



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601
March 22, 2006

REGION V
OFFICE OF
INSPECTOR GENERAL

Report Number: A-05-05-00032

Mr. Robert L. Ferguson, Deputy Director
Office of the Chief Inspector
Ohio Department of Job and Family Services
30 East Broad Street
Columbus, Ohio 43215-3414

Dear Mr. Hayes:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Medicaid Support for Graduate Medical Education in Ohio During Fiscal Year 2000." A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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Please refer to report number A-05-05-00032 in all correspondence.

Sincerely,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures

Page 2 – Mr. Robert L. Ferguson

Direct Reply to HHS Action Official:

Ms. Verlon Johnson
Associate Regional Administrator
Division of Medicaid and Children's Health
Centers for Medicare & Medicaid Services
Department of Health and Human Services
233 North Michigan Avenue, Suite 600
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICAID SUPPORT FOR
GRADUATE MEDICAL EDUCATION
IN OHIO DURING FISCAL YEAR 2000**



**Daniel R. Levinson
Inspector General**

**MARCH 2006
A-05-05-00032**

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

The Office of Management and Budget requested that we review Medicaid payments to hospitals for medical education because of concerns regarding the growth of the payments and questions about whether Medicaid funds were involved in intergovernmental transfers.

Pursuant to the Social Security Act, Medicare funds the graduate medical education program. Under Medicaid, States may elect to fund graduate medical education, subject to approval by the Centers for Medicare & Medicaid Services (CMS). The Medicaid program offers more flexibility than Medicare in that States have latitude in determining how to best use available funds.

Similar to Medicare, Ohio pays hospitals for Medicaid graduate medical education under two categories: (1) direct medical education (DME) and (2) indirect medical education (IME). Payments for DME are intended to help cover costs incurred by a hospital for medical residents and teaching faculty, including salaries, fringe benefits, and allocations of overhead. A hospital reports the total costs it incurs for DME under separate items on its Medicare cost report. Payments for IME are unlike payments for DME in that no corresponding cost items are reported by the hospital on its Medicare cost report. The costs are therefore not precisely defined or quantified.

Our review covered fiscal year 2000, when Medicaid provided \$113 million in graduate medical education payments (including about \$44 million in DME payments and \$69 million in IME payments) to 79 hospitals (61 teaching and 18 non-teaching hospitals) in Ohio.

OBJECTIVES

Our objectives were to analyze Ohio's Medicaid graduate medical education payment formula and the methods used by Ohio to establish the amount of funds that individual hospitals will receive and to determine whether (1) Ohio followed the approved State plan in administering the Medicaid graduate medical education program and (2) intergovernmental transfers included any program funds.

SUMMARY OF FINDINGS

Payment Methodology

Our analysis of Ohio's graduate medical education payment formula and the methods used to determine the amount of funds that hospitals receive showed that the payments were generally not based on the hospitals' current needs. Although DME payments of \$44 million were based on costs for interns and residents as reported on the hospitals' 1985 Medicare cost reports, IME payments of \$69 million were based on Medicare's logarithmic formula from non-cost data. Except for the instance cited below, payments were made in accordance with State plan provisions.

Noncompliance with State Plan

Contrary to the State plan, Ohio paid \$1.4 million (\$823,883 Federal share) in Medicaid graduate medical education funds to 18 non-teaching hospitals. The payments were made because Ohio did not periodically update information on hospital eligibility.

Graduate Medical Education Funds Not Involved in Intergovernmental Transfers

During fiscal year 2000, Ohio did not make intergovernmental transfers involving graduate medical education funds to publicly owned hospitals.

RECOMMENDATIONS

We recommend that Ohio:

- report a \$823,883 financial adjustment to CMS for the Federal share of graduate medical education funds paid to non-teaching hospitals and
- review the eligibility of each teaching hospital annually.

STATE'S COMMENTS

In written comments to a draft of this report, Ohio questioned the basis for the amount recommended for financial adjustment and disagreed that it had funded graduate medical education at 18 non-teaching hospitals, implying that 10 of the 18 hospitals reported medical education costs on their final 2000 Medicare cost reports and should be considered teaching hospitals. Ohio did not fully address our recommendation to report a financial adjustment of \$823,883, instead stating that it would begin collecting the funds that are due from the hospitals.

Concerning our second recommendation, Ohio stated that it will work with CMS to incorporate State plan requirements for hospital reporting of changes in their medical education program or teaching hospital status

We have attached the State's comments in their entirety as an appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

After receiving Ohio's written comments, we provided Ohio with additional information and clarification regarding the non-teaching hospitals that had received graduate medical education funding. Although the information shows that several of the 18 hospitals reported educational costs for nursing and paramedical training on their Medicare cost reports, this factor, alone, does not qualify the hospitals as teaching hospitals. We determined that none of the 18 hospitals qualified as a teaching hospital under Ohio Administrative Code 5101:3-2-077. We continue to recommend that Ohio report a financial adjustment of \$823,883 and not wait for collections from the individual hospitals before returning the Federal share of the payments.

