



AUG 18 2009

**TO:** Yvette Roubideaux, M.D., M.P.H.  
Director  
Indian Health Service

**FROM:** Daniel R. Levinson  
Inspector General

A handwritten signature in black ink that reads "Daniel R. Levinson".

**SUBJECT:** Audit of the Indian Health Service Headquarters Cost Statement for  
Fiscal Year 2005 (A-09-07-00054)

The attached final report provides the results of our audit of the Indian Health Service (IHS) Headquarters (Headquarters) cost statement for fiscal year (FY) 2005. We performed this audit at the request of the Office of Management and Budget.

IHS's Medicare cost statements for Headquarters and the area offices identify the portion of obligations from Headquarters and the area offices that is allowable under Medicare and allocable to IHS providers. Allowable Headquarters obligations are allocated to each area office. These obligations, combined with the area offices' own obligations, are then allocated among all IHS providers. Medicare cost statements are subject to the provisions of 42 CFR part 413 and the Medicare "Provider Reimbursement Manual," parts I and II, which establish standards for, among other things, the allowability and allocability of costs.

We reviewed \$173.9 million of obligations that IHS reported in the Headquarters FY 2005 cost statement as allocable to the area offices. This amount included \$13.4 million for scholarship programs authorized by sections 103, 104, and 112 of the Indian Health Care Improvement Act.

Our objective was to determine whether the obligations reported in the Headquarters FY 2005 cost statement were allowable under Medicare requirements.

The \$173,857,292 of obligations reported in the Headquarters FY 2005 cost statement included \$3,362,387 of unallowable obligations for the section 103 scholarship program, \$9,998,438 of obligations for the sections 104 and 112 scholarship programs on which we could not express an opinion, and \$349,999 of unallowable obligations related to construction. Based on our review of judgmentally selected obligations totaling \$60,859,432 and our limited review of IHS's internal controls, we concluded that the remaining \$160,146,468 reported in the cost statement was allowable.

We recommend that IHS:

- adjust a future Headquarters cost statement for \$3,362,387 of unallowable section 103 scholarship obligations that were reported in the FY 2005 cost statement,
- review Headquarters cost statements before and after FY 2005 and adjust a future cost statement for section 103 scholarship obligations that were reported,
- discontinue reporting section 103 scholarship obligations in its Headquarters cost statements,
- work with the Centers for Medicare & Medicaid Services to determine the appropriate credits to offset \$9,998,438 of sections 104 and 112 scholarship obligations that were reported in the FY 2005 cost statement and adjust a future cost statement for these credits,
- implement procedures to ensure that it identifies and reports appropriate credits in its cost statements for sections 104 and 112 scholarships for which recipients had not fulfilled their service obligations,
- adjust a future Headquarters cost statement for \$349,999 of unallowable obligations related to construction, and
- strengthen its policies and procedures to ensure that it does not include obligations reimbursed by other governmental entities in Headquarters cost statements.

In its comments on our draft report, IHS disagreed that the section 103 scholarship obligations were unallowable under Medicare and did not explicitly address our recommendation to adjust a future Headquarters cost statement for \$3,362,387. IHS disagreed with our second and third recommendations, did not explicitly address our fourth and fifth recommendations, and agreed with our sixth and seventh recommendations. Nothing in IHS's comments caused us to revise our findings or recommendations.

Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, Office of Inspector General reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act. Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov/>.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. 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 the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through email at [George.Reeb@oig.hhs.gov](mailto:George.Reeb@oig.hhs.gov). Please refer to report number A-09-07-00054 in all correspondence.

Attachment

cc:

Peter R. Orszag

Director

Office of Management and Budget

Charlene Frizzera

Acting Administrator

Centers for Medicare & Medicaid Services

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF THE INDIAN HEALTH  
SERVICE HEADQUARTERS  
COST STATEMENT FOR  
FISCAL YEAR 2005**



Daniel R. Levinson  
Inspector General

August 2009  
A-09-07-00054

# ***Office of Inspector General***

<http://oig.hhs.gov>

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Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, Office of Inspector General reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## EXECUTIVE SUMMARY

### BACKGROUND

The Indian Health Service (IHS), an agency in the U.S. Department of Health and Human Services, delivers clinical and preventive health services to American Indians and Alaska Natives. IHS provides care in more than 600 health care facilities, including hospitals and outpatient clinics. An IHS facility can be operated by IHS, an Indian tribe, or a tribal organization. IHS Headquarters (Headquarters) has overall responsibility for IHS programs, and 12 area offices located throughout the United States ensure that individual areas' health care needs are met.

