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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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HUMAN RESOURCES DIVISION

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SEPTEMBER 25, 1979

RELEASED

The Honorable William L. Clay
House of Representatives

Dear Mr. Clay:

Subject: Inappropriate Handling of Patients' Personal Funds By the City of St. Louis Health and Hospital Division (HRD-79-120)

This report responds to your December 4, 1978, letter by which you requested that we look into the alleged improper use of Federal funds by the City of St. Louis, MO: DLG02865 Health and Hospital Division. We did not find that Federal funds were improperly used. However, we did find that the personal funds of Medicaid patients at the Truman Restoration Center (a city nursing home) were misused, improperly accounted for, and inadequately controlled. Also, the City Hospital Division overcharged for Medicare and Medicaid services because certain revenues were not used to offset expenses.

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These discrepancies were noted during our examination into the allegations that City Alderman Freeman Bosley listed in his December 1, 1978, letter to you plus other allegations he discussed with us. One allegation concerned rebates by Washington University to the City Hospital Division. We did not look into that allegation because, at the time of our fieldwork, the Missouri Division of Investigation and the Federal Bureau of Investigation were investigating the alleged rebates.

We reviewed the records of and held discussions with officials of the St. Louis City Comptroller's Office, the Hospital Commissioner's Office, Koch Hospital, and the Truman Restorative Center; the Department of Health, Education, and Welfare's (HEW's) Social Security Administration,

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Health Care Financing Administration (HCFA), and Office of Inspector General; Missouri's Office of State Auditor, Department of Social Services' Divisions of Family Services, and Health, Audit Services, and Investigation; and the Federal Bureau of Investigation.

We focused our review on the alleged questionable purchases made with patients' personal funds at the Truman Center because none of the investigating agencies we contacted were directly involved in this area. We also made limited inquiries into the alleged irregular expenditures by the Hospital Division and the source of the food subsidy money at the Institute of Medical Education and Research. Details of these matters follow.

IMPROVEMENTS ARE NEEDED IN HANDLING PATIENTS' FUNDS AT THE TRUMAN RESTORATIVE CENTER

Medicaid patients in nursing homes are permitted to retain from their income, or are provided through cash assistance, a minimum of $25 per month to cover the purchase of incidental personal items such as clothing, candy, and smoking material. This allowance is called patients' personal funds. It was alleged that questionable purchases were made with patients' funds at the Truman Center (a city-operated nursing home). We found that the method of handling patients' funds at the Center did not comply with Medicaid law and regulations. The Center

--misused patients' funds to purchase office equipment;

--handled some patients' personal funds so that specific charges to the funds of specific patients were not recorded;

--collected flat amounts each month from patients' personal funds for supplies and services not covered by Medicaid; and

--purchased items with patients' funds which did not directly or equitably benefit each contributing patient.

Center officials agreed that changes are needed for their facility to comply with Mediciad laws and regulations for handling patients' funds.

<u>Requirements for managing patients' funds under Medicaid prescribed by Public Law 95-142</u>

Because nursing homes have improperly used patients' personal funds in the past, Public Law 95-142 1/ amended the Social Security Act to require nursing homes to establish and maintain a system that:

> "* * * (A) assures a full and complete accounting of its patients' personal funds, and (B) includes the use of such separate account for such funds as will preclude any commingling of such funds with facility funds or with the funds of any person other than another such patient * * *."

The Missouri Medicaid Instruction Manual states:

> "Any billing [to a patient's personal fund] for noncovered medical supplies or services must be by a written, clearly itemized statement. It is not permissible to bill or collect certain flat amounts (non-itemized) per month for non-covered supplies and services."

<u>Method used by the Center to handle patients' funds</u>

Many Medicaid recipients have income from such sources as Social Security retirement benefits, Veterans' Administration benefits, and/or private pension plans. The Center retains $25 of each Medicaid patient's income for his/her personal funds allowance and the remainder (less certain other authorized exclusions for the maintenance needs of a spouse or family) is paid to the city as the patient's share of the cost of care; the Medicaid program pays the rest.

1/"Medicare-Medicaid Anti-Fraud and Abuse Amendments" enacted October 25, 1977, to strengthen the capability of the Government to detect, prosecute, and punish fraudulent activities under the Medicare and Medicaid programs, and for other purposes.

In addition, for those patients receiving cash assistance under the Supplementary Security Income (SSI) program for the aged, blind, and disabled (administered by the Social Security Administration) and who are institutionalized in a Medicaid facility--such as the Truman Center--the SSI payment is limited to $25 a month. This payment is also treated as the patient's personal funds.

