

# Issue Brief

FEDERAL ISSUE BRIEF • MARCH 5, 2010

## KEY POINTS

- The federal government has mandated a series of audits to verify compliance with hospital-specific limits on Medicaid DSH payments.
- The MO HealthNet Division has contracted with Myers and Stauffer LC, a certified public accounting firm, to perform the DSH audits of Missouri hospitals.
- Each Missouri hospital must complete a detailed audit survey.
- Myers and Stauffer has agreed to hold four training sessions statewide.
- Myers and Stauffer currently anticipates it will send out the audit survey by April 1, with a due date of May 1.

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## CMS Embarks on Audits of Hospital DSH Payments

The federal government has mandated a series of audits to verify compliance with hospital-specific limits on Medicaid DSH payments. To receive federal financial participation for DSH expenditures, states must submit a report and an independent certified audit to the Centers for Medicare & Medicaid Services for each completed Medicaid state plan rate year. The state audit will require a review of each hospital's DSH expenditures.

The audit requirement was authorized by Congress in Section 1001 of the Medicare Drug, Improvement and Modernization Act of 2003. On Dec. 19, 2008, CMS promulgated a [final regulation](#)<sup>1</sup> on this topic, with an effective date of Jan. 19, 2009.

The MO HealthNet Division has contracted with [Myers and Stauffer LC](#)<sup>2</sup>, a certified public accounting firm, to perform the DSH audits of Missouri hospitals through Dec. 31, 2014. Myers and Stauffer has been awarded contracts to perform these DSH audits in 14 other states: Alaska, Georgia, Idaho, Indiana, Kansas, Kentucky, Louisiana, Maryland, Montana, New Jersey, New Mexico, North Carolina, North Dakota and Wyoming. In some of these states, the audit process is under way.

The audit of Missouri's fiscal 2005, 2006 and 2007 DSH years must be completed

by Sept. 30, 2010. The certified audit report, along with other required data elements, must be submitted by MHD to CMS by Dec. 31, 2010.

Although CMS granted an extension in July 2009 for submission of the 2005 and 2006 final audit reports, it still requires that beginning with Medicaid state plan year 2011 (July 1, 2010, for Missouri), cost estimates used to set DSH payments are based on the audited results in prior years. Also starting in SFY 2011, DSH payments to hospitals must be reconciled against the hospital-specific audit results. The first reconciliation would be based on audits completed by Sept. 30, 2014. The federal share of payments in excess of the hospital-specific cost limit must be returned to CMS, except to the extent the excess payments are redistributed to other hospitals up to their cost limits.

As required by the federal regulation, the initial DSH audit will require each Missouri hospital that received a Medicaid DSH payment in state fiscal years 2005, 2006 or 2007 to complete a detailed audit survey that requests substantial patient-related data, including cost and payment information. The initial audit is expected to be especially important because it will set the pattern for

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subsequent years, when potential financial exposure may exist. Missouri's DSH year does not correspond with the federal fiscal year; therefore, the DSH years under audit cover the time periods from July 1, 2004, through June 30, 2007.

The auditor, Myers and Stauffer, will offer training sessions later this month to assist hospitals in understanding and responding to the audit requirements. Based on conversations with MHA and the state, Myers and Stauffer has agreed to hold four statewide training sessions. To ensure that no Missouri hospital is more than 125 miles from a training session and to enhance scheduling options, the chosen

locations will be Cape Girardeau, Columbia, Kansas City and Springfield, as shown on the chart at left. Myers and Stauffer recommends that attendees include hospital chief financial officers, hospital reim-

bursement managers and anyone else who is expected to be directly responsible for completion of the audit survey (i.e., a business office person who might assist in completing patient-specific schedules for uninsured accounts, an outside consultant who might assist hospitals on such a project, etc.). More information about training session dates, arrangements and agendas will be provided to MHA-member hospitals soon. No registration fee will be charged for the training sessions.

