

**SHANDS JACKSONVILLE  
INDIGENT CARE AGREEMENT  
April 24, 2006**

**AUDIT REPORT NO. 617**

**ISSUED: July 21, 2006**

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



April 24, 2006

#617: Audit Report

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 July 1, 2005 through December 31, 2005.

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. Subsequent to the original agreement, Ordinance 1998-952-E and Resolution 2005-393-A were approved amending the Indigent Care Agreement primarily to modify City funding and update the financial responsibility criteria and documentation for clients.

**BACKGROUND**

Effective October 1, 1999, University Medical Center combined 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 beneficiaries under the Indigent Care Agreement 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, 2005, the independent auditors did not note any matters that would impact Shands' compliance with the Indigent Care Agreement.

The Charity Costs reported to the City by Shands for the period of July 1, 2004 through June 30, 2005 totaled \$46,106,688. The total City contribution for the 2004/2005 fiscal year was \$23,775,594 as authorized by Resolution 2004-766-A. Thus, consistent with prior years, the costs incurred by Shands to provide Charity Care significantly exceed the funding provided by the City. Of this total

\$23,775,594 appropriation from the City, \$1,141,352 was sent directly to Shands to cover the costs of the City's Indigent Care Program and \$22,634,242 was transferred to the Florida Agency for Health Care Administration for use in its Medicaid program consistent with the City's agreements with Shands Jacksonville and the State as authorized by Resolution 2004-766-A. The transferred City funds, along with other State and local funds designated for use in the Florida Medicaid program are eligible for Federal Financial Participation and, thus, attract Federal matching funds to the Florida Medicaid Program. The maximization of funding available to Florida's Medicaid program is important to Shands Jacksonville because of its qualification as a Florida Medicaid Disproportionate Share hospital. Florida's Medicaid Disproportionate Share program provides Medicaid rate enhancements and categorical fixed payments to eligible hospitals. Shands Jacksonville is eligible for rate enhancement because it exceeds a threshold volume of services to Medicaid beneficiaries and other indigent patients and for categorical fixed payments for specific services, e.g. Level I Trauma and Regional Perinatal Intensive Care Centers. In FY 2004/2005 Shands Jacksonville received \$47,462,812 in such payments. 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, but qualify for the State's Indigent Care Program. Thus, any additional funding over the Charity Care Costs reported by Shands Jacksonville partially covers costs incurred by Shands for patient costs eligible for the State Indigent Care Program. 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 Charity Cost report for the FY 2005/06, which would reflect write-offs that we tested from July through December of 2005, is not required to be submitted to the City until March 2007, or nine months after their fiscal year ended June 30, 2006. As a result, the most up-to-date charity cost information currently available is reflected above.

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 1984-78-800.

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 July 1, 2005 through December 31, 2005.

## **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 personnel, 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 also judgmentally selected outpatient files whose charity write-offs exceeded \$50,000 and inpatient files whose charity write-offs exceeded \$200,000. 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 CONCLUSION**

Patients whose bills were charged to the City were qualified indigents per the Indigent Care Agreement.

## **ASSESSMENT OF MANAGEMENT CONTROLS**

In order to determine that proper management controls were in place at Shands Jacksonville relevant 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.

### **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.

**AUDIT OBJECTIVE #1**

Based on a review of a total of 153 inpatient and 136 outpatient files and the transactions associated with these files, we found no exceptions. Thus, based on the patient files we tested, we found that Shands properly recorded write-offs to the City's Charity Services Contractual Account during our audit period for patients who were qualified indigents as specified by the Indigent Care Agreement between the City and Shands Jacksonville.

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

Respectfully submitted,

*Kirk A. Sherman*

Kirk A. Sherman, CPA  
Council Auditor

Audit Prepared by:

Kim Taylor, CPA

Timothy Page

**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	Amount Funded by Other Sources	% Funded by Other Sources
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 (A)	\$ (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%)
7/1/02-6/30/03	\$ 33,709,979	\$ 23,775,594	\$ (9,934,385)	(29.47%)
7/1/03-6/30/04	\$ 44,199,121	\$ 23,775,594	\$ (20,423,527)	(46.21%)
7/1/04-6/30/05	\$ 46,106,688	\$ 23,775,594	\$ (22,331,094)	(48.43%)

**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.

June 26, 2006

Mr. Kirk Sherman  
Council Auditor  
City of Jacksonville  
117 West Duval Street  
Suite 200  
Jacksonville, FL 32202-3701

Dear Mr. Sherman:

I have received Audit Report # 617 entitled Shands Jacksonville Indigent Care Agreement, issued June 6, 2006.

I have reviewed the report, and was very pleased with the results and conclusions resulting from the audit of our records. I am very proud of our staff and gratified that your review found no exceptions.

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  
Vice President & CFO  
Shands Jacksonville

cc: James Burkhart  
Robin Hanlon  
Winifred Baker