Section 1880 of the Social Security Act (the Act) authorizes Medicare reimbursement to IHS hospitals and skilled nursing facilities. Section 1911 of the Act authorizes Medicaid reimbursement to all IHS providers for covered services. IHS providers use all-inclusive reimbursement rates to bill for certain Medicare and Medicaid services provided in IHS and tribal facilities. IHS develops these rates annually using financial and patient data from IHS and certain tribal hospitals. The financial data are obtained from the hospitals' Medicare cost reports, and the patient data are obtained from IHS's patient workload systems.

An IHS contractor prepares separate Medicare cost statements for Headquarters and most of the area offices. (IHS cost statements use obligations rather than costs because, according to IHS officials, IHS's accounting system was not designed to accumulate costs.) The Headquarters and area-office cost statements identify the portion of obligations from Headquarters and the area offices that is allowable under Medicare and allocable to IHS providers. Allowable Headquarters obligations are allocated to each area office. These obligations, combined with the area offices' own obligations, are then allocated among all IHS providers. Medicare cost statements are subject to the provisions of 42 CFR part 413 and the Medicare "Provider Reimbursement Manual" (the Manual), parts I and II, which establish standards for, among other things, the allowability and allocability of costs.

IHS included \$340.9 million of obligations in its Headquarters fiscal year (FY) 2005 cost statement. After IHS adjusted certain obligations, this amount decreased to \$199.7 million. IHS identified \$25.8 million of the \$199.7 million as unallowable for Medicare reimbursement. We reviewed the remaining \$173.9 million of obligations that IHS reported in the cost statement as allocable to the 12 area offices. This amount included \$13.4 million for scholarship programs authorized by sections 103, 104, and 112 of the Indian Health Care Improvement Act. These programs are intended to encourage American Indians and Alaska Natives to enter health professions and to ensure the availability of Indian health professionals, including nurses, to serve Indians.

We performed this audit at the request of the Office of Management and Budget.

## **OBJECTIVE**

Our objective was to determine whether the obligations reported in the Headquarters FY 2005 cost statement were allowable under Medicare requirements.

## **SUMMARY OF FINDINGS**

The \$173,857,292 of obligations reported in the Headquarters FY 2005 cost statement included \$3,362,387 of unallowable obligations for the section 103 scholarship program, \$9,998,438 of obligations for the sections 104 and 112 scholarship programs on which we could not express an opinion, and \$349,999 of unallowable obligations related to construction.

- Contrary to the Manual, part I, section 404.3, IHS reported \$3,362,387 for section 103 scholarships for recipients who were not required to provide any return benefit to IHS, such as providing health care services to the Indian population at the completion of their education programs. Because section 103 contained no requirement for any return benefit, the section 103 program cannot be said to have been designed to enhance the quality of health care in IHS or to improve the administration of IHS as required by the Manual, part I, section 402.1. Therefore, the obligations reported in the cost statement for section 103 scholarships were not related to patient care and not allowable under Medicare.
- Pursuant to the Manual, part I, section 404.3, sections 104 and 112 scholarships for recipients who did not fulfill required service obligations are not related to patient care and therefore are not allowable under Medicare. When scholarship recipients do not fulfill service obligations, IHS should offset the award amounts in future Headquarters cost statements. However, IHS did not have procedures to determine and report appropriate credits to offset the scholarship award amounts in its cost statements. For example, we identified two students who had received section 104 scholarships in FY 2005 for whom IHS could not determine whether service obligations were fulfilled. Because IHS could not identify appropriate credits to offset FY 2005 sections 104 and 112 scholarships totaling \$9,998,438, we were unable to express an opinion on this amount.
- Contrary to section 1862(a)(3) of the Act, IHS included in the cost statement \$349,999 for obligations related to construction that were reimbursed by the National Institutes of Health. IHS included these unallowable obligations because it did not properly identify and remove all obligations that were reimbursed by another governmental entity.

Based on our review of judgmentally selected obligations totaling \$60,859,432 and our limited review of IHS's internal controls, we concluded that the remaining \$160,146,468 reported in the cost statement was allowable.

