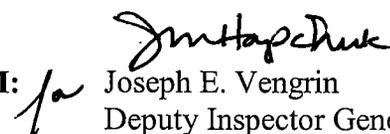




AUG 29 2007

TO: Herb Kuhn
Acting Deputy Administrator
Centers for Medicare & Medicaid Services

FROM:  Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Review of Medicaid Reimbursement of Graduate Medical Education in Missouri
(A-07-04-03058)

Attached is an advance copy of our final report on the review of Medicaid reimbursement of Graduate Medical Education (GME) program payments in Missouri for State fiscal years (FY) 1999 through 2001. We will issue this report to the Missouri Department of Social Services (the State agency) within 5 business days. This audit was part of a nationwide review of GME program payments.

Our objective was to determine whether the State agency's claims for Medicaid reimbursement of GME payments to Children's Mercy Hospital (the hospital) complied with Federal law and the approved State plan.

We found that the State agency's claims for Medicaid reimbursement of GME payments to the hospital did not fully comply with Federal law or the approved State plan. Of the \$5,678,794 (\$3,440,926 Federal share) claimed, \$3,440,926 (\$2,084,984 Federal share) was allowable, and the remaining \$2,237,868 (\$1,355,942 Federal share) was not allowable. Specifically, the State agency was not entitled to claim certified public expenditures as the State share of GME costs because:

- Kansas City did not certify the funds before the State agency claimed Federal reimbursement, contrary to Federal law.
- The hospital did not certify the funds for all years audited, contrary to the State plan amendment.

In addition, we were unable to determine what portion of the certified public expenditures, which were intended for the care of indigent children, related to the provision of GME.

We recommend that the State agency:

- refund to the Federal Government the \$1,355,942 in GME overpayments to the hospital during State FYs 1999 through 2001,
- follow Federal requirements and the State plan when claiming GME costs in the future, and
- review claims for GME subsequent to our audit period and refund any portion that did not comply with Federal requirements and the State plan.

In written comments on our draft report, the State agency concurred with the last two recommendations because it believes it followed Federal and State requirements. The State agency did not concur with the recommendation that it should refund the Federal share of the enhanced GME payments to the hospital. The State agency believes that it complied with Federal requirements and the State plan and stated that the Centers for Medicare & Medicaid Services (CMS) did not provide regulations or other guidance as to how certifications were to be accomplished. The State agency also pointed out that after State FY 2001, it no longer used certified public expenditures as the State share of enhanced GME payments to the hospital.

After reviewing the State agency's comments, we disagree with the State agency and continue to recommend that the State agency should refund the \$1,355,942 to CMS because (1) Kansas City did not certify the funds before the State agency claimed Federal reimbursement, contrary to Federal law, and (2) the hospital did not certify the funds for all years audited, contrary to the State plan amendment.

We acknowledge that the State agency no longer uses certified public expenditures as its share of enhanced GME payments to the hospital.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for Centers for Medicare & Medicaid Audits at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov or Patrick J. Cogley, Regional Inspector General for Audit Services, Region VII, at (816) 426-3591 or through e-mail at Patrick.Cogley@oig.hhs.gov. Please refer to report number A-07-04-03058 in all correspondence.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

AUG 30 2007

Report Number: A-07-04-03058

Ms. Deborah E. Scott
Director, Department of Social Services
Broadway State Office Building
P.O. Box 1527
Jefferson City, Missouri 65102

Dear Ms. Scott:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Medicaid Reimbursement of Graduate Medical Education in Missouri." We will forward a copy of this report to the HHS action official noted on the following page 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 this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after the final report is issued, it will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591 or through e-mail at Patrick.Cogley@oig.hhs.gov or your staff may contact Greg Tambke, Audit Manager, at (573) 893-8338, extension 30, or through e-mail at Greg.Tambke@oig.hhs.gov. Please refer to the report number A-07-04-03058 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Mr. Thomas Lenz
Regional Administrator
Centers for Medicare & Medicaid Services, Region VII
Richard Bolling Federal Building
Room 227
601 East 12th Street
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICAID
REIMBURSEMENT OF GRADUATE
MEDICAL EDUCATION IN
MISSOURI**



Daniel R. Levinson
Inspector General

August 2007
A-07-04-03058

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR part 5.)

