

to: **Maureen King**
from: **Sandi Hunt/Pete Davidson**

date: **January 13, 2004**
subject: **Non-Contracted DRG
Hospital Per Diems**

As a follow-up to our calculation of DRG base rates for DRG hospitals that do not have contracts with FCHPs, OMAP asked that we develop per diems for non-contracted DRG hospitals. Problems with the validity of entries in the encounter data date fields have made it very difficult to make an accurate determination of the number of inpatient hospital bed days, which is critical for the development of per diem rates.

As described in our October 3, 2003 memorandum, the DRG base rates were developed at a level reflecting 100% of the funding amount for hospital services built into the FY 2004 FCHP capitation rates. Theoretically, per diems could be developed directly from the average funding per discharge by dividing by the appropriate average length of stay (ALOS). However, as mentioned above, accurate day counts are difficult to derive. For the calculation of inpatient geographic factors, we developed a procedure for identifying and removing discharges with “unacceptable” day counts, however this procedure is subjective and does not result in corrections to anomalous records. Because the geographic factor calculation is revenue neutral, these data anomalies were not considered a barrier to performing the calculation. In this circumstance, the intent is to develop a per diem value that is reflective of 100% of the experience of health plans, and in the absence of perfect data, that result cannot be assured.

We investigated alternatives to determining day counts or average lengths of stay (ALOS). These methods result in a range of possible ALOS values, which directly translate into a range of average per diems. We have summarized our findings and the implications below.

Calculate ALOS directly from the encounter data

Using the source data for the DRG base rate development and applying the same data adjustments results in an ALOS of 3.98 days with no data “clean-up” for problematic records. Applying comparable clean-up procedures as were used in the geographic factor development (namely, comparing lengths of stay indicated by dates of service and room and board revenue codes, and removing encounters that could not be satisfactorily reconciled) reduces the ALOS slightly to 3.92 days. Both of these calculations include mental health admissions to DRG hospitals, as does the funding per discharge calculated earlier. Based on other sources of information, we believe the ALOS indicated from the data is high, and that the resulting per diem values understate true average daily costs.

Dividing the average funding per discharge for DRG hospitals (approximately \$4,377) by 3.98, results in an average funded DRG hospital per diem of \$1,100. Dividing by 3.92 results in an average per diem of \$1,117.

Use reported ALOS provided by DOCS

Bill Murray of DOCS provided data from their internal information systems indicating an ALOS for DRG hospitals ranging from 3.69 days for 2001 to 3.48 days for 2003. These figures would not include mental health admissions, which creates a mismatch between the bases by which the funding per discharge was developed and ALOS. Dividing the average funding per discharge for DRG hospitals by these ALOS's results in an average per diems ranging from \$1,186 to \$1,258.

Use the ALOS from the hospital cost reports

The hospital cost reports used to develop the cost-to-charge ratios show an ALOS of 3.67 days for DRG hospitals. The time periods covered by the cost reports range from 1995/96 to calendar year 1998. Therefore, there is a clear mismatch between the time periods underlying this value and that underlying the funding per discharge. However, the cost reports would include mental health discharges and be consistent from that perspective. The resulting average per diem is \$1,192. The average cost per day for DRG hospitals, as reported in the cost reports, is \$1,272 prior to trending or application of the DRG hospital reimbursement reduction.

Summary

In summary, the following table provides a comparison of the various options for determining the average length of stay and the resulting per diems.

| DATA SOURCE | AVERAGE LENGTH OF STAY | PER DIEM |
|------------------------------------|------------------------|----------|
| Encounter Data with no corrections | 3.98 | \$1,100 |
| Encounter Data with corrections | 3.92 | \$1,117 |
| DOCS data - 2001 | 3.69 | \$1,186 |
| DOCS data - 2003 | 3.48 | \$1,258 |
| Hospital Cost reports | 3.67 | \$1,192 |

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We request your review of the materials provided here. We would then like to discuss the most appropriate measurement of average length of stay and the resulting per diem value. Please call with any questions.