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INTRODUCTION

BACKGROUND

The Office of Management and Budget requested that we review Medicaid payments to hospitals for medical education because of concerns regarding the growth of the payments and questions about whether Medicaid funds were involved in intergovernmental transfers.

Medicaid Program

Medicaid was established in 1965 under Title XIX of the Social Security Act as a jointly funded Federal-State program to provide medical assistance to qualified low-income persons. Each State administers its Medicaid program in accordance with a State plan approved by the Centers for Medicare & Medicaid Services (CMS), which is responsible for the program at the Federal level. In Ohio, the Ohio Department of Job and Family Services (the State agency) administers the program.

With Federal approvals, State agencies decide whether to cover optional services and how much to reimburse providers for a particular service. The Federal Government pays its share of Medicaid expenditures according to a defined formula, which yields the Federal medical assistance percentage. During fiscal year 2000, the Federal medical assistance percentage for Ohio was 58.67 percent; the State provided the remaining 41.33 percent.

Graduate Medical Education

Medicare is one of the traditional funding sources for graduate medical education. Medicare funding is authorized under sections 1886(h) of the Social Security Act. In contrast to Medicare, Medicaid does not mandate funding of graduate medical education. Nevertheless, almost all States have opted to provide such funding.

Ohio has a CMS approved State plan amendment that permits adding a graduate medical education component to the hospitals' diagnostic related group (DRG) rates. The State funds this program with general budget appropriations through the State agency. The program is based on the Medicare design; funds are distributed based on formulas that consider the number of residents and other characteristics of each hospital's teaching program. Similar to Medicare, Ohio funds Medicaid graduate medical education under two categories: (1) direct medical education (DME) and (2) indirect medical education (IME).

Payments for DME are intended to help cover a hospital's costs for medical residents and teaching faculty, including their salaries, fringe benefits, and allocations of overhead. A hospital reports the total costs it incurs for DME under separate items on its Medicare cost report.

Payments for IME¹ are unlike payments for DME in that no corresponding cost items are

¹ Indirect Medical Education should not be confused with indirect costs, i.e., allocations of overhead paid under Direct Medical Education.

reported by the hospital on its Medicare cost report. The costs are therefore not precisely defined or quantified by the hospitals.

Intergovernmental Transfers

In certain circumstances, Medicaid allows the use of public funds (funds from county-, city-, or state-owned facilities) as the State's share of financial participation. According to 42 CFR § 433.51, public funds may serve as the State's share for drawing Federal funds if the public funds are appropriated directly to the State or local Medicaid agency or are transferred from other public agencies to the State or local agency and are under its administrative control. Our prior audits of other types of Medicaid payments found that some States abused this provision. For example, some States required county providers to return Medicaid payments to the State through the use of intergovernmental transfers. These States, in some instances, then used the funds for non-Medicaid purposes.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

Our objectives were to analyze Ohio's Medicaid graduate medical education payment formula and the methods used by Ohio to establish the amount of funds that individual hospitals will receive and to determine whether:

- Ohio followed the approved State plan in administering the Medicaid graduate medical education program and
- intergovernmental transfers included any program funds.

Scope

Our review of Ohio's payment formulas and methods for distribution of graduate medical education funding to 79 hospitals (61 teaching and 18 non-teaching hospitals) covered fiscal year 2000. These hospitals received a total of \$113 million from the program (including approximately \$44 million for DME payments and \$69 million for IME payments) in fiscal year 2000.

For the purpose of this review, we excluded capitated payments to teaching hospitals by Medicaid managed care organizations.

We could not verify the accuracy of calculations supporting the graduate medical education add-on to DRG rates because the State did not maintain complete source documents, including the 1985 hospital cost reports and reasonableness tests of ceiling documentation. These add-on rates were computed in 1987 and have been periodically updated for inflation.

We also determined whether intergovernmental transfers were used for program funding.

Our review of internal controls was limited to the State agency's procedures for administering the Medicaid graduate medical education program. We performed fieldwork at the State agency and at the Medicare fiscal intermediary.

Methodology

To determine the payment formulas and methods for distribution of graduate medical education funding during fiscal year 2000, we reviewed the State plan amendments and discussed distributions with State officials.

We determined the amount of graduate medical education funds distributed to the hospitals based on calculations provided by the State. These funds were included in the hospitals' DRG payments extracted from the paid claims database for fiscal year 2000. We also assessed whether the hospitals qualified for payment in accordance with the State Plan and whether payments were distributed by intergovernmental transfers.