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

Medicaid Program

Medicaid is a jointly funded Federal-State program that provides medical assistance to qualified low-income persons. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the Medicaid program. In Missouri, the Department of Social Services (the State agency) administers the program.

Medicaid allows the use of funds from units of government within the State to fund a portion of the State's share of Medicaid expenditures. Pursuant to section 1903(w)(6)(A) of the Social Security Act and 42 CFR § 433.51(b), States may use funds that have been certified by units of government within the State as representing Medicaid expenditures for the State share. These funds are referred to as "certified public expenditures."

Graduate Medical Education

Although Medicaid does not require States to fund graduate medical education (GME), they may elect to do so subject to approval by CMS. Missouri filed a State plan amendment and obtained CMS approval for GME reimbursement as (1) an add-on to hospital care payments for clients covered under Medicaid managed care plans, (2) a component of per diem payments for clients not covered under managed care plans, and (3) a yearly enhanced payment.

During State fiscal years (FY) 1999 through 2001, the State agency claimed \$5,678,794 (\$3,440,926 Federal share) in Medicaid GME payments to Children's Mercy Hospital (the hospital), a private teaching hospital in Kansas City, Missouri. According to the State agency, the State's share of these payments consisted of certified public expenditures. These expenditures represented funds that Kansas City had provided to the hospital to provide care for indigent children.

OBJECTIVE

Our objective was to determine whether the State agency's claims for Medicaid reimbursement of GME payments to the hospital complied with Federal law and the approved State plan.

SUMMARY OF FINDINGS

The State agency's claims for Medicaid reimbursement of GME payments to the hospital did not fully comply with Federal law or the approved State plan. Of the \$5,678,794 (\$3,440,926 Federal share) claimed, \$3,440,926 (\$2,084,984 Federal share) was allowable, and the remaining \$2,237,868 (\$1,355,942 Federal share) was not allowable. Specifically, the State agency was not entitled to claim certified public expenditures as the State share of GME costs because:

- Kansas City did not certify the funds before the State agency claimed Federal reimbursement, contrary to Federal law.
- The hospital did not certify the funds for all years audited, contrary to the State plan amendment.

In addition, we were unable to determine what portion of the certified public expenditures, which were intended for the care of indigent children, related to the provision of GME.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government the \$1,355,942 in GME overpayments to the hospital during State FYs 1999 through 2001,
- follow Federal requirements and the State plan when claiming GME costs in the future, and
- review claims for GME subsequent to our audit period and refund any portion that did not comply with Federal requirements and the State plan.

STATE AGENCY'S COMMENTS

In its written response to our draft report, the State agency concurred with the last two recommendations because it believes it followed regulations. The State agency did not concur with the recommendation that the Federal share of the enhanced GME payment to the hospital should be refunded. The State agency believes that it complied with Federal requirements and the State plan. The State agency also pointed out that after State FY 2001, it no longer used certified public expenditures as the State share of enhanced GME payments to the hospital.

The State agency's comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We disagree with the State agency and continue to recommend that the State agency should refund the \$1,355,942 to CMS because (1) Kansas City did not certify the funds before the State agency claimed Federal reimbursement, contrary to Federal law, and (2) the hospital did not certify the funds for all years audited, contrary to the State plan amendment.

We acknowledge that the State agency no longer uses certified public expenditures as its share of enhanced GME payments to the hospital.

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APPENDIX

STATE AGENCY’S COMMENTS

INTRODUCTION

BACKGROUND

Medicaid Program

Title XIX of the Social Security Act (the Act) established Medicaid 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 Missouri, the Department of Social Services (the State agency) administers the program.

With Federal approval, 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 State Medicaid expenditures according to a defined formula that yields the Federal medical assistance percentage (FMAP). The Federal share is called Federal financial participation (FFP). The FMAP rates for Missouri were 60.24 percent for State fiscal year (FY) 1999, 60.51 percent for FY 2000, and 61.03 percent for FY 2001.