The Center takes $5 of the $25 personal funds allowance and deposits the $5 in an account called the "incidental fund." Each patient who the Center's Medicaid Director considers to be physically and mentally capable of handling money is given the remaining $20. These patients can keep the $20 to spend as they desire or they can deposit all or part of the $20 in an individual personal funds account maintained by the Center's finance office. Each of these patients can then draw on their individual personal funds accounts. As of May 1979 the balances in this account totaled about $12,700; the individual balances ranged from zero to $1,290 and averaged about $120.

Each patient considered physically or mentally incapable of handling money has his/her $20 deposited in an account called the "charge fund."

Money spent from the incidental and charge funds loses individual patient identity because it is not accounted for on a per-patient basis. Therefore, the required full and complete accounting of patients' personal funds is not possible. Both funds are created from flat-amount collections from which contributing patients might not secure advantages or satisfaction. In addition, the two funds do not allow equitable reimbursement to a patient after he/she is discharged from the Center.

The Center has used the incidental fund (which receives about $1,800 monthly from patients) to purchase a typewriter, desk, lamp, and office furniture costing a total of $953, for a newly staffed position. Ordinarily, office equipment is purchased with nursing facility funds and recovered through depreciation expenses included in a facility's Medicaid reimbursement rates. From January 1, 1978, through February 28, 1979, inappropriate expenditures from the incidental fund also included salary advances for special-duty nurses. The money used for salaries was later repaid to the incidental fund when the nurses received city paychecks, but the money used for equipment purchases had not been repaid. Center officials stated that the St. Louis Chronic Hospital Welfare Association, a nonprofit corporation which operates the Center's gift shop, has agreed to reimburse the incidental fund for the office equipment purchases.

The charge fund account receives about $4,200 monthly from the mentally and physically incapable patients. The Center uses this account to buy cigarettes, candy, and other personal items for the incapable patients. Because purchases are not identified for a specific patient, some patients subsidize those patients for whom the funds are spent. For example, nonsmokers subsidize smokers when cigarettes are purchased through the charge fund.

The Center has purchased clothing in large quantities from one store and paid for the clothing with money from three different sources--the patients' income checks (Social Security, veterans' benefits, etc.), the incidental fund, and the charge fund. Generally, patients' clothing has been purchased through the incidental fund. However, a clothing purchase of $2,091 in January 1978 was made through the charge fund when the incidental fund balance was inadequate for paying for patient clothing the Center had ordered--the charge fund was not replenished. One month later the Center paid $2,630 from the patients' income checks for patient clothing. We determined from Center records that the clothing was eventually paid for by city funds.

Center officials stated that they purchased clothing in large quantities because the store involved provided personalized fittings at the Center and gave quantity purchase discounts. In January 1979 the store's retail outlet was closed; the Center has not found a replacement.

Although some patients were identified in clothing purchase records, the Center made no attempt to charge individual patients for clothing. Each patient should have been charged for the cost of clothing received.

Additional areas of concern at the Truman Center

The patients' personal funds account at the Center did not balance and internal controls were inadequate. These funds are kept in two components--a checking account and cash on hand. The sum of the two components should equal the sum of balances on the patients' deposit and withdrawal record cards.

The finance officer stated that the patients' personal funds account has never balanced. Center records showed that the last two attempts to reconcile the fund were on December 18, 1978, and April 2, 1979, when the fund totaled $33 and $58 more, respectively, than total patient card balances. We found the fund balance to be $240 more than the total card balances on March 16, 1979, but only $17 more on May 11.

One person has been responsible for handling and recording patients' cash deposits and withdrawals at the Center. Sound internal control procedures require separation of custodial and recording responsibilities. As our review concluded, the Center's finance officer stated that procedures have been changed to require separating the cash-handling and recording responsibilities. These new procedures also require weekly reconciliation of the fund.

The Center started an imprest fund with a $1,000 deposit in a savings account in March 1974. There has been no activity in the account since then, and the accrued interest amounted to $303 as of January 31, 1979. Center officials have not decided what to do with the money in the imprest fund because available documentation does not show whether the patients' or the Center's money was used to establish the fund.

Agency comments

Center officials stated that they would request assistance from State and Federal Medicaid program staff to better assure a system for maintaining patients' funds which will comply with Medicaid law and regulations.

We informed HCFA and Missouri Department of Social Services officials that the Center planned to request their assistance so that its method of handling patients' funds will be brought into compliance with existing requirements. The officials stated that they would assist the Center when requested; however, regional HCFA officials were unsure of their agency's responsibility for monitoring patients' funds. We believe monitoring of patients' funds at the Federal level should be the responsibility of HCFA's Health Quality and Standards Bureau because the requirements relating to patients' funds are conditions of participation for nursing homes and the Bureau is responsible for the nursing home certification program.