We conducted the audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Our analysis of Ohio's graduate medical education payment formula and the methods used to determine the amount of funds that hospitals receive showed that the payments were generally not based on the hospitals' current needs. Ohio included the graduate medical education payments as an add-on component in the hospital's diagnosis related group (DRG) rates. The DME and IME add-on components were based on formulas included in the State plan and State administrative code and on information submitted by hospitals. These formulas were based on Medicare design, including logarithmic calculations. Although payment distributions generally complied with State Plan provisions, we also found that the State paid \$1.4 million of graduate medical education funds to non-teaching hospitals.

Intergovernmental transfers did not include Medicaid graduate medical education funds.

PAYMENT METHODOLOGY

Ohio's Medicaid payment methodology for graduate medical education for fiscal year 2000 was established in 1987, using 1985 data. Since 1987, the annual funding levels under this methodology were increased each year using an inflation factor. Hospitals must have approved medical education programs to qualify for DME and IME payments. Both types of payments are made prospectively as add-ons to the hospitals' DRG payments. The total medical education add-on is adjusted for the same inflation rates used to update the Ohio's established payment rates per discharge. After January 1995, the add-on amounts were adjusted for the hospital's case mix and the resource intensity of the inpatient admission's diagnosis related group. Of the total \$113 million for graduate medical education payments, \$44 million was paid for DME, and \$69 million was paid for IME.

The DME payments were calculated from data taken from each hospital's 1985 Medicare cost report. The hospital's costs for interns and residents are divided by the number of full-time-equivalent intern and resident positions and compared to a payment ceiling based on the adjusted statewide average cost per intern and resident positions at all hospitals with approved teaching programs. The lesser of the hospitals allowable direct medical education costs or this statewide ceiling of allowable direct medical education costs is divided by the number of Medicaid discharges in the base year to determine the direct medical education add-on.

The IME payments were calculated by applying the Medicare logarithmic formula to each hospital's resident-to-bed ratio taken from the 1985 Medicare cost report. This formula produces a hospital IME percentage that is applied against the hospital's total Medicaid inpatient costs (excluding indirect costs for medical education) divided by the number of hospital discharges. This hospital specific cost per discharge is compared against a statewide ceiling based on the average Medicaid inpatient costs per discharge for all hospitals with medical education programs. The lesser of the statewide average or the hospital specific average cost per discharge becomes the per discharge amount multiplied by the IME percentage. Although this add-on establishes an IME payment amount, it does not precisely pertain to IME costs.

Except for the instance cited below, payments were made in accordance with State plan provisions.

NONCOMPLIANCE WITH STATE PLAN

The Ohio Administrative Code 5101:3-2-077 requires that Ohio hospitals have an approved medical education program in accordance with Federal requirements (as defined in 42 CFR 413.86) to qualify for graduate medical education payments. Contrary to this requirement, the State paid \$1.4 million (\$823,883 Federal share) of Medicaid graduate medical education funds to 18 non-teaching hospitals.

The State agency had not reviewed the eligibility of these hospitals since 1987 to determine whether their teaching programs were in accordance with Federal regulations. Currently, the state is reviewing the eligibility of hospitals receiving graduate medical education funding.

GRADUATE MEDICAL EDUCATION FUNDS NOT INVOLVED IN INTERGOVERNMENTAL TRANSFERS

The Office of Management and Budget requested that we determine whether publicly owned hospitals that received Medicaid graduate medical education funds had later transferred any part of those funds back to the State.

Medicaid regulations (42 CFR § 433.51) specify that public funds (funds from county-, city-, or State-owned facilities) may serve as the State's share for drawing Federal funds if the public funds are transferred from other public agencies to the State or local agency and are under its administrative control. Our prior audit work, targeting other types of Medicaid payments, identified instances in which States required publicly owned hospitals to transfer the State-

funded portion of certain Medicaid payments back to the State agency. States could then use the funds for other purposes.

During fiscal year 2000 in Ohio, intergovernmental transfers did not include Medicaid graduate medical education funds.

RECOMMENDATIONS

We recommend that Ohio:

- report a \$823,883 financial adjustment to CMS for the Federal share of graduate medical education funds paid to non-teaching hospitals and
- review the eligibility of each teaching hospital annually.

STATE'S COMMENTS

In written comments to a draft of this report, Ohio questioned the basis for the amount recommended for financial adjustment and disagreed that it had funded graduate medical education at 18 non-teaching hospitals, implying that 10 of the 18 hospitals reported medical education costs on their final 2000 Medicare cost reports and should be considered teaching hospitals. Ohio did not fully address our recommendation to report a financial adjustment of \$823,883, instead stating that it would begin collecting the funds that are due from the hospitals. Concerning our second recommendation, Ohio stated that it will work with CMS to incorporate State plan requirements for hospital reporting of changes in their medical education program or teaching hospital status.

