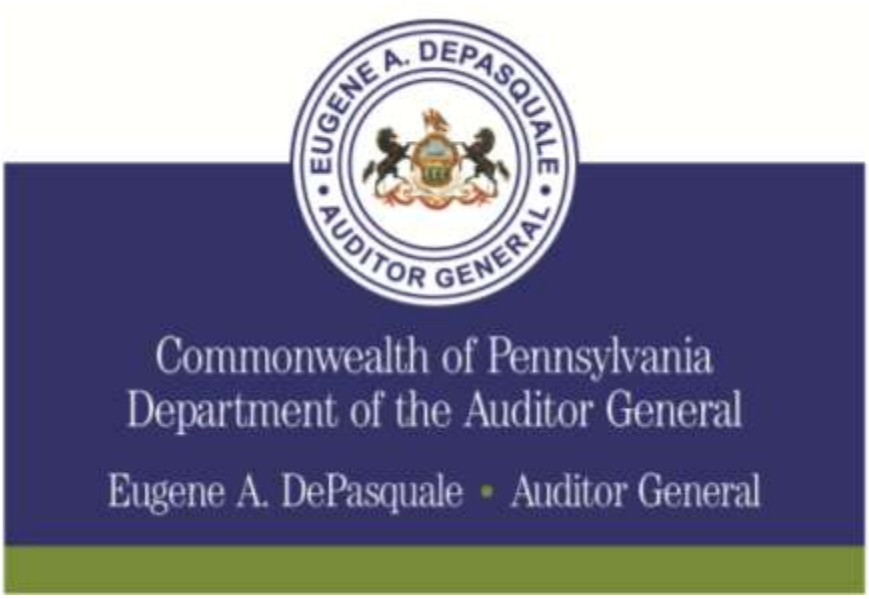
TOBACCO SETTLEMENT REVIEW

Lock Haven Hospital

Uncompensated Care Payment
Year 2013

February 2015



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EUGENE A. DEPASQUALE
AUDITOR GENERAL

February 26, 2015

Ms. Jennifer Lesher
Chief Financial Officer
Lock Haven Hospital
24 Cree Drive
Lock Haven, PA. 17745

Dear Ms. Lesher:

The Tobacco Settlement Act of June 26, 2001 (P.L. 755, No. 77), as amended, 35 P.S. § 5701.101 et seq., mandated the Department of Human Services (DHS) to make payments to hospitals for a portion of uncompensated care services provided by these facilities. The Department of the Auditor General performed a review of Lock Haven Hospital's records to substantiate the data it submitted to the Pennsylvania Health Care Cost Containment Council (PHC4) and the Department of Human Services for payments made under the Tobacco Settlement Act of June 26, 2001 (P.L. 755, No. 77), as amended, 35 P.S. § 5701.101 et seq. The DHS used this data to calculate the year 2013 uncompensated care payment of $33,612.36 it made to the facility for uncompensated care services.

Beginning with payments made under Chapter 11 of the Tobacco Settlement Act of June 26, 2001 (P.L. 755, No. 77), as amended, 35 P.S. § 5701.101 et seq., in June 2002, hospitals that qualify can receive payments using either an uncompensated care approach or an extraordinary expense approach. The uncompensated care score of each hospital is determined by using three-year averages from five main data elements (for a total of fifteen data elements). These data elements are uncompensated care costs, net patient revenues, Medicare supplemental security income (Medicare SSI) days, Medical Assistance (MA) days and total inpatient days. A hospital qualifies for an extraordinary expense payment based on its number of qualified claims. Qualified claims are those claims in which the cost of the claim exceeds twice the average cost of all claims for that particular facility and for which the hospital provided inpatient services to an uninsured patient.

Per the requirements of the Tobacco Settlement Act of June 26, 2001 (P.L. 755, No. 77), as amended, 35 P.S. § 5701.101 et seq., the 2013 uncompensated care payment was to be calculated based on three-year averages of the above listed data elements for the fiscal years ended June 30, 2009, 2010, and 2011. However, since the most recent data used by the Centers for Medicare and Medicaid Services (CMS) to calculate the Medicare SSI days was for the fiscal years ended June 30, 2008, 2009, and 2010, the DHS chose to calculate the 2013 Medicare SSI days data element based on three-year averages of these years.

The purpose of our review was to determine whether proper documentation existed for the 15 data elements utilized by the Department of Human Services in calculating the 2013 uncompensated care payment received by the facility. Our review consisted of verifying: the facility's documentation supporting the uncompensated care costs and net patient revenues submitted to the PHC4 for the fiscal years ended June 30, 2009, 2010, and 2011; patients' census records supporting MA days and total inpatient days, as included on the facility's Medical Assistance cost reports submitted to the DHS for the fiscal years ended June 30, 2009, 2010, and 2011; and the Medicare SSI days, as determined by the CMS for the fiscal years ended June 30, 2008, 2009, and 2010.

Additionally, the purpose of our review was to verify the calculation of the UC score used to determine whether a facility qualifies for uncompensated care payment and to calculate the amount of the payment. The UC score is the sum of the three-year averages of uncompensated care costs as a percentage of net patient revenue, Medicare SSI days as a percentage of total inpatient days, and MA days as a percentage of total inpatient days.

The results of our review disclosed that 8 of the 15 data elements utilized by the DHS to calculate the year 2013 uncompensated care payment were properly supported and reconciled to applicable supporting documentation. For the remaining 7 data elements, the following variances were noted:

- For the fiscal year ended June 30, 2011, we found that net patient revenue utilized by the DHS to calculate the facility's payment was understated by $1,189,428 based on our review of the facility's internal financial statements.

- For the fiscal year ended June 30, 2011, we found that uncompensated care costs were understated when comparing the facility's internal financial statements to the amount utilized by the DHS. The facility understated its bad debt expense and cost-to-charge ratio, which are factors of uncompensated care costs, when reporting these data elements to the PHC4. As a result, we increased the facility's uncompensated care costs by $59,414.

- For the fiscal years ended June 30, 2010 and 2011, we found that total inpatient days were understated by 188 days and 283 days, respectively, when comparing the facility's census records to the data utilized by the DHS to calculate the facility's payment. These understatements were due to errors in calculating total inpatient days when reporting these data elements to the DHS by the facility.

- For the fiscal years ended June 30, 2009, 2010, and 2011, we found that total MA days were understated by 32 days, 69 days, and 4 days, respectively, when comparing the facility's census records to the data utilized by the DHS to calculate the facility's payment. These understatements were due to errors in calculating fee-for-service days and HMO days, which are factors of total MA days, when reporting these data elements to the DHS by the facility.

The UC score used by the DHS to calculate the original payment was 23.67%. The results of our review determined that the UC score for Lock Haven Hospital should increase to 23.72%. This revised score could affect the facility's eligibility for the 2013 uncompensated care payment.

Our office is currently reviewing all facilities that received uncompensated care payments for year 2013. Once all the reviews are completed, we will prepare a revised entitlement schedule based on the results of all our reviews and we will include that schedule in a final summary report to the DHS. After reviewing our summary report, the DHS will contact you with instructions regarding the settlement of the facility's 2013 uncompensated care entitlement.

We thank the staff of Lock Haven Hospital for the cooperation extended to us during the course of our review. If you have any questions, please feel free to contact Tracie Fountain, CPA, Director, Bureau of Children and Youth Services at 717-787-1159.

Sincerely,

Eugene A. DePasquale
Auditor General

LOCK HAVEN HOSPITAL
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2013 UNCOMPENSATED CARE PAYMENT

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Ms. Jennifer Lesher
Chief Financial Officer
Lock Haven Hospital

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