## **RECOMMENDATIONS**

We recommend that IHS:

- adjust a future Headquarters cost statement for \$3,362,387 of unallowable section 103 scholarship obligations that were reported in the FY 2005 cost statement,
- review the Headquarters cost statements before and after FY 2005 and adjust a future cost statement for section 103 scholarship obligations that were reported,
- discontinue reporting section 103 scholarship obligations in its Headquarters cost statements,
- work with the Centers for Medicare & Medicaid Services to determine the appropriate credits to offset \$9,998,438 of sections 104 and 112 scholarship obligations that were reported in the FY 2005 cost statement and adjust a future cost statement for these credits,
- implement procedures to ensure that it identifies and reports appropriate credits in its cost statements for sections 104 and 112 scholarships for which recipients had not fulfilled their service obligations,
- adjust a future Headquarters cost statement for \$349,999 of unallowable obligations related to construction, and
- strengthen its policies and procedures to ensure that it does not include obligations reimbursed by other governmental entities in Headquarters cost statements.

## **INDIAN HEALTH SERVICE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In its comments on our draft report, IHS disagreed that the section 103 scholarship obligations were unallowable under Medicare and did not explicitly address our recommendation to adjust a future Headquarters cost statement for \$3,362,387. IHS disagreed with our second and third recommendations related to the section 103 program. IHS did not explicitly address our fourth and fifth recommendations, which related to the sections 104 and 112 programs. Finally, IHS agreed with our sixth and seventh recommendations, which related to obligations reimbursed by another governmental entity. IHS's comments are included in their entirety as the Appendix.

Nothing in IHS's comments caused us to revise our findings or recommendations.

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# INTRODUCTION

## BACKGROUND

### Indian Health Service

The Indian Health Service (IHS), an agency in the U.S. Department of Health and Human Services, delivers clinical and preventive health services to American Indians and Alaska Natives. IHS provides care in more than 600 health care facilities, including hospitals and outpatient clinics. An IHS facility can be operated by IHS, an Indian tribe, or a tribal organization.

IHS Headquarters (Headquarters) has overall responsibility for IHS programs. Twelve area offices located throughout the United States carry out the IHS mission by overseeing and administering programs that are designed to address individual areas' specific health care needs. Each area office provides regional support services to health care providers (e.g., hospitals, outpatient clinics, and community health centers) within its jurisdiction.

### Medicare and Medicaid Reimbursement

The Indian Health Care Improvement Act (IHCIA) of 1976 (P.L. No. 94-437) added section 1880 of the Social Security Act (the Act) to authorize reimbursement to IHS hospitals and skilled nursing facilities for services provided to Medicare-eligible individuals. Further, section 432 of the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (P.L. No. 106-554) and section 630 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (P.L. No. 108-173) amended section 1880 of the Act to authorize payments for Medicare Part B services provided in IHS hospitals and ambulatory care clinics. The IHCIA also added section 1911 of the Act to authorize Medicaid reimbursement to all IHS providers for covered services.

IHS providers use all-inclusive reimbursement rates to bill for certain Medicare and Medicaid services provided in IHS and tribal facilities. IHS develops these rates annually using financial and patient data from IHS and certain tribal hospitals. The financial data are obtained from the hospitals' Medicare cost reports, and the patient data are obtained from IHS's patient workload systems.

IHS calculates one set of reimbursement rates for the lower 48 States and one set of rates for Alaska:<sup>1</sup>

- Medicare outpatient per-visit rate,
- Medicare Part B inpatient ancillary per diem rate,

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<sup>1</sup>The all-inclusive reimbursement rates developed by IHS using the fiscal year (FY) 2005 Medicare cost reports were finalized and used for reimbursement purposes in FY 2007.

- inpatient hospital per diem rate (excluding physician/practitioner services), and
- outpatient per-visit rate (excluding Medicare).<sup>2</sup>

### **Cost Statements for Headquarters and Area Offices**

IHS contracts with Eighteen Nineteen Group, Inc. (Eighteen Nineteen), to prepare separate cost statements for Headquarters and 10 of the 12 area offices.<sup>3</sup> IHS cost statements use obligations rather than costs because, according to IHS officials, IHS's accounting system was not designed to accumulate costs. The Centers for Medicare & Medicaid Services (CMS), which administers the Medicare program, and IHS agreed that IHS could use obligations instead of costs when preparing its cost statements.

The Headquarters and area-office cost statements identify the portion of obligations from Headquarters and the area offices that is allowable under Medicare and allocable to IHS providers. Allowable Headquarters obligations are allocated to the 12 area offices. These obligations, combined with the area offices' own obligations, are then allocated among all IHS providers. Headquarters and area office obligations that are allocated to IHS hospitals are included in each hospital's cost report.

