollar was matched with \$.80 of Federal dollars, with both being sent to Shands. Shands Jacksonville received a total of \$14,652,658 from the State to match the City's contribution. The remaining City appropriation of \$2,179,128 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:

Kimberly Taylor, C.P.A.

Allison M. Luker

SHANDS Jacksonville

October 1, 2001

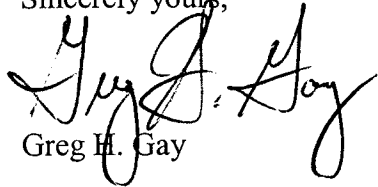
Greg H. Gay
Vice President and Chief Financial Officer

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

Dear Ms. Markham:

Thank you for your recent report regarding Shands Jacksonville's compliance with the requirements of the Indigent Care Agreement. I am pleased that you have found our files and procedures to be in good order. We work hard to make sure that we are complying with the terms of the Indigent Care Agreement. The staff here at Shands Jacksonville have been very complimentary of the various members of the Council Auditor's Office that they have interacted with on this issue. Please pass along my appreciation for their professionalism and courtesy.

Sincerely yours,


Greg H. Gay

cc: Robert O. Johnson, CPA