MEDICARE AND MEDICAID PROGRAMS OVERCHARGED BY CITY HOSPITAL

It was alleged that Federal money from a special bank account maintained by the St. Louis City Hospital Division was used to pay parking tickets, renovate offices, and provide salary advances. Also, food subsidy money allegedly was paid to the city-chartered Institute of Medical Education and Research and used to renovate an office, purchase curtains, and provide cash for various purposes.

We did not find any misuse of Federal funds; however, some transactions of the special bank account and the food subsidy money, as discussed below, have caused the Medicare and Medicaid programs to be overcharged for services provided by a city hospital.

Special bank account transactions were not always properly shown in hospital cost reports

From May 1, 1977, through April 30, 1978 (city fiscal year 1978), the City Hospital Commissioner's special account paid $7,472 for renovating the Commissioner's office, $7,427 for salary advances to hospital employees, and $331 for city parking tickets. During fiscal years 1974 through 1977 the account showed payments for salary advances and for parking tickets, but no renovation payments were identified.

The only Federal funds we could document entering the special account was $18,000 in Federal grant funds on November 20, 1975. Within 3 weeks, the same $18,000 was transferred to the City's Federal grant account. Because the minimum account balance during that period was more than $18,000, we concluded that Federal funds were not used to pay for these items.

The renovation payments and salary advances, but not the parking ticket payments, were included in the City Hospital's Medicare cost report claiming fiscal year 1978 reimbursement. Such expenses were also included in costs used to establish Medicaid reimbursement rates.

Renovation costs were included as an expense item on the 1978 report instead of being capitalized and depreciated, as would ordinarily be done for improvements costing more than $150. An official of the Blue Cross Medicare intermediary 1/ for St. Louis concluded, however, that, since the renovation of the office did not extend its useful life, the $7,472 could be expensed rather than capitalized under Medicare's reimbursement rules.

Outstanding employee salary advances of $230 were also included as an expense item. The intermediary considers $230 insignificant and plans no correction to the 1978 Medicare cost report. The hospital cost accountant agreed with us that salary advances should have been recorded as accounts receivable but believes the outstanding balances should still be included in the cost report. The intermediary and cost accountant believe the advances in effect "wash out" over several years.

The salary expense of an intern working at the Lutheran Medical Center in St. Louis was included in the 1978 Medicare cost report for St. Louis city hospitals. During 1978 the Lutheran Medical Center reimbursed city hospitals $9,000 for the intern; however, only $7,200 was deposited in the

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1/Under Medicare, payments to institutional providers of services such as hospitals and nursing homes are usually made by public or private organizations called "fiscal intermediaries" under contract with HEW.

Hospital Commissioner's special account and shown as revenue in the cost report. The remaining $1,800 went to the Center and was not included as revenue. The Medicare intermediary said that necessary cost report adjustments will be made.

We discussed the special account transaction with HCFA and the Missouri Department of Social Services officials. The officials said that they would follow up to assure that cost report adjustments are made.

Food program certification fees were not included in hospital cost reports

The Human Development Corporation (HDC) of Metropolitan St. Louis is the coordinating agency for the Women, Infants, and Children (WIC) Special Supplementary Food Program funded by the Department of Agriculture. HDC has an agreement with a St. Louis City Hospital (the Max C. Starkloff Memorial hospital) whereby that hospital certifies women's and children's eligibility to participate in the WIC program. The hospital receives $3 from HDC for each certification form issued.

Salaries for hospital employees involved in WIC program certification are claimed for reimbursement in the hospital's annual Medicare cost report. Any certification fees generated by these employees should also be included as offsets in the Medicare cost report to reduce Medicare reimbursements.

In January 1977 the former City Hospital Administrator requested HDC to pay WIC program certification fees to the Institute of Medical Education and Research instead of to City Hospital, which generated the income. Until the practice was discontinued, HDC paid $7,842 in certification fees to the Institute. Because the Institute is not part of the City Hospital Division, those fees have not been included in Medicare cost reports as revenue to offset reimbursable costs.

We advised the Medicare intermediary of the unreported revenue. The intermediary said that necessary adjustments to the cost report would be made. Because both Medicare and

Medicaid cost reimbursements are affected, we discussed the unreported revenue and cost report adjustments with HCFA and Missouri Department of Social Services officials, who stated that they would make sure that appropriate adjustments are made.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days from the date of the report. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Gregory J. Ahart
Director