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September 19, 2014

Robert F. Hagemann III, County Administrator
Members of the County Legislature
John P. Burns, County Sheriff
Jefferson County
195 Arsenal Street
Watertown, New York 13601

Report Number: S9-13-24

Dear Administrator Hagemann, Members of the County Legislature and Sheriff Burns:

A top priority of the Office of the State Comptroller is to help county officials manage their resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support county operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and County Legislature governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard assets.

In accordance with these goals, we conducted an audit of eight counties throughout New York State. The objective of our audit was to determine whether counties are controlling inmate hospital costs and paying appropriate rates for the services provided. We included the County of Jefferson (County) in this audit. Within the scope of this audit, we examined the County's process for controlling inmate hospital costs for the period January 1, 2012 through December 31, 2012. Following is a report of our audit of the County. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This report of examination letter contains our findings and recommendations specific to the County. We discussed the findings and recommendations with County officials and considered their comments, which appear in Appendix A, in preparing this report. County officials generally agreed with our findings and recommendations and indicated they plan to initiate corrective action. At the completion of our audit of the eight counties, we prepared a global report that summarizes the significant issues we identified at all of the counties audited.

Summary of Findings

The County can improve its controls and monitoring of inmate hospital costs. The County does not verify that the rates billed agree with the established Medicaid diagnostic related group (DRG) rates for inpatient hospital services. Despite this control weakness, we found that the hospitals underbilled the County by \$1,169. While the County was underbilled for inpatient claims in 2012, the potential also exists for future overbillings to occur and go unnoticed. Additionally, County officials have not negotiated any outpatient hospital service discounts to reduce costs. Had the County, at a minimum, negotiated to the Medicaid rates, it could have potentially saved up to 78 percent of their outpatient hospital costs. Finally, the County did not submit claims for federal financial participation (FFP) reimbursement. Such claims might have totaled as much as \$19,554 in 2012, with the County potentially receiving up to \$9,772 in FFP reimbursements.

Background and Methodology

The County has a population of 120,262 and is governed by a 15-member County Legislature. The County's adopted budget totaled \$237.1 million in 2012. The County Sheriff (Sheriff) is responsible for the operation of the County's sole correctional facility (County jail). The County jail processed 1,135 inmates in 2012 and the average daily inmate population was 161. The County jail budget was approximately \$8.2 million in fiscal year 2013.

County jail administrators must provide inmates with satisfactory health care and control medical care costs. Often, inmates are part of a socioeconomically depressed population and are more likely to have poor health histories due to limited access to health care. According to County officials, jail inmates suffer from a number of maladies – dental issues, mental illness, homelessness, substance abuse, violent behavior, human immunodeficiency virus (HIV), sexually transmitted diseases (STDs) and tuberculosis – at rates higher than the rest of the general population, thereby making cost containment difficult. Furthermore, upon incarceration, inmates usually lose their eligibility for private and public health insurance benefits, forcing the County to pay for their health care.

Inmate health care costs can be a heavy burden on a county's financial resources. Hospital costs make up a large percentage of total inmate health care costs. New York State Public Health Law requires counties to pay Medicaid DRG rates to hospitals for inmate inpatient services. Counties also have the opportunity to reduce the local share of inmate hospital costs by submitting Medicaid-eligible inpatient hospital claims to the federal government for up to 50 percent reimbursement. Accordingly, county social services districts are authorized by law to file claims for retroactive FFP reimbursement for the costs of certain inpatient medical services provided to inmates of correctional facilities. Figure 1 summarizes the County's inmate hospital costs for 2012.

Figure 1: 2012 Inmate Hospital Costs		
Type of Expenditure	Amount	Percent of Total
Inpatient	\$19,554	9%
Outpatient	\$192,240	91%
Total	\$211,794	

There is no law that sets the amounts counties should pay for outpatient hospital services; however, county officials can negotiate rates with hospitals and providers to lower those costs.

To complete our objective, we interviewed County officials and reviewed policies and procedures. We also reviewed the inpatient/outpatient procurement process, the awarded hospital contracts and negotiated rates and discounts to determine if the County is controlling inmate hospital costs and paying appropriate rates for services provided.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Audit Results

Inpatient Hospital Costs – Good internal controls over inmate inpatient hospital costs include procedures to provide reasonable assurance that the rates billed are accurate. The County must verify that the inpatient hospital costs are supported and consistent with the Medicaid DRG rates. Effective procedures should include verifying the rates for each inpatient cost per the Medicaid DRG rates. Public Health Law requires counties to pay Medicaid DRG rates to hospitals for inmate inpatient services.

The Sheriff has the primary duty of monitoring inmate inpatient hospital costs and has delegated the inpatient hospital cost verification duties to a senior account clerk (Clerk). The Clerk has the sole responsibility of verifying the rates on the claims with the various hospitals.