Medicaid allows the use of funds from units of government within the State to fund a portion of the State's share of Medicaid expenditures. Pursuant to section 1903(w)(6)(A) of the Act and 42 CFR § 433.51(b), States may use funds that have been certified by units of government within the State as representing Medicaid expenditures for the State share. These funds are referred to as "certified public expenditures." Because certified public expenditures are for Medicaid-eligible expenditures, the certification must be made after the money has been paid for services (i.e., expended). In addition, because FFP is available only for certified public expenditures, the certification must be made before the State uses those expenditures as a basis for claiming FFP.

Graduate Medical Education

Medicare is one of the traditional funding sources for graduate medical education (GME). Unlike Medicare, Medicaid does not require GME funding, but States may elect to provide such funding subject to CMS approval.

Missouri filed a State plan amendment and obtained CMS approval for GME reimbursement as (1) an add-on to hospital care payments for clients covered under Medicaid managed care plans, (2) a component of per diem payments for clients not covered under managed care plans, and (3) a yearly enhanced payment. Missouri's GME program is based on the Medicare design, which distributes funds based on the number of residents and other characteristics of each hospital's teaching program. The program covers such costs as salaries of medical residents and teaching faculty, as well as fringe benefits.

Missouri's Use of Certified Public Expenditures

During State FYs 1999 through 2001, the State agency claimed \$5,678,794 (\$3,440,926 Federal share) in Medicaid GME payments to Children's Mercy Hospital (the hospital), a private teaching hospital in Kansas City, Missouri. According to the State agency, the State's share of these payments consisted of certified public expenditures. These expenditures represented funds that Kansas City had provided to the hospital to provide care for indigent children.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency's claims for Medicaid reimbursement of GME payments to the hospital complied with Federal law and the approved State plan.

Scope

Our review focused on GME payments to the hospital during State FYs 1999 through 2001 (July 1, 1998–June 30, 2001). The State agency claimed \$5,678,794 (\$3,440,926 Federal share) in GME costs for the hospital during this period.

We limited our review of internal controls to the State agency's procedures for administering the Medicaid GME program and the hospital's procedures for verifying receipt of and accounting for funds.

We performed fieldwork at the State agency in Jefferson City, Missouri, and at the hospital in Kansas City, Missouri.

Methodology

We reviewed applicable Federal laws and regulations and the approved State plan concerning the Medicaid GME program and certified public expenditures. We interviewed CMS and State officials to determine whether certified public expenditures were used to fund the Medicaid GME program. We also reviewed documentation of certified public expenditures used as the State's share of GME payments to the hospital.

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

FINDINGS AND RECOMMENDATIONS

The State agency's claims for Medicaid reimbursement of GME payments to the hospital did not fully comply with Federal law or the approved State plan. Of the \$5,678,794 (\$3,440,926 Federal share) claimed, \$3,440,926 (\$2,084,984 Federal share) was allowable, and the remaining \$2,237,868 (\$1,355,942 Federal share) was not allowable, as illustrated in the table on the next page.

Summary of Audit Results

	Claimed	Allowable	Unallowable
State agency payment to hospital	\$3,440,926	\$3,440,926	\$0
Certified public expenditures	2,237,868	0	2,237,868
Total	\$5,678,794	\$3,440,926	\$2,237,868
Federal share	\$3,440,926	\$2,084,984	\$1,355,942

The State agency was not entitled to claim the certified public expenditures as the State’s share of GME costs because:

- Kansas City did not certify the funds before the State agency claimed Federal reimbursement, contrary to Federal law.
- The hospital did not certify the funds for all years audited, contrary to the State plan amendment.

In addition, we were unable to determine what portion of the certified public expenditures, which were intended for the care of indigent children, related to the provision of GME.

