State of New Jersey
Department of Health

CHARITY CARE CLAIMS AUDIT HANDBOOK

Version Dated October 1, 2014

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I. Introduction and Start-Up

The audit methodology utilized by the Charity Care Program is based on "Unit Dollar Sampling".

To prepare for the audit, hospitals shall submit Charity Care claims to the Department third party liaison; MOLINA, in order to price the claims at the Medicaid rate. MOLINA shall prepare periodic audit lists ranking the claims from the lowest to the highest claim charge amount. Also, included is a cumulative total. The list includes the claim charge amount and the Medicaid priced amount. This method remains consistent throughout the year.

Audit List Example:

Account	Amount	Cum. Amount
1	$ 30.00	$ 30.00
2	$ 38.00	$ 68.00
3	$ 38.00	$106.00
4	$ 43.00	$149.00
382	[illegible]	$5,500,000.00

For the above example, $5,500,000 was used in order to prepare for the next step on the following pages. This amount is called the “Threshold” because any amount over this would result in more than the minimum number of files (75) used in the audit. Also, any amount less than the “Threshold” would result in combining audits.

Either quarters 1 & 2 would be combined or quarters 2 & 3 or quarters 1, 2, & 3 would be combined. Also, quarter 3 would be combined with quarter 4 if quarter 3 alone does not reach the “Threshold”.

All hospitals would have a 4th quarter audit. The minimum number of audits for each hospital per calendar year is 2, one of which is the 4th Quarter Audit.

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II. Sample Size Determination

A. From the listing total (shown on previous page) use the cumulative total dollars in the following formula:

$$\frac{\text{Listing Total X 1.5}}{\text{Lower of \$110,000 or 2\% of listing total}} = \text{Number of Files Selected}$$

Using the previous page for example:

$$\frac{\$5,500,000 \text{ X } 1.5}{\$110,000} = \frac{\$8,250,000}{\$110,000} = \underline{\underline{75}} \text{ Files}$$

B. The number of weighted files selected cannot be less than [illegible]5.

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III. Interval Amount Determination

A. The Interval amount is calculated by the following formula:

$$\frac{\text{Listing Total}}{\text{Number of Files}} = \text{Interval Amount}$$

$$\frac{\$5,500,000}{75} = \underline{\underline{\$73,333}}$$

(From IIA)

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IV. The Random Start Point to Select the Samples

A. Random Start Point Calculation

The Excel formula reads as follows: (Example)
(The following formula is a "nested" if statement)
where X = Interval Amount
and Y = Rand (This is a built-in Excel formula that generates a random number between the values of -0- and 1 from the random number table initiated by the computer clock)

```
=IF(X<1000,(Y)*(X),IF((((Y)*(X))+0.5)<1000,
    ROUND(((((Y)*(X))+0.5)*10),0),ROUND((((Y)*(X))+0.5),0)))
```

The translation of the above formula is as follows

If the Interval Amount is less than $1,000, multiply Rand * Interval Amount ; Otherwise if the Interval Amount is greater than or equal to $1,000, Multiply Rand * Interval Amount + .5 If Rand * Interval Amount + .5 < $1,000, round (Rand * Interval Amount + .5) * 10 to zero decimal points.

Otherwise; If Interval is greater than or equal to $1,000 <u>AND</u> Rand * Interval Amount + .5 is greater than or equal to $1,000, round (Rand * Interval Amount + .5) to zero decimal points.

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V. Sample Selection

A. Using the Random Start Point at the beginning of the listing select files for the Sample. At each Interval in the cumulative listing choose that file.

B. Files with 2 or more Interval amounts

1. If an account is large enough, the Interval amount may stay in that account for more than 1 Interval. For example, if an Interval amount is $11,000 and the account is $15,000 the Interval **might** stay in the account 2 times. This account would then be assigned 2 weights, which means that it counts for 2 Sample files.

2. Another example is: If the Interval amount is $11,000 and the account is $60,000, the weight could be 5 or 6 depending on where the first Interval falls.

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VI. Sub-Sample Selection

A. Starting with the first sample, counting by the weights, select every 3rd Sample (weight) to the end of Sample list.

B. Some samples may count twice or more depending on the weighted value.

1. For example: Counting along in the 1 weight accounts you reach a 2 weight and another 2 weight...etc.

File	Sample Weight	Sub-Sample Count	Audit
1	1	1	No (1st File)
2	1	2	No
3	1	***3***	Yes
4	1	1	No
5	1	2	No
6	2	***3***,1	Yes
7	2	2,***3***	Yes
8	2	1,2	No
9	2	***3***,1	Yes
10	3	2,***3***,1	Yes
11	3	2,***3***,1	Yes
12	4	2,***3***,1,2	Yes
* 13	4	***3***,1,2,***3***	Yes (Twice!)

* In other words file #13 counts as 2 Sub-Samples!

C. The Sub-Sample is also known as the

"Weighted Sample Dollars"

VII. Audit Files Retrieval Schedule

Audit files need to be made available to the auditors by the beginning of a scheduled audit. The auditors shall provide the hospital with the audit Sample list prior to the scheduled audit.

