STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

THOMAS P. DiNAPOLI
COMPTROLLER

GABRIEL F. DEYO
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

September 19, 2014

Charles H. Nesbitt, Chief Administrative Officer
Members of the County Legislature
Scott D. Hess, County Sheriff
Orleans County
3 South Main Street
Orleans, NY 14411

Report Number: S9-13-25

Dear Chief Administrative Officer Nesbitt, Members of the County Legislature and Sheriff Hess:

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 Orleans (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 in preparing this report. County officials were given the opportunity to respond in writing to our findings and recommendations within 30 days of the exit conference, but they did not respond. 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. Due to this control weakness, we found that the hospitals overbilled the County by approximately $1,577. Further, while the County was overbilled for inpatient claims in 2012, the potential also exists for future overbillings to occur and go unnoticed. Positively, the County has negotiated outpatient hospital service rate discounts equal to the Medicaid rates. In addition, the County does verify that the outpatient services rates billed agree with the New York State Department of Health (DOH)-established Medicaid rates;[1] however, we determined that the County was overcharged $169 for the tested outpatient claims. Finally, the County did not submit the correct claims for federal financial participation (FFP) reimbursement. Possible FFP claims totaled $12,588 in 2012, with the County potentially receiving up to $6,294 in FFP reimbursements.

Background and Methodology

The County has a population of 42,836 and is governed by a seven-member County Legislature. The County's adopted budget totaled $75.4 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 864 inmates in 2012 and the average daily inmate population was 79. The County jail budget was approximately $3.6 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.

[1] However, it was determined that the clerk who verifies these rates did not fully understand the verification process and made some errors.

Figure 1: 2012 Inmate Hospital Costs		
Type of Expenditure	**Amount**	**Percent of Total**
Inpatient	$12,588	6%
Outpatient	$201,546	94%
Total	**$214,134**	

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, 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 A 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 the 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 more than the established Medicaid DRG rates on three inpatient claims and charged less on one inpatient claim resulting in a $1,577 overbilling to the County. Verifying the accuracy of the hospital claims can be difficult due to the complicated hospital invoices[2] 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. With the County overbilled for inpatient claims in 2012, the potential also exists for future overbillings to occur and go unnoticed.

[2] The invoices the County received for inpatient charges did not contain sufficient data needed to verify the charges. The County had to request additional information in order for our Office to conduct testing.

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 verification duties to the Clerk. The County has negotiated outpatient hospital service rates equal to the Medicaid rates. Further, for these Medicaid rates, the County does verify that all the outpatient service rates billed agree with the DOH-established Medicaid rates.

We tested seven outpatient medical service provider claims and determined that the County did not pay the appropriate Medicaid rates for five of the seven claims tested. The County was overcharged on four of the claims, undercharged on one of the claims and paid the correct rates on two of the claims netting out to an overcharge of $169. The Clerk relies on the established Medicaid rate schedules for verification; however, we determined that the Clerk made some fundamental errors while verifying these rates. The County does not have a DOH contact to verify the rates that the medical service providers actually charged for inmate outpatient hospital services.

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 the correct claims for FFP reimbursement. The County submitted outpatient claims instead of submitting inpatient claims for reimbursement. If all the inmates who received inpatient services were determined to be Medicaid-eligible, the County could have potentially received $6,294[3] in FFP reimbursement for the one-year audit period.

[3] The County's total inpatient costs were $12,588. If the County filed for FFP it may have received 50 percent reimbursement, equaling $6,294, if all inmates were Medicaid-eligible.

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 and outpatient claims are verified to be accurate and appropriate.

3. The Sheriff should continue negotiating 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.

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

Sincerely,

Gabriel F. Deyo

APPENDIX A

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 period[4] 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.

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