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September 19, 2014

Philip Church, County Administrator
Members of the County Legislature
Reuel Todd, County Sheriff
Oswego County
46 East Bridge Street
Oswego, NY 13126

Report Number: S9-13-21

Dear Administrator Church, Members of the County Legislature, and Sheriff Todd:

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 Oswego (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. Appendix B includes our comments on issued raised in the County's response. 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 more than $68,000. While the County was underbilled 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 ranging from 5 to 50 percent, as well as rates equal to the Medicaid rates. However, for these non-percentage negotiated outpatient rates, the County does not verify that the outpatient services rates billed agree with the New York State Department of Health (DOH)-established Medicaid rates. Instead, the County relies on the rates that the medical service providers dictate. Finally, the County did not submit claims for federal financial participation (FFP) reimbursement.[1] Such claims might have totaled as much as $40,295 in 2012, with the County potentially receiving up to $20,147 in FFP reimbursements.

Background and Methodology

The County has a population of 122,228 and is governed by a 25-member County Legislature. The County's adopted budget totaled $193.3 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 1,891 inmates in 2012 and the average daily inmate population was 158. The County jail budget was approximately $7.9 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] This was also a finding for Oswego County in our 2004 audit, *Reducing the Cost of Hospital Services Provided to County Inmates* (Report No. 2004-MR-4).

Figure 1: 2012 Inmate Hospital Costs		
Type of Expense	**Amount**	**Percent of the Total**
Inpatient	$40,295	13%
Outpatient	$273,169	87%
Total	**$313,464**	

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 C 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 all eight inpatient claims, resulting in a $68,178 underbilling 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. While the County was underbilled 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 the inmate outpatient hospital costs and has delegated the outpatient hospital cost negotiation and verification duties to the Clerk.[3] The County has negotiated outpatient hospital service rate discounts ranging from 5 to 50 percent. In addition, some of the outpatient rates are negotiated as "Medicaid Rate," "DRG Rate" or "Call or Email."

We tested seven outpatient medical service provider claims and determined that the County did pay the appropriate negotiated rates and discounts per specific medical service provider for each claim. However, for negotiated rates labeled “Medicaid Rate," "DRG Rate" or "Call or Email," the County does not verify the charged outpatient service rates billed to the County against the established DOH rate schedules. The County does not have a DOH contact or the schedules of the Medicaid rates to verify the rates and discounts the medical service providers actually charged for inmate outpatient hospital services. Instead, the County relies on the medical service providers for the specific rates on the claims. In addition, medical service providers with the negotiated rate labeled "Call or Email” specifies the rate to the County when the Clerk calls for the rate verification. Without a schedule of established discounts and Medicaid rates, the County cannot be sure that the providers are charging the appropriate amount for inmate outpatient hospital services. The claims for payment of inmate outpatient hospital services received by the County should be verified against the established discounts and rates, not to the rates determined by the medical service providers.

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.

[3] Each medical service provider who provides outpatient hospital services to the County has different negotiated rates and discounts.

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 $20,147[4] in FFP reimbursement for the one-year audit period. The Sheriff told us he was not aware of this reimbursement opportunity although our previous audit of the County had reported a similar finding.

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

Sincerely,

Gabriel F. Deyo

[4] The County's total inpatient hospital costs were $40,295. If the County filed for FFP they may have received reimbursement of 50%, equaling $20,147, if all inmates were eligible for Medicaid.