REQUIREMENTS FOR CLAIMING CERTIFIED PUBLIC EXPENDITURES

Federal law and the State plan have different requirements for claiming certified public expenditures as the State share of GME expenditures. For a certified public expenditure to be legitimate, it must meet both the Federal and State plan requirements. Federal requirements stipulate that the contributing public (i.e., governmental) agency must certify the funds before the State can claim them as expenditures eligible for FFP. State requirements stipulate that the hospital must certify the funds. Neither Federal nor State requirements specify the method of certification.

Federal Requirements

Section 1903(w)(6)(A) of the Act limits the Secretary’s authority to restrict a State’s use of funds “transferred from or certified by units of government within a State as the non-Federal share of expenditures under this title, regardless of whether the unit of government is also a health care provider” (Emphasis added.)

Federal regulations (42 CFR § 433.51) describing the conditions under which public funds may be considered as the State’s share of Medicaid expenditures provide that:

- (a) Public funds may be considered as the State’s share in claiming FFP if they meet the conditions specified in paragraphs (b) and (c) of this section.

- (b) The public funds are appropriated directly to the State or local Medicaid agency, or transferred from other public agencies (including Indian tribes) to the State or local agency and under its administrative control, or certified by the contributing public agency as representing expenditures eligible for FFP under this section. [Emphasis added.]
- (c) The public funds are not Federal funds, or are Federal funds authorized by Federal law to be used to match other Federal funds.

State Requirement

The State plan, 4.19-A, page 21, section XX(A), requires that “the state share of the enhanced GME payment to a hospital that has cash subsidies shall come from funds certified by the hospital.” (Emphasis added.)

STATE AGENCY USE OF CERTIFIED FUNDS

Kansas City Certification Was Not Consistent With Federal Requirements

According to the State agency, it used certified public expenditures made by Kansas City as the State’s share of GME payments. The certified public expenditures were based on funds that Kansas City had paid to the hospital for indigent children’s health care services. However, Kansas City did not certify the funds for claims submitted for Federal reimbursement in State FYs 1999 through 2001 until September 2004. As explained above, because certified public expenditures are for Medicaid-eligible expenditures, the certification must be made after the money has been paid for services (i.e., expended). In addition, because FFP is available only for certified public expenditures, the certification must be made before the State uses those expenditures as a basis for claiming FFP.

Hospital Certification Was Not Consistent With State Requirements

The hospital did not certify the funds used as the State’s share of GME payments for all years audited as required by 4.19-A, page 21, section XX(A), of the State plan. The hospital provided no evidence that it had certified funds for State FYs 1999 and 2000. For State FY 2001, the hospital submitted a copy of its contract with Kansas City to the State agency and asked that the contract serve as the certification for that State FY. Because the State plan amendment did not specify how hospitals were to certify funds, we could not determine whether the hospital’s request was an acceptable form of certification.

Funds Were Provided for the Provision of Health Care to Indigent Children

According to the contract between Kansas City and the hospital, the funds claimed as certified public expenditures were provided for “inpatient and outpatient health [care] to the indigent children of Kansas City, Missouri without regard to any other consideration or payments received by the [hospital] from others for such health care.” We recognize that some of the services provided with these funds may have qualified as GME. However, neither we nor the

State agency audited the hospital's expenditure of funds that Kansas City provided; therefore, we could not determine what portion of those funds was used to finance GME activities.

CONCLUSION

Kansas City did not provide letters certifying its expenditures until 2004, well after the period for which the certified public funds were claimed. The hospital provided no evidence that it had certified funds for State FYs 1999 and 2000. Therefore, neither Federal requirements nor the State plan amendment requirements for certified public expenditures were met. In addition, we were unable to determine what portion of the certified public expenditures related to the provision of GME.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government the \$1,355,942 in GME overpayments to the hospital during State FYs 1999 through 2001,
- follow Federal requirements and the State plan when claiming GME costs in the future, and
- review claims for GME subsequent to our audit period and refund any portion that did not comply with Federal requirements and the State plan.