Medicare cost statements are subject to the provisions of 42 CFR part 413 and the Medicare "Provider Reimbursement Manual" (the Manual), parts I and II, which establish standards for, among other things, the allowability and allocability of costs. The Manual, part I, chapter 4, addresses the costs of educational programs.

IHS included \$340.9 million of obligations in its Headquarters cost statement for FY 2005 (October 1, 2004, through September 30, 2005). After IHS adjusted certain obligations, this amount decreased to \$199.7 million. IHS identified \$25.8 million of the \$199.7 million as unallowable for Medicare reimbursement and allocated the remaining \$173.9 million to the 12 area offices.

### **Office of Management and Budget Request**

The Office of Management and Budget requested that we evaluate a sample of IHS cost statements that were used in the development of the all-inclusive Medicare and Medicaid reimbursement rates. We reviewed the FY 2005 cost statement for Headquarters, the subject of this audit. Separate reports will address the FY 2005 cost statements for three area offices: Navajo (A-07-08-02721), Oklahoma City (A-06-07-00080), and Phoenix (A-09-07-00086).

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<sup>2</sup>The inpatient hospital per diem and outpatient per-visit rates are the encounter rates applicable to Medicaid services.

<sup>3</sup>Cost statements are not prepared for the California and Portland area offices because the areas for which they are responsible do not have any IHS hospitals.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether the obligations reported in the Headquarters FY 2005 cost statement were allowable under Medicare requirements.

### **Scope**

We reviewed the \$173,857,292 of obligations that IHS reported in its Headquarters FY 2005 cost statement as allocable to the 12 area offices.

We did not perform a detailed review of IHS's internal controls. We limited our review to obtaining an understanding of IHS's and Eighteen Nineteen's policies and procedures related to the accounting, accumulation, and reporting of obligations. We performed our fieldwork at the Headquarters offices in Rockville, Maryland, and Albuquerque, New Mexico, from February 2007 through June 2008.

### **Methodology**

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reconciled IHS's obligations to its FY 2005 appropriations;
- reviewed the explanatory notes for the cost statement;
- reviewed IHS's reclassifications and adjustments of obligations;
- reviewed a judgmental sample of obligations;
- reviewed the method that IHS used to allocate Headquarters obligations to the 12 area offices;
- verified whether the obligations allocated to the area offices were accurate;
- interviewed IHS and Eighteen Nineteen officials; and
- consulted with CMS officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## FINDINGS AND RECOMMENDATIONS

The \$173,857,292 of obligations reported in the Headquarters FY 2005 cost statement included \$3,362,387 of unallowable obligations for the section 103 scholarship program, \$9,998,438 of obligations for the sections 104 and 112 scholarship programs on which we could not express an opinion, and \$349,999 of unallowable obligations related to construction. Based on our review of judgmentally selected obligations totaling \$60,859,432 and our limited review of IHS's internal controls, we concluded that the remaining \$160,146,468 reported in the cost statement was allowable.

### OBLIGATIONS FOR SCHOLARSHIP PROGRAMS

In FY 2005, Headquarters provided \$13.4 million in grant funds to educational institutions, which, in turn, provided scholarships to qualified students under programs authorized by sections 103, 104, and 112 of the IHCA. The sections 103 and 104 scholarship programs are intended to encourage American Indians and Alaska Natives to enter health professions and to ensure the availability of Indian health professionals to serve Indians.<sup>4</sup> The section 112 scholarship program is intended to increase the number of nurses, nurse midwives, nurse anesthetists, and nurse practitioners who deliver health care services to Indians.<sup>5</sup>

#### Federal Requirements

Federal regulations (42 CFR § 413.9) state that reimbursement to providers for services delivered to Medicare beneficiaries must be based on "the reasonable cost of services . . . related to the care of beneficiaries." Such reasonable costs include "all necessary and proper costs incurred in furnishing . . . services." Section 413.9 also states that "necessary and proper costs" are "costs that are appropriate and helpful in developing and maintaining the operation of patient care facilities and activities."

The Manual, part I, chapter 4, provides guidance on which costs are related to patient care and therefore allowable under 42 CFR § 413.9. Section 402.1 of chapter 4 states: "[T]o be an allowable cost, the educational activity must be . . . designed to enhance the quality of health care in the institution or to improve the administration of the institution." In its discussions of particular examples of allowable educational programs, chapter 4 makes clear that the institution must receive a benefit, such as the recipient of educational benefits providing services in the institution after completing the educational program. Section 404.3 states that the costs related to an educational program not specifically discussed in chapter 4 may still be allowable if the costs "meet the conditions described in this chapter." The section then provides an example of an allowable program: ". . . [A]n educational program for which costs may be allowable is a program where nurses are sent to college to obtain Bachelor of Science degrees in nursing,

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<sup>4</sup>P.L. No. 96-537 amended section 103 of the IHCA to provide scholarships for health profession preparatory and pregraduate education. P.L. No. 100-713 amended section 104 of the IHCA to provide scholarships to Indians enrolled full time in an accredited school of medicine or another professional health field.