A. In advance of scheduled audit

Number of files to be retrieved	Time to retrieve
1 to 500 files	One week
501 to 1100 files	Two weeks
1101 to 1800 files	Three weeks
1801 files and above	Four weeks

B. On-Site No Prior Notice Files

Number to Retrieve	Time to retrieve
Less than 101 files	Two hours for every 25 files
Greater than 100 files	One day for every 100 files

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VIII. Alternative Documentation Calculations and Adjustment

A. Any hospital with **more** than 10 % Alternative Documentation (Cumulative for the year) shall have their listing total adjusted by the percentage ABOVE 10 %.

1. The hospital shall submit their listing total.

2. The listing total shall be adjusted for accuracy and other adjustments.

3. The adjusted listing total shall then generate the audit Sample and Sub-sample.

4. If there is more than a 10% failure rate at the Sub-sample level, the auditor shall expand the audit to the Sample.

5. For this section, there is a 10% allowance of Alternative Documentation files for the audit year. If the final tally (Cumulative for the year) of Weighted Sample dollars is greater than 10%, the percentage above 10% is deducted as the penalty.

   (a). Example: Using VI,B,1 above

   An account valued at $60,000 that has a sample weight of 4 and a sub-sample weight of 2. (This is a possibility, it could also have a sample weight of 5 and a sub-sample weight of 1) However, using the 4 & 2 scenario, the Alternative Documentation rate would be 4 %. (2/50) (Assuming no other sub-samples fail)

6. All Alternative Documentation adjustments shall be made against the adjusted listing total at the Medicaid rate.

7. The adjustments are in "Weighted Sample Dollars"

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B. Alternative Documentation Calculation

Example:

Listing total submitted by hospital	$4,000,000
Adjustments	1,000,000
Adjusted listing total	$3,000,000
Adjusted listing total @ Medicaid rate	$1,800,000
Weighted sample dollars with Alternative Documentation	8
Total weighted sample dollars	50
Alternative Documentation Percentage	16.0%

C. Alternative Documentation Adjustment

Alternative Documentation percentage	16.0%
Alternative Documentation allowance	10.0%
Alternative Documentation Adjustment	6.0%

1.

Adjusted listing total @Medicaid rate (VIII,B above)	$1,800,000
Multiplied by Alternative Documentation Adjustment	6.0%
Alternative documentation dollar adjustment	$108,000
Adjusted listing total @Medicaid rate (VIII,B above)	$1,800,000
Alternative documentation dollar adjustment	$108,000
Allowable listing total @Medicaid rate (See Note)	$1,692,000

Note: This amount represents the allowable audited total at this stage of calculations. The amount does not reflect any potential adjustments which may result from sections IX or X below.

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IX. Audit Compliance Failures Calculations and Adjustment

A. Any hospital with a 10 % Audit Compliance Failure Rate (Cumulative for the year) shall have their listing total adjusted by the entire percentage.

For this section, there is no allowance of 10% or any other adjustment for the Audit Compliance Failure Rate.

1. The hospital shall submit their listing total.

2. The listing total shall be adjusted for accuracy and other adjustments.

3. The adjusted listing total shall then generate the audit Sample and Sub-sample.

4. If there is a 10% failure rate at the Sub-sample level the auditor shall expand the audit to the Sample.

5. Again for this section, **there is no 10% allowance** for the Audit Compliance Failure rate for the audit year. If the final tally (Cumulative for the year) of Weighted Sample dollars is 10% or more the **entire percentage** is deducted as the penalty.

   (a). Example: Using VI,B,1 above

   An account valued at $60,000 that has a sample weight of 4 and a sub-sample weight of 2. (This is a possibility, it could also have a sample weight of 8 and a sub-sample weight of 1) however, using the 4 & 2 scenario, the Audit Compliance Failure Rate would be 4 %. (2/50) (Assuming no other sub-samples fail)

6. All Audit Compliance Failure rate calculations shall be made against the adjusted listing total at the Medicaid rate.

7. The adjustments are in "Weighted Sample Dollars"

B. Audit Compliance Failure Rate Adjustment Examples

1. Example #1

Failed Weighted Sample Dollars	3
Total Weighted Sample Dollars	50
Audit Compliance Failure Rate	6 %

The 6% failure rate determines that No adjustment would be applied against the allowable listing total at the Medicaid rate

2. Example #2

Failed Weighted Sample Dollars	5
Total Weighted Sample Dollars	50
Audit Compliance Failure Rate	10 %

Since the Audit Compliance Failure Rate equals 10% or more, the audit shall be expanded to the entire sample. (See IX,A,4 above)

The 10% failure rate from example #2, would be applied against the allowable listing total at the Medicaid rate (see IX,A,5).

3. Example #3

Failed Weighted Sample Dollars	24
Total Weighted Sample Dollars	150
Audit Compliance Failure Rate	16 %

Since the Audit Compliance Failure Rate equals 10% or more, the audit shall be expanded to the entire sample. (See IX,A,4 above)

The 16% failure rate from example #3, would be applied against the allowable listing total at the Medicaid rate (see IX,A,5).

C. Audit Compliance Adjustment

Allowable listing total at the @Medicaid rate (VIII,B above)	$1,800,000
Audit Compliance Failure Rate (Using example #3 from above)	16 %
Audit Compliance Adjustment	$ 288,000
Allowable listing total at the Medicaid rate (Amount after Alternative Documentation adjustment (VIII,C,1)	$1,692,000
Less: Audit Compliance Adjustment	$ 288,000
Allowable listing total @Medicaid rate (See Note)	$1,404,000

Note: This amount represents the allowable audited total at this stage of calculations. The amount does not reflect any potential adjustments which may result from section X below.

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