STATE AGENCY'S COMMENTS AND OFFICE OF INSPECTOR GENERAL'S RESPONSE

In its written response to our draft report, the State agency concurred with the last two recommendations because it asserted several times that it complied with Federal requirements and the State plan. However, "after State FY 2001, [the State agency] no longer used certified public expenditures as the state share of enhanced GME payments to Children's Mercy Hospital." In the event that the State agency resumes this practice for privately owned hospitals, we continue to recommend that the State agency follow Federal requirements and the State plan when claiming GME costs.

The State agency did not concur with the recommendation that the Federal share of the enhanced GME payment to the hospital should be refunded. The State agency based its nonconurrence on interrelated assertions discussed on the next pages. We disagree with the State agency and continue to recommend that the State agency should refund the \$1,355,942 because (1) Kansas City did not certify the funds before the State agency claimed Federal reimbursement, contrary to Federal law, and (2) the hospital did not certify the funds for all years audited. In addition, we were unable to determine what portion of the certified public expenditures related to the provision of GME.

Certification of Public Expenditures by the Hospital

State Agency Comments

The State agency said that the State plan allows the hospital to certify public expenditures. Specifically, the State agency referred to the same sentence of the State plan that we quoted earlier in this report: “the state share of the enhanced GME payment to a hospital that has cash subsidies shall come from funds certified by the hospital.” Additionally, according to the State agency, “the hospital informed the State that it had cash subsidies sufficient to serve as the State share and the State used this information to claim a certified expenditure.”

Office of Inspector General’s Response

The State agency’s response asserts that the hospital certification alone was adequate to support the certified public expenditures it used to draw down FFP for the GME enhanced payments. However, Federal requirements (Section 1903(w)(6)(A) of the Act, and 42 CFR § 433.51, both quoted earlier in this report) mandate that public expenditures be certified by a unit of government or public agency. The State agency provided no evidence that the hospital met either of these criteria. In addition, Federal requirements mandate a certification of actual expenditures for the provision of Medicaid-eligible services. Therefore, while a certification by the hospital of cash subsidies may have met the State plan requirements, it was not adequate to meet the Federal requirements.

Certification Requirements and Timeframes

State Agency Comments

The State agency stated that the hospital’s certification for 1999 and 2000 “was based on [the State agency’s] knowledge that the hospital had cash subsidies sufficient to serve as the state share for the enhanced GME expenditure.” The State agency contended that “CMS did not have any regulation or other guidance as to how certifications were to be accomplished. . . . CMS has never provided guidance regarding the timeframe in which certification of public expenditures must be received.”

Office of Inspector General’s Response

With respect to the Federal requirements cited above, Kansas City did not certify the funds for claims submitted for Federal reimbursement until September 2004, well after the expenditures were submitted for Federal reimbursement in State FYs 1999 through 2001. More specifically, FFP is provided only when there is a corresponding State expenditure for a covered Medicaid service. According to 45 CFR § 95.13(b), an expenditure occurs in the quarter in which the State agency made a payment to the service provider. Therefore, the certification must be made before the State uses those expenditures as a basis for claiming FFP.

The State agency not only did not comply with Federal requirements for the certification of public expenditures, but it also did not fully comply with its State plan. Specifically, the hospital did not certify the funds used as the State's share of the enhanced GME payments for State FYs 1999 and 2000. The State agency asserts in its response that the certification for 1999 and 2000 "was based on [the State agency's] knowledge that the hospital had cash subsidies sufficient to serve as the state share for the enhanced GME expenditure." The State plan, however, requires that the funds be "certified by the hospital." [Emphasis added.] Thus, the State agency's knowledge, absent any evidence of affirmative action by the hospital to "certify" those funds, is not adequate to meet the State plan requirements.

The State agency also asserts that "CMS has never provided guidance regarding the timeframe in which certification of public expenditures must be received." As explained in detail in the report and in our response, the Federal statutes and regulations are clear as to when an expenditure must be certified. FFP is provided only when there is a corresponding State expenditure for a covered Medicaid service. Certified public expenditures can be used as the State share when claiming FFP only after the funds have been expended for Medicaid eligible services and certified as such by the contributing public agency (Section 1903(w)(6)(A) of the Act and 42 CFR § 433.51). Therefore, the certification must be made before the State uses those expenditures as a basis for claiming FFP.