<sup>5</sup>P.L. No. 100-713 amended the IHCA to authorize funding for section 112 nursing scholarships.

related health care fields, or other advanced training courses in such subjects on the condition that they work for the hospital for a specific period following completion of the program.”

### **Section 103 Scholarship Program**

Under the section 103 scholarship program, IHS awarded to educational institutions \$3,362,387 for health professions preparatory and pregraduate scholarships for American Indian and Alaska Native students. These students had, among other qualifications, successfully completed high school or a high school equivalency program and had enrolled in courses that would prepare them for acceptance into professional health schools or lead to a bachelor’s degree in specific preprofessional areas, such as premedicine and predentistry. To be eligible for a section 103 scholarship, a recipient must indicate on his or her application the intent “to provide health services to Indians upon completion of health professions education or training” (42 CFR §§ 136.322 and 136.372).

Contrary to the Manual, part I, section 404.3, the Headquarters cost statement included \$3,362,387 for section 103 scholarships for recipients who were not required to provide health care services to the Indian population at the completion of their education programs. Because section 103 contained no requirement for any return benefit to IHS, such as a service obligation, the section 103 program cannot be said to have been designed to enhance the quality of health care in IHS or to improve the administration of IHS as required by the Manual, part I, section 402.1. Therefore, the obligations reported in the cost statement for section 103 scholarships were not related to patient care and not allowable under Medicare.

### **Sections 104 and 112 Scholarship Programs**

IHS awarded to educational institutions \$8,288,181 for health professions scholarships under section 104 and \$1,710,257 for nursing scholarships under section 112. Section 104 scholarships were awarded to American Indian and Alaska Native students who had enrolled in full-time and part-time courses of study in health professions needed by IHS. Section 112 scholarships were awarded to students who had enrolled in full-time study programs leading to a degree as a nurse, nurse midwife, nurse anesthetist, or nurse practitioner.

Upon acceptance of a section 104 or 112 scholarship, the recipient is subject to a service obligation or payback requirements if he or she does not fulfill the obligation. Each recipient must sign an IHS contract that requires 1 year of service for every year of scholarship support that he or she receives, with a minimum obligation of 2 years. The recipient may fulfill the service obligation in IHS, a program conducted under a contract or compact entered into under the Indian Self-Determination Act, an urban Indian organization assisted under Title V of the IHCIA, or a private practice in a designated health professional shortage area addressing the health care needs of a substantial number of Indians.<sup>6</sup>

IHS requires each scholarship recipient to provide updates each quarter or semester on his or her progress in the education program and, after graduation, to provide documentation verifying

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<sup>6</sup>For the section 104 program, the service obligation may also be met by providing services to the tribe in which the scholarship recipient is enrolled.

employment in one of the approved areas. A recipient fails to meet the contractual requirements if he or she does not complete the education for which the scholarship was awarded or begin or complete the service obligation. Once in default, the recipient is required to repay all scholarship funds paid to him or her.<sup>7</sup>

Pursuant to the Manual, part I, section 404.3, sections 104 and 112 scholarships are allowable for Medicare reimbursement as long as recipients fulfill required service obligations at the end of their education programs. Conversely, scholarships for recipients who do not fulfill service obligations are not related to patient care and therefore are not allowable under Medicare.

When scholarship recipients do not fulfill service obligations, IHS should offset the award amounts in future Headquarters cost statements. However, IHS did not have procedures to determine and report appropriate credits to offset scholarship award amounts in its cost statements. For example, we identified two students who had received section 104 scholarships in FY 2005 for whom IHS could not determine whether service obligations were fulfilled. IHS officials verified that these recipients did not work for IHS. However, the officials informed us that they could not determine whether the obligations were fulfilled in another approved area. Because IHS could not identify appropriate credits to offset sections 104 and 112 scholarships totaling \$9,998,438 that were included in the Headquarters cost statement, we were unable to express an opinion on this amount.

## **OBLIGATIONS RELATED TO CONSTRUCTION**

Section 1862(a)(3) of the Act states that no payment may be made for any expenses incurred for services that are paid for directly or indirectly by a governmental entity.