Although not pertaining to an audit finding, Ohio also disputed a statement in the report regarding a lack of source documents needed to verify the accuracy of calculations supporting the graduate medical education add-on to DRG rates. Ohio indicated that all source documents were provided for our review.

We have attached the State's comments in their entirety as an appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

After receiving Ohio's written comments, we provided Ohio with additional information and clarification regarding the non-teaching hospitals that had received graduate medical education funding. Although the information shows that several of the 18 hospitals reported educational costs for nursing and paramedical training on their Medicare cost reports, this factor, alone, does not qualify the hospitals as teaching hospitals. We determined that none of the 18 hospitals qualified as a teaching hospital under Ohio Administrative Code 5101:3-2-077. We continue to recommend that Ohio report a financial adjustment of \$823,883 and not wait for collections from the individual hospitals before returning the Federal share of the payments.

Regarding the State's additional comments about source documentation, Ohio did not provide the Medicare cost reports and the tests of reasonableness ceiling documentation used by Ohio to calculate the graduate medical education base rate in 1987. Since these comments pertained to a limitation on our scope of audit and not our audit findings, we have not changed the wording of our report.

APPENDIX

Bob Taft
Governor



Barbara Riley
Director

30 East Broad Street • Columbus, Ohio 43215-3414
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December 22, 2005

Mr. Paul Swanson
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Audit Services
233 North Michigan Avenue
Chicago, Illinois 60601

Re: Report Number A-05-05-00032
Review of Medicaid Support for Graduate Medical Education in the State of Ohio, During Fiscal Year 2000

Dear Mr. Swanson:

This letter is in response to your November 22, 2005 letter and the Department of Health and Human Services, Office of the Inspector General draft report (Report Number A-05-05-00032) entitled "Review of Medicaid Support for Graduate Medical Education in the State of Ohio, During Fiscal Year 2000." Thank you for the opportunity to respond. After careful review of the draft report and the data and information provided to the auditors, we have a number of comments on the report.

First, we would like to address what appears to be an incorrect statement made in the report. On page two, fifth paragraph, there is a statement made that "We could not verify the accuracy of calculations supporting the GME add-on to DRG rates because the State did not maintain complete source documents...." Ohio disagrees with the statement that source documents are not maintained as all information related to the audit period were provided as well as all available information related to the 1987 base period calculation, even though the base period files and documents were more than 16 years old at the time of the review and well out of the required timeframe to store historical documents.

Second, regarding the section entitled "Non-compliance with state plan" and prior to the initiation of the audit, the department was in the process of looking at those hospitals that had discrepancies between current cost report data and their status as a GME hospital. This information was shared with the audit staff during the review, therefore, the statement made that staff have not reviewed the eligibility of hospitals for GME payments since 1987 is not completely accurate.

Lastly, we are unsure how the amount of \$1.4 million was arrived at for the 18 hospitals indicated in the non-compliance section of the draft report. Data that we would have provided to the audit team indicated that the total in question was \$1.24 million total funds. It would be helpful if we could get information from the audit team as to how they arrived at the amount of \$1.4 million.

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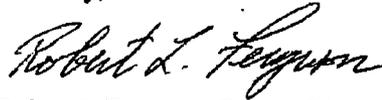
Additionally, our research indicates that 10 of the 18 hospitals making up the \$1.24 million in question did have reported medical education costs on their final 2000 Medicare cost reports. We believe this could significantly decrease the amounts referenced above. We have also confirmed that 8 of the 18 hospitals mentioned in the review did not have medical education costs on their final 2000 Medicare cost reports. We will proceed to collect identified funds due back to the state as well as the federal government, but we will need the working papers of the audit team to reconcile the amount by hospital that is in question with the source files that we would have provided to the audit team.

One change that we would like to make in our state plan is to strengthen the reporting requirements on the part of the hospitals to report any changes in status, including a change in a medical education program, to the state. We will work with CMS about how best to incorporate this into the state plan, taking into consideration the entire payment system applicable to hospitals.

Again, thank you for the opportunity to respond to the draft report. Please note that the department reserves the right to make these, and other arguments not set forth herein, if the final report is significantly different from this draft report provided to the department.

Please contact Bryan Chauvin, Office of the Chief Inspector, at 614-466-3015 if you have any questions or comments.

Sincerely,



Robert L. Ferguson, Deputy Director
Office of the Chief Inspector
Ohio Department of Job & Family Services

cc: Barbara Riley, Director, ODJFS
Office of Ohio Health Plans
Office of Legal Services