APPENDIX A

RESPONSE FROM COUNTY OFFICIALS

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

OSWEGO COUNTY SHERIFF'S OFFICE

ADMINISTRATION
(315) 349-3307
FAX (315) 349-3483
ROAD PATROL
(315) 349-3411
FAX (315) 349-3303
CRIMINAL INVESTIGATION
(315) 349-3318
FAX (315) 349-3317

REUEL A. TODD
SHERIFF

EUGENE F. SULLIVAN, III
UNDERSHERIFF

CIVIL DIVISION
(315) 349-3302
FAX (315) 349-3373
1-800-582-7583
JAIL DIVISION
(315) 349-3300
FAX (315) 349-3349

39 Churchill Road, Oswego, New York 13126-6613

October 4, 2013

State of New York
Office of the State Comptroller
110 State Street
Albany, New York 12236

Attention: [redacted]
Division of Local Government and School Accountability

Dear [redacted]

I read, with great interest, your findings on the recent audit of the Oswego County Sheriff's Office Correctional Facility inmate medical accounts and am glad you found that we are doing such a great job. However, I wish to address some of the issues you raised.

1. In response to the training, I would be more than happy to send my employees to training on the Medicaid DRG rates if you can tell me when and where the state has them scheduled.

See Note 1 Page 9

2. As to the rates charged being accurate, this office was $66,000 under what we should have paid to the Oswego Hospital because we had requested lower rates (i.e. 5% less). I believe this to be a sound practice.

See Note 2 Page 9

3. With regard to the written contracts you referenced, you should know that the hospital would not provide us with, or sign, a written contract. However, as a result of the state's audit, the Oswego Hospital has rescinded the extra five percent savings we had verbally negotiated. We have written contracts with other agencies, but the Oswego Hospital would not enter into a written agreement and it is the only hospital in the immediate area.

See Note 3 Page 9

4. The process for the F.F.P. reimbursement, to my understanding, has to be done by the Health Department and, when it was discussed in 2004, it was the county's belief it would cost the county more to hire one or two account clerks to audit the hospital claims than it would get in return.

See Note 4 Page 9

5.

I thank you for your interest. I believe our position would be that, in the best interests of the county residents, we try to save as much money where and when possible. In both audits, 2004 and 2013, we saved almost $100,000 more than we should have saved by pursuing ***proactive negotiations*** to receive lower rates. We are very careful in what we spend and if we saw an increase in costs we would certainly have our Audit Department for the county look into it. We also have to look at a cost comparison between hiring one, two, or three clerks, at a cost of between $80,000 - $100,000 plus 58% in residuals, and it not making sense just to save maybe $20,000 when our current practice saves us so much more.

See Note 2 Page 9

This facility retained, prior to the receipt of your draft audit, a private company which will audit all of our inpatient medical bills and ensure that the Medicaid rate is not exceeded.

Again, thank you for your interest and assistance.

Respectfully,

/Reuel A. Todd
Sheriff

RT:lsb
cc: Philip Church, Oswego County Administrator
Fred Beardsley, Oswego County Treasurer

APPENDIX B

OSC COMMENTS ON THE COUNTY'S RESPONSE

Note 1

It is the County's responsibility to ensure that its employees have the knowledge and training to adequately review bills for accuracy and appropriateness. However, during the audit, Office of the State Comptroller auditors provided County staff with resources, including the current Medicaid rate schedules and a spreadsheet for recalculating the costs of inmate hospital services billed to the County.

Note 2

The $68,178 that the County was undercharged for inpatient services was not the result of negotiated discounts; rather, it was due to oversights by the providers. The County negotiated discounts for outpatient services, not inpatient services. As our report indicates, such oversights also may have resulted in overcharges for inpatient services that would go unnoticed by the County given its current lack of review.

Note 3

Without a written agreement specifying the details of the discounts or reduced rates to be used, the County has no way of knowing whether it is receiving such discounts or reduced rates on billed services.

Note 4

The amount of FFP that the County may receive each year is dependent on the amount of inmate inpatient services provided to inmates that are deemed eligible for Medicaid; thus, the potential reimbursement to the County will fluctuate each year. During our audit period the County had eight inmate inpatient claims that may or may not be eligible for FFP reimbursement – hiring additional staff for this number of claims is likely not necessary. The County Sheriff should work with the County Social Services Department to determine the best course of action for filing for FFP reimbursement.

APPENDIX C

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 and outpatient hospital services. We judgmentally selected a sample of hospital claims for the scope period[5] 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.

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