IHS appropriately removed \$3.9 million from the Headquarters cost statement for obligations related to construction of the Rocky Mountain Laboratory in Hamilton, Montana, that were reimbursed by the National Institutes of Health. However, contrary to section 1862(a)(3) of the Act, IHS included \$349,999 for salaries, fringe benefits, and travel obligations related to construction of the laboratory that were also reimbursed by the National Institutes of Health. IHS included these unallowable obligations because it did not properly identify and remove all obligations that were reimbursed by another governmental entity.

## **RECOMMENDATIONS**

We recommend that IHS:

- adjust a future Headquarters cost statement for \$3,362,387 of unallowable section 103 scholarship obligations that were reported in the FY 2005 cost statement,
- review the Headquarters cost statements before and after FY 2005 and adjust a future cost statement for section 103 scholarship obligations that were reported,

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<sup>7</sup>A recipient of a section 104 scholarship is liable to repay up to three times the amount of all scholarship funds paid to him or her and to the school on his or her behalf, plus interest, if the recipient fails to begin or complete the required service obligation or does not properly defer the service obligation.

- discontinue reporting section 103 scholarship obligations in its Headquarters cost statements,
- work with CMS to determine the appropriate credits to offset \$9,998,438 of sections 104 and 112 scholarship obligations that were reported in the FY 2005 cost statement and adjust a future cost statement for these credits,
- implement procedures to ensure that it identifies and reports appropriate credits in its cost statements for sections 104 and 112 scholarships for which recipients had not fulfilled their service obligations,
- adjust a future Headquarters cost statement for \$349,999 of unallowable obligations related to construction, and
- strengthen its policies and procedures to ensure that it does not include obligations reimbursed by other governmental entities in Headquarters cost statements.

## **INDIAN HEALTH SERVICE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In its comments on our draft report, IHS disagreed that the section 103 scholarship obligations were unallowable under Medicare and did not explicitly address our recommendation to adjust a future Headquarters cost statement for \$3,362,387. IHS disagreed with our second and third recommendations related to the section 103 program. IHS did not explicitly address our fourth and fifth recommendations, which related to the sections 104 and 112 programs. Finally, IHS agreed with our sixth and seventh recommendations, which related to obligations reimbursed by another governmental entity. IHS's comments are included in their entirety as the Appendix.

Nothing in IHS's comments caused us to revise our findings or recommendations.

### **Section 103 Scholarship Program**

#### *Indian Health Service Comments*

IHS stated that it believes that the section 103 program is a cost of operating the IHS programs and should therefore be considered a cost under Medicare payment rules. IHS also commented that the section 103 program was designed to attract American Indian and Alaska Native students into IHS health care programs and to help IHS achieve its mission of raising the health status of American Indians and Alaska Natives to the highest level. IHS disagreed with our second and third recommendations for the same reasons.

#### *Office of Inspector General Response*

We agree that the section 103 scholarship program was designed to attract American Indian and Alaska Native students into IHS health care programs and is a cost of IHS operations. However,

chapter 4 of the Manual is clear that the costs of educational programs are allowable under Medicare only if the institution receives a benefit. Because the section 103 program does not have a required service obligation or other return benefit to IHS, there is no guarantee that recipients of section 103 scholarships will enter IHS health care programs or provide health care services to the Indian population.

## **Sections 104 and 112 Scholarship Programs**

### *Indian Health Service Comments*

IHS did not explicitly address our recommendations that it work with CMS to determine the appropriate credits to offset sections 104 and 112 scholarship obligations and implement procedures to identify and report appropriate credits in its cost statements. IHS commented that the scholarship award amounts in future cost statements should be offset for recipients who fail to complete their required service obligations. However, IHS noted that situations do arise when recipients are unable to fulfill their service obligations due to illness or a family crisis and that students may be granted waivers of payback requirements. IHS stated that it strongly disagrees that future cost reports should be adjusted for such forgiveness.

### *Office of Inspector General Response*

Chapter 4 of the Manual is clear that the costs of educational programs are allowable only if the institution receives a benefit. However, if recipients were unable to fulfill their service obligations due to hardship, IHS can work with CMS to determine the appropriate actions for those section 104 and 112 scholarship obligations.