The County has no assurance that the inpatient hospital rates charged to the County are appropriate. The County does not confirm that the inpatient hospital rates billed to the County match the DOH-established Medicaid DRG rates, but instead relies on the rates that the various hospitals dictate.

We reviewed all of the inpatient hospital claims and determined that the hospital charged the County less than the established Medicaid DRG rates on its one inpatient claim, resulting in a \$1,169 underbilling to the County. Verifying the accuracy of the hospital claims can be difficult due to the complicated hospital invoices and the complex calculations needed to determine the proper billing rates. The Clerk who processes these claims does not have a list of the Medicaid DRG rates to confirm that the hospital is actually charging the County appropriately for inpatient hospital services, but relies on the hospital's billing department to inform her of the specific rates. While the County was underbilled for inpatient claims in 2012, the potential also exists for future overbillings to occur and go unnoticed.

Outpatient Hospital Costs – While there is no law that sets the amounts counties should pay for outpatient hospital services, it is still the responsibility of County officials to reduce costs wherever possible. For inmate outpatient hospital services, County officials can negotiate discounts and lower rates with hospitals and medical providers.

The Sheriff has the primary duty of monitoring inmate outpatient hospital costs and has delegated the outpatient hospital cost negotiation and verification duties to the Clerk. The County has not negotiated outpatient hospital service rate discounts.

We tested seven outpatient medical service provider claims; however, because there were no negotiated rates for verification, it could not be determined if the County paid the appropriate amount for each claim. In lieu of negotiated rates, we compared the amount paid by the County on the seven claims to the applicable Medicaid rates for the same charged services. We determined that if the County paid the Medicaid rates for these outpatient hospital services, they could have potentially saved up to 78 percent of these costs.

Federal Financial Participation (FFP) – Confinement in county correctional facilities, as public institutions, renders inmates ineligible for Medicaid services while incarcerated. However, Chapter 63 of the New York State Laws of 2001 authorizes county social services districts to file claims for retroactive FFP reimbursement for the costs of certain inpatient medical services provided to inmates of correctional facilities.

Subject to federal approval and the availability of FFP, county social services districts may claim reimbursement for inpatient medical services provided to inmates who are:

- Involuntarily confined or are residing in any correctional facility owned or operated by the New York City Department of Corrections;
- Involuntarily confined or residing in any correctional facility owned or operated by a county or other municipality within a social services district; or
- Confined or residing in a correctional facility operated under a contract with a county or a municipality other than a county.

We found that the County did not submit claims for FFP reimbursement. If all the inmates who received inpatient services were determined to be Medicaid-eligible, the County could have potentially received \$9,777 in FFP reimbursement for the one-year audit period.¹ County officials informed us that they were not aware of this reimbursement opportunity.

Recommendations

1. The Sheriff should strengthen procedures for auditing hospital claims by providing employees with training on Medicaid DRG rates, including current rate information and how to perform the necessary calculations to audit those claims.
2. The Sheriff should ensure that the service rates charged to the County on inpatient claims are verified to be accurate and appropriate.
3. The Sheriff should negotiate with medical service providers to obtain discounted rates for outpatient services. Written contracts between the County and providers should specify the outpatient rates, flat fees or percentage discounts for specific services.

¹ The County's total inpatient costs were \$19,544. If the County filed for FFP it may have received 50 percent reimbursement, totaling \$9,772, if all inmates were Medicaid-eligible.

4. The Sheriff should develop a process to submit eligible inmates' inpatient hospital claims for FFP reimbursement.

The County Legislature has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the New York State General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the County Legislature to make this plan available for public review in the Clerk of the Legislature's office.

We thank the officials and staff of the County for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM COUNTY OFFICIALS

The County officials' response to this audit can be found on the following page.

County of Jefferson
Office of the County Administrator

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September 30, 2013

Ann Singer
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear Ms. Singer:

I am responding to the preliminary draft findings of the Office of the State Comptroller's Controlling Inmate Hospital Cost audit for Jefferson County.

Thank you for your work on this topic. We agree with your findings and are currently working with appropriate staff to ensure that we apply for Federal Financial Participation Funds (FFP) and that we reduce our out-patient costs.

Sincerely,

Robert F. Hagemann
County Administrator

cc John Burns, Sheriff

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We reviewed the County's policies and procedures for controlling inmate hospital costs and paying appropriate rates for services provided. As part of this process, we reviewed the applicable hospital contracts, negotiated discounts and rates and the procurement process for inmate inpatient/outpatient hospital services. We judgmentally selected a sample of hospital claims for the scope period² and tested for the accuracy of billing with Medicaid DRG rates, services provided and other negotiated discounts and rates. We conducted detailed testing of inmate hospital costs, interviewed County and Sheriff's Department officials and reviewed other documentation related to the objective for the audit scope period.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

² We selected our sample based on an unbiased judgmental process for the outpatient testing and we tested 100 percent for the inpatient testing.