Certified Public Expenditures and Graduate Medical Education

State Agency Comments

The State agency also stated that "CMS has never provided guidance as stringent as the OIG's [Office of Inspector General] position that a certification of public expenditures must designate the portion of public funds expended for GME." The State agency "believes that the certified public expenditures for the enhanced GME payments to Children's Mercy Hospital complied with the requirements of 42 CFR sec 433.51, the approved State plan and CMS' guidance. The federal share of the GME payments to the hospital for SFYs 1999-2001 should, therefore, not be disallowed."

Office of Inspector General's Response

The funds that the State agency used as certified public expenditures were costs related to Kansas City's providing health care to indigent children. However, Federal regulations (42 CFR § 433.51(b)) state that public funds may be used as the State share when they are "certified by the contributing public agency as representing expenditures eligible for FFP under this section." A certified public expenditure is, as its name says, an expenditure for Medicaid-eligible services by a public entity. In this case the expenditure, according to the State plan, should have been for GME services to draw down the related FFP. Therefore, the State must be able to demonstrate that Kansas City made expenditures specifically for the provision of Medicaid-eligible GME services to draw down the FFP for enhanced GME payments. To calculate the appropriate amount of FFP to be drawn down, the State must also be able to demonstrate the amount of those expenditures. Because Kansas City did not certify the specific amount of funds that were

expended on GME services and neither we nor the State agency audited the hospital's expenditure of funds that Kansas City provided, we could not determine the amount of funds representing the State agency's portion of the GME claim.

The State agency's comments are included in their entirety as the Appendix.

APPENDIX



MISSOURI
DEPARTMENT OF SOCIAL SERVICES

P. O. BOX 1527
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TELEPHONE: 573-751-4815, FAX: 573-751-3203

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1-800-735-2486

Matt Blunt
GOVERNOR

Deborah E. Scott
DIRECTOR

June 6, 2007

Patrick J. Cogley, Regional Inspector General
Department of Health and Human Services
Office of Inspector General
Office of Audit Services
Region VII
601 East 12th Street, Room 284A
Kansas City, MO 64106

RE: Report Number A-07-04-03058

Dear Mr. Cogley:

This is in response to your letter dated May 7, 2007, regarding the draft report from the Office of Inspector General (OIG) entitled "Review of Medicaid Reimbursement of Graduate Medical Education in Missouri." You requested that the State of Missouri provide written comments for each recommendation in the draft report which would be included in your final report.

The OIG performed a review of graduate medical education (GME) payments made by the Division of Medical Services (DMS), the State Medicaid agency, to determine whether the State's claims for Medicaid reimbursement complied with Federal law and the approved State plan. The OIG reviewed GME payments to Children's Mercy Hospital in Kansas City for state fiscal years (SFYs) 1999, 2000, and 2001. For SFYs 1999 - 2001, the state share of GME payments to Children's Mercy Hospital consisted of certified public expenditures. The OIG draft report claims the certified public expenditures for GME payments to Children's Mercy Hospital did not fully comply with federal law or the approved State plan and includes three recommendations relating to the issue. The OIG's recommendations and DMS' responses are included below.

1. Refund to the Federal Government the \$1,355,942 in GME overpayments to the hospital during SFYs 1999 - 2001.

Response: DMS does not concur with the OIG's recommendation that the federal share of enhanced GME payments to Children's Mercy Hospital should be refunded because DMS has complied with Federal requirements and the State plan in claiming the GME payments. The OIG indicated that the State did not comply with the requirements in three ways. The OIG's positions and DMS' responses follow;

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services provided on a nondiscriminatory basis

a. Kansas City did not certify the funds before the State agency claimed Federal reimbursement in accordance with Federal law. Kansas City provided letters certifying its expenditures in 2004, which was after the period for which the certified public funds were claimed.

