

Communicating About DSH Audits

Sources of Hospital Payment

- There are four primary sources of payments to hospitals:
 - Medicare – program for seniors
 - Medicaid – program for low income and disabled
 - Private insurance
 - Self-pay – for those with no insurance

How Medicare and Medicaid Work

- While Medicare is fully funded by the federal government, the Medicaid program is a state-federal funding partnership that is handled differently in each state.
- In Missouri, to help the state pay its portion of the Medicaid program, hospitals are assessed a tax known as the Federal Reimbursement Allowance.
- This tax is used as state revenue to be matched by the federal government to make payments to hospitals for treating Medicaid patients.

Role of the FRA

- The Federal Reimbursement Allowance is a major source of revenue to the state, surpassing all but the two largest sources of general revenue — the state sales tax and individual income tax.
- Since the FRA program began in 1992, hospitals have paid approximately \$13.4 billion in provider taxes.
- This has allowed the state to release hundreds of millions of dollars in traditional general revenue to fund other state priorities, such as education, it otherwise would have to spend on Medicaid.

The Uninsured and DSH

- Hospitals differ in the number of uninsured patients they treat.
- Hospitals receive payments to help offset a portion of the costs they incur of treating the uninsured. This is known as Disproportionate Share Hospital payments.
- All of the state share of DSH payments in Missouri is funded by its hospitals through the FRA. There is no state general revenue involved.
- DSH payments are distributed proportionately to the hospitals based on how many uninsured patients they treat.

DSH in Missouri

- Most states choose to limit DSH payments to a limited number of safety net hospitals. In Missouri, most hospitals receive DSH payments to offset a portion of the costs they incur in treating the uninsured. This allows uninsured patients to receive hospital services in their own communities and not be forced to go to distant hospitals.
- The Centers for Medicare & Medicaid Services has been working with the state on a process to audit the DSH payments hospitals received to align their payments and costs.

DSH Audits

- DSH audits are a national program imposed by Congress.
- The audits are challenging because both payments and costs are generally based on three to four-year old audited cost reports and don't take into account the "real time" changes hospitals experience in patient volume and payments they receive.
- This caused some hospitals to be paid more than they should and they will have to return some of these funds.

An Analogy

- Joe's Auto Repairs, a local car repair shop, provides a certain amount of free car repairs because Ford Motor Company will help offset those costs with a payment.
- But, Ford will calculate the payments it will make using projections based on Joe's operating costs and all of the customer payments he received in 2008. In 2008, Joe's shop had robust revenues and high costs.
- After Joe performs the work in 2012, he discovers that the costs in his shop have decreased and his revenues have declined.

An Analogy

- Joe receives the payment for 2012 from Ford Motor Company based on how his business operated in 2008.
- In 2015, Ford reviews the 2012 payments made to Joe's Auto Repair and finds that the payments made in 2012 were too high based on the state of Joe's business in 2012.
- Ford refuses to consider some of Joe's costs.
- Joe's Auto Repair has to repay Ford Motor Company based on its actual allowable 2012 costs.