# **APPENDIX**



DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Public Health Service

Indian Health Service  
Rockville MD 20852

MAY 08 2009

TO: Inspector General

FROM: Director

SUBJECT: Response to Office of Inspector General Draft Audit Report, "Audit of the Indian Health Service Headquarters Cost Statement for Fiscal Year 2005 (A-09-07-00054)," issued March 16, 2009

The Indian Health Service (IHS) has reviewed the Office of Inspector General (OIG) draft audit report entitled, "Audit of the Indian Health Service Headquarters Cost Statement for Fiscal Year 2005," and has the following recommendations and comments.

**1. *OIG Recommendation:*** "Adjust a future Headquarters cost statement for \$3,362,387 of unallowable Section 103 scholarship obligations that were reported in the FY 2005 cost statement."

**IHS Response:** The principal OIG position is that the Section 103 Scholarship Program has no payback requirement and therefore cannot be said to have been designed to enhance healthcare quality within the IHS or to improve the administration of the Agency as required by the Medicare Manual, Part I, section 402.1.

In 1976, Congress enacted the Indian Health Care Improvement Act (IHCIA) Public Law (P.L.) 94-437, as amended, which authorizes the IHS to expand healthcare recruitment for the Indian health system and make grants for eligible American Indians and Alaska Natives through a scholarship program. Preparing students to enter a health profession training program, the IHS Division of Health Professions Support's Scholarship Program (Sections 103 and 104) consists of three programs; the Preparatory Scholarship Program; Pre-Graduate Scholarship Program; and the Health Professions Scholarship Program.

The Preparatory Scholarship Program (Section 103) provides financial assistance for American Indian and Alaska Native (AI/AN) students enrolled in compensatory or preparatory courses leading to entry into health professional school, including, but not limited to, nursing, pharmacy, physician assistant, physical therapy, and others. The Pre-Graduate Scholarship Program (Section 103) provides financial support for AI/AN students enrolled in courses leading to a bachelor's degree in specific pre-professional areas, which will allow for application to a postgraduate health professions program such as medicine, dentistry, podiatry, optometry, or others as needed by Indian health system programs. The Health Professions Scholarship Program (Section 104) provides support for AI/AN students enrolled in health professions or allied health professions programs. The Indians Into Nursing grant program (Section 112) provides funding to colleges and universities to train nursing students. Once accepted for funding from these programs, both Section 104 and Section 112 students incur a service obligation and payback requirements.

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Many AI/AN students are unable to attend health or allied health professions schools (e.g., medical, dental, nursing, pharmacy, etc.) without receiving financial support for undergraduate academic training. Many Section 103 scholarship recipients are accepted to health or allied professions schools (some receiving an IHS Section 104 scholarship) and subsequently seek and obtain employment within the Indian health system following the completion of their programs of study.

In fiscal year (FY) 2005, there were 161 Preparatory and Pre-Graduate Scholarship Program (Section 103) students in active status (recipients of Section 103 scholarship funding for their education). Of that total, 56 (or 34.8 percent) of Section 103 students went on to enter a health or allied professions school and received an IHS Health Professions (Section 104) or Indians Into Nursing (Section 112) scholarship. Once these Section 104 and 112 scholarship recipients completed their education/training, they went to work in the Indian health system. Other Section 103 scholars were unable to enter their desired health or allied health profession, but did return to the Indian health system in health related support roles (e.g., nursing assistants). The IHS believes the Section 103 scholarship program is vital to expanding the pool of qualified applicants for the 104 and 112 scholarships and therefore provides the Agency with needed flexibility to address the medical staffing needs of AI/AN people.

The legislation authorizing Section 103 makes clear that the purpose of the program is to ensure the availability of IHS professionals to serve eligible AI/AN beneficiaries. The Agency believes that the Section 103 scholarship program is a cost of operating the IHS programs and should therefore be considered a cost under the Medicare payment rules. The program is designed to attract AI/AN students into IHS healthcare programs and to help the Agency achieve our mission of raising the health status of AI/AN people to the highest level.

In addition, the amount involved represents a very small portion of the cost used in developing Medicare and Medicaid program rates. Specifically, the \$3.4 million in question is less than three-tenths of one percent of the total \$1.144 billion cost incurred for hospital inpatient and outpatient activities in the Medicare and Medicaid programs during FY 2005.