Response: The State plan, as approved by the Centers for Medicare and Medicaid Services (CMS), includes the following statement: "The state share of the enhanced GME payment to a hospital that has cash subsidies shall come from funds **certified by the hospital.**" (emphasis added). Accordingly, the hospital informed the State that it had cash subsidies sufficient to serve as the state share and the State used this information to claim a certified expenditure. DMS believes the clear language of the State plan permitted Children's Mercy Hospital to perform the certification. Because as it is a "hospital that has cash subsidies," the funds were "certified by the hospital." In the absence of any regulatory or other guidance from CMS during the audit period regarding how public expenditures were to be certified, DMS appropriately relied on the approved State plan. DMS did obtain certification letters in 2004 from the Kansas City Health Department (KCHD) for the funds it expended through its contracts with the hospital, but those letters were sought as a result of the OIG's draft audit which stated that the hospital's certifications were inappropriate. The KCHD certifications confirm that the cash subsidies were provided in the amounts claimed.

b. The hospital did not certify the funds for all years audited in accordance with the State plan. The hospital submitted a copy of its contract with Kansas City to serve as the certification for SFY 2001 but did not provide anything for SFYs 1999 – 2000.

Response: The certification was based on DMS knowledge that the hospital had cash subsidies sufficient to serve as the state share for the enhanced GME expenditure. During the years audited, CMS did not have any regulation or other guidance as to how certifications were to be accomplished. In September 2000, Children's Mercy Hospital submitted a copy of its contract with the KCHD for its fiscal year 2001, and asked that the contract be used to certify public expenditures. A copy of the hospital's contract with the KCHD for FY 2000 was received in July 2004. CMS has never provided guidance regarding the timeframe in which certification of public expenditures must be received.

c. The OIG was not able to determine what portion of the certified public expenditures related to the provision of GME. The funds claimed as certified public expenditures were provided for "inpatient and outpatient health care to the indigent children of Kansas City . . ." but OIG could not determine what portion of those funds was used to finance GME activities.

Response: Enhanced GME payments for Children's Mercy Hospital were calculated in accordance with the State plan as approved by CMS. CMS has never provided guidance as stringent as the OIG's position that a certification of public expenditures must designate the portion of public funds expended for GME. In July, 2004, DMS documented to the OIG that State plan amendments approved by CMS permitted the state share of enhanced GME payments to be certified by hospitals with cash subsidies. In the case of Children's Mercy Hospital, the certified public expenditures came from funds appropriated by Kansas City and received as a result of a contract between the hospital and the Kansas City Health Department, under which the hospital provided services to indigent children. The hospital submitted

copies of this contract to DMS to document that it received and retained funds appropriated by a public entity, and that the cash subsidies or public funds were sufficient to make up the state share of enhanced GME payments. The Kansas City Health Department also certified the amount of expenditures resulting from its contracts with the hospital. DMS believes that the certified public expenditures for the enhanced GME payments to Children's Mercy Hospital complied with the requirements of 42 CFR sec. 433.51, the approved State plan and CMS' guidance. The federal share of the GME payments to the hospital for SFYs 1999 - 2001 should, therefore, not be disallowed.

2. Follow Federal requirements and the State plan when claiming GME costs in the future.

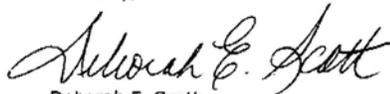
Response: DMS concurs with this recommendation. DMS has followed Federal requirements and the State plan when claiming GME costs in the past and will continue to do so for future claims.

3. Review claims for GME subsequent to our audit period and refund any portion that did not comply with Federal requirements and the State plan.

Response: As indicated above, DMS has complied with Federal requirements and the approved State plan. Furthermore, after SFY 2001, DMS no longer used certified public expenditures as the state share of enhanced GME payments to Children's Mercy Hospital. Therefore, the issues raised in the draft report are not relevant to GME claims made subsequent to your audit period

If you have additional questions, please contact Steven E. Renne, Interim Director, Division of Medical Services, at (573) 751-6922.

Sincerely,



Deborah E. Scott
Director

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