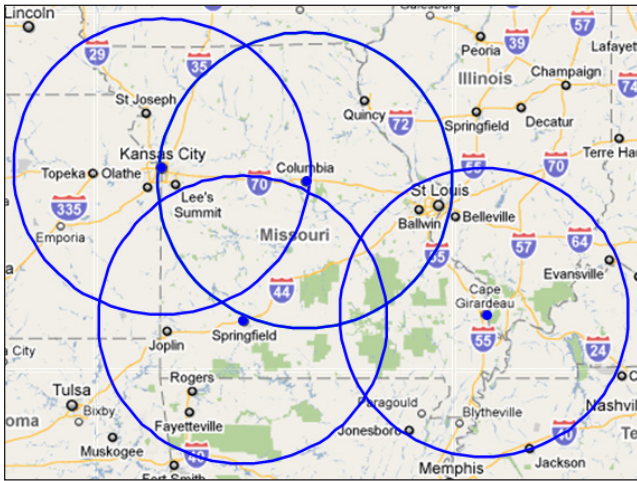
Before the training sessions, Myers and Stauffer will send each Missouri hospital that received DSH payments in any

of the three years a draft of the audit survey document. This will provide an opportunity for hospitals to address questions or concerns about the survey at the training sessions. Myers and Stauffer currently anticipates it will send out the audit survey by April 1, with a due date of May 1.

Additional information prepared by CMS about the DSH audits is available online.

- [July 27, 2009, audit letter to state Medicaid directors](#)<sup>3</sup>
- [questions and answers on the DSH reporting and audit requirements](#)<sup>4</sup>
- [general DSH audit and reporting protocol](#)<sup>5</sup>

As further information becomes available, MHA will keep its members informed through [www.mhanet.com](http://www.mhanet.com) and direct correspondence.



*To ensure that no Missouri hospital is more than 125 miles from a training session, and to enhance scheduling options, the chosen locations will be Cape Girardeau, Columbia, Kansas City and Springfield.*

## REQUIREMENTS OF THE CMS DSH AUDIT REGULATION

- Audits and reports must be based on a "Medicaid state plan year," which will be the state fiscal year in Missouri.
- States must engage auditors that are independent from the Medicaid agency and the hospitals they are to audit. Missouri has completed its bid process and is in the process of selecting an audit firm.
- The audits must verify six categories of information that relate to compliance with the statutory requirement that DSH payments may not exceed the uncompensated

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costs of providing inpatient and outpatient hospital services to Medicaid and uninsured patients.

- For Medicaid state plan years 2005 and 2006, audits must be submitted to CMS by Dec. 31, 2010 (CMS recently granted a one-year extension for submission).
- For subsequent Medicaid state plan years, the audits must be completed by the end of the federal fiscal year (Sept. 30) three years from the end of the Medicaid state plan year and submitted to CMS 90 days after completion.
- Starting with Medicaid state plan year 2011, cost estimates

used to set DSH payments must be based on the audited results in prior years.

- Starting with Medicaid state plan year 2011, DSH payments to hospitals must be reconciled against the hospital-specific audit results. The first reconciliation would be based on audits completed by Sept. 30, 2014. The federal share of payments in excess of the hospital-specific cost limit must be returned to CMS, except to the extent the excess payments are redistributed to other hospitals up to their cost limits. To exercise this option, the state must provide for it in its state plan.

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<sup>1</sup> <http://edocket.access.gpo.gov/2008/pdf/E8-30000.pdf>

<sup>2</sup> <http://www.mslc.com>

<sup>3</sup> <http://www.cms.hhs.gov/MedicaidRF/Downloads/CMSDSHReportsandAuditsLetter.pdf>

<sup>4</sup> [http://www.cms.hhs.gov/MedicaidRF/Downloads/  
AdditionalInformationontheDSHReportingandAuditRequirements.pdf](http://www.cms.hhs.gov/MedicaidRF/Downloads/AdditionalInformationontheDSHReportingandAuditRequirements.pdf)

<sup>5</sup> <http://www.cms.hhs.gov/MedicaidGenInfo/Downloads/CMS2198FRptProtocol.pdf>