**2. *OIG Recommendation: "Review Headquarters cost statement before and after FY 2005 and adjust a future cost statement for Section 103 scholarship obligations that were reported."***

**IHS Response:** The IHS disagrees with this recommendation for the reasons cited in No.1 above.

**3. *OIG Recommendation: "Discontinue reporting Section 103 scholarships obligations in its Headquarters cost statements."***

**IHS Response:** The IHS disagrees with this recommendation for reasons cited in No. 1 above.

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**4. *OIG Recommendation:*** *“Work with CMS to determine the appropriate credits to offset \$9,998,438 of Sections 104 and 112 scholarship obligations that were reported in the FY 2005 cost statement and adjust a future cost statement for these credits.”*

**IHS Response:** The principal OIG position is that the Section 104 and 112 scholarship obligations for awardees who do not fulfill service requirements should be treated as a disallowable cost. The OIG noted that the IHS did not have a system in place to determine and report appropriate credits to offset scholarship award amounts in Agency cost statements. The OIG seems to take the view that the FY 2005 obligations under Sections 104 and 112 for students who failed to fulfill service obligations cannot be considered as an allowable cost of IHS operations for Medicare purposes. Further, the OIG seems to say that such cost/obligations cannot be said to have been designed to enhance healthcare quality within the IHS or to improve the administration of the Agency as required by the Medicare Manual, Part I, section 402.1.

The IHS believes that the Section 104 and 112 scholarship program obligations represent a cost of operating the IHS programs and therefore should be considered an allowable cost under the Medicare payment rules. These programs are designed to attract AI/AN students into IHS health care programs to ensure sufficient qualified personnel to operate IHS programs and to help the Agency achieve our goal of improving healthcare for eligible American Indians and Alaska Natives.

In our experience, very few students and graduates default on their IHS service obligation. In fact, a recent study of 1,500 scholars showed that on average, IHS scholarship recipients stay 3.92 years beyond their required service obligation. Scholars who cannot finish school or choose not to complete all service obligation requirements must repay the Federal Government for the costs related to their education (and in some cases, penalties and interest). Since the inception of the Section 104 and Section 112 programs, any funds collected by the Program Support Center related to scholarship defaults have been sent to the U.S. Treasury and are not returned to the Agency. The IHS is currently pursuing the ability to recoup scholarship default costs from the Treasury. The Agency agrees with the OIG that all obligations incurred as a consequence of a student's failure to complete program requirements and/or failure to repay the IHS via service should be used to adjust the Agency's future cost reports obligations.

The IHS notes that situations do arise when a student fails to complete their education or fulfill their service obligation (due to illness, family crisis, etc.) and are subsequently unable to provide scholarship payback. Under certain circumstances and in accordance with requirements specified in the Indian Health Care Improvement Act, students can be granted waivers of payback requirements. The IHS strongly disagrees that future cost reports should be adjusted for such forgiveness. The IHS believes that these costs reflect the true costs of the overall program and that the scholarship expenses are necessary to ensure a sufficient pool of qualified employees are available to operate IHS programs and to help the Agency achieve our goal of improving healthcare for underserved American Indians and Alaska Natives.

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**5. *OIG Recommendation:*** “*Implement procedures to ensure that it identifies and reports appropriate credits in its cost statements for sections 104 and 112 scholarships for which recipients had not fulfilled their service obligations.*”

**IHS Response:** The IHS agrees with the OIG on the importance of improving our procedures of tracking student awards, monitoring future payback service requirements, and ensuring that future year obligations include offsets for any dollar paybacks received by the IHS related to a recipient's failure to complete their education or inability to perform service paybacks. The IHS Scholarship Program database has been updated since the OIG's 2005 audit and currently has the capability of determining the employment status of former Section 104 and Section 112 scholarship recipients. IHS scholarship analysts track students throughout their academic training and through their service commitment. In late FY 2008 and early FY 2009, the IHS Scholarship Program conducted an audit of Section 104 and 112 scholar records from FY 2000 through FY 2008 to ensure scholarship program records were up-to-date, and that scholarship recipients who had completed training were either in service, had completed service, or had been administratively reviewed and placed in a default status.

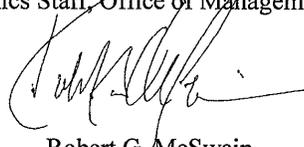
**6. *OIG Recommendation:*** “*Adjust a future Headquarters cost statement for \$349,999 of unallowable obligations related to construction.*”

**IHS Response:** The IHS agrees with the OIG recommendation.

**7. *OIG Recommendation:*** “*Strengthen its policies and procedures to ensure that it does not include obligation reimbursed by other governmental entities in Headquarters cost statements.*”

**IHS Response:** The IHS agrees with the OIG recommendation.

If you have any questions concerning this response, please contact Ms. Melissa A. Hines, Program Analyst, Program Integrity and Ethics Staff, Office of Management Services, IHS, at (301) 443-4137.



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