



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

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

April 27, 2006

Report Number A-07-04-03055

Mr. Kevin W. Concannon, Director
Iowa Department of Human Services
Hoover State Office Building, 5th Floor
Des Moines, Iowa 50319

Dear Mr. Concannon:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General (OIG) final report entitled "Review of Medicaid Support for Graduate Medical Education in Iowa." A copy of this report will be forwarded to the HHS action official noted on the following page for review and any action deemed necessary.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, extension 274, or 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-07-04-03055 in all correspondence.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Patrick J. Cogley".

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

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Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICAID SUPPORT
FOR GRADUATE MEDICAL
EDUCATION IN IOWA**



Daniel R. Levinson
Inspector General

April 2006
A-07-04-03055

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 about the increase in the payments and questions about whether Medicaid funds were involved in intergovernmental transfers.

Pursuant to the Social Security Act (the Act), Medicare is required to fund 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 in that States have latitude in determining how to best use available graduate medical education funds. In Iowa, the Department of Human Services (Iowa) is the State Medicaid agency that administers the program.

Similar to Medicare, Iowa 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.

During State fiscal year (SFY) 2000, the Iowa Medicaid program provided \$47.5 million (\$30 million Federal Share) in graduate medical education payments to 23 teaching hospitals.

OBJECTIVE

Our objective was to determine if intergovernmental transfers between Iowa and publicly owned hospitals included any Medicaid graduate medical education funds.

SUMMARY OF RESULTS

Medicaid graduate medical education funds were included in intergovernmental transfers between Iowa and the University of Iowa Hospitals.

The University of Iowa Hospitals (a publicly owned hospital) returned Medicaid graduate medical education funds of \$24.1 million to the State as intergovernmental transfers with no assurance that funds would be used for the graduate medical education program or to provide services to Medicaid-eligible individuals. Since the entire \$24.1 million graduate medical education payment was returned, Iowa incurred no liability for the overall graduate medical education program and actually realized a net gain of \$6.6 million.¹

¹Iowa incurred no liability for the graduate medical education program because the intergovernmental transfer provided by the University of Iowa less the State's share gave Iowa a net gain of \$6.6 million.

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 under its administrative control.

CMS has been working with States to halt the inappropriate use of intergovernmental transfers that artificially inflate the Federal share of the Medicaid program. CMS required Iowa to make provisions in its State plan to rescind the requirement for publicly owned entities to return graduate medical education payments to the State through intergovernmental transfers. Iowa stopped requiring publicly owned entities to return graduate medical education payments to the State through intergovernmental transfers as of March 2005. Therefore, we have no recommendations.

STATE AGENCY'S COMMENTS

We provided the State agency with an opportunity to respond to the audit findings. Because the audit did not contain any recommendations, the State agency elected not to submit written comments on the audit results in this report.

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INTRODUCTION

BACKGROUND

The Office of Management and Budget requested that we review Medicaid payments to hospitals for medical education because it had concerns about the increase in 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 (the 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 Iowa, the Department of Human Services (Iowa) administers the Medicaid 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 Medicaid expenditures according to a defined formula, which yields the Federal medical assistance percentage. During State fiscal year (SFY) 2000, the Federal percentage for Iowa was 63.32 percent during the first quarter of SFY 2000 and 63.06 percent during the remaining three quarters of SFY 2000.

Graduate Medical Education

Medicare is the traditional funding source for the graduate medical education program under section 1886(h) of the Act. Unlike Medicare, Medicaid does not mandate funding of graduate medical education. Nevertheless, almost all States have chosen to provide such funding.

In 1987, Iowa filed a State plan amendment and obtained CMS approval to receive graduate medical education reimbursement as an add-on to its hospital care payment. Since 1997, Iowa has used the Graduate Medical Education and Disproportionate Share Fund to pay hospitals for graduate medical education. Iowa funds its graduate medical education program with general budget appropriations.

The Iowa graduate medical education 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 State covers such costs as salaries for medical residents and teaching faculty, as well as fringe benefits. For purposes of this review, direct and indirect medical education is referred to as graduate medical education.

Intergovernmental Transfers

In certain circumstances, Medicaid allows the use of public funds (funds from county-, city-, or State-owned facilities) to fund the State's share of Medicaid expenditures. 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 under its administrative control. Prior Office of Inspector General 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.

CMS has been working with States to halt the inappropriate use of governmental transfers that artificially inflate the Federal share of the Medicaid program.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine if intergovernmental transfers between Iowa and publicly owned hospitals included any Medicaid graduate medical education funds.

Scope

Our review included the 23 teaching hospitals that received Medicaid graduate medical education payments from Iowa during the period from July 1, 1999, through June 30, 2000 (SFY 2000). These hospitals received a total of \$47.5 million from the program in SFY 2000. We visited 8 of the 23 hospitals. One of the hospitals, the University of Iowa Hospitals, was publicly owned.

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

We conducted fieldwork at selected hospital facilities and at the Department of Human Services's offices.

Methodology

We interviewed CMS officials and State fiscal staff to determine if intergovernmental transfers included any Medicaid graduate medical education funds. We also reviewed documentation of supplemental graduate medical education payments to the University of Iowa Hospitals and the subsequent return payments to Iowa.

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

RESULTS OF REVIEW

Medicaid graduate medical education funds were included in intergovernmental transfers between Iowa and the University of Iowa Hospitals.

GRADUATE MEDICAL EDUCATION FUNDS INVOLVED IN INTERGOVERNMENTAL TRANSFERS

Federal 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.

MEDICAID GRADUATE MEDICAL EDUCATION FUNDS WERE INCLUDED IN INTERGOVERNMENTAL TRANSFERS

Intergovernmental transfers between the University of Iowa Hospitals (a publicly owned hospital) and the State did involve Medicaid graduate medical education funds. Medicaid graduate medical education payments in Iowa for SFY 2000 totaled \$47.5 million and included supplemental indirect medical education payments of \$24.1 million.

Iowa paid the \$24.1 million (\$15.2 million Federal share) in supplemental graduate medical education payments to the University of Iowa Hospitals, which then returned the payments in their entirety to the State as intergovernmental transfers on the same day they were received. Once the State received them, the Federal share of the returned payments was deposited into Iowa's General Fund, Miscellaneous Receipts, which is an account used by all State agencies. There was no assurance that the funds were used for the graduate medical education program or to provide services to Medicaid-eligible individuals. The State portion was returned to the Medical Assistance Program.¹

THE STATE INCURRED NO LIABILITY FOR THE GRADUATE MEDICAL EDUCATION PROGRAM

Since the entire \$24.1 million supplemental graduate medical education payment was returned, Iowa incurred no liability for the overall graduate medical education program and actually realized a net gain of \$6.6 million for the State of Iowa, as illustrated in the table below.

Table: Calculation of Iowa's Net Gain

<u>Total Medicaid Graduate Medical Education Payments</u>	<u>Federal Share</u>	<u>State Share</u>	<u>Intergovernmental Transfer to State</u>	<u>State's Net Gain</u>
\$47,479,294	\$29,986,051	\$17,493,242	\$24,110,881	\$6,617,639

¹Federal regulations (42 CFR §430.0) specify that the medical assistance program is a jointly funded Federal-State program.

The Federal share of the \$47.5 million graduate medical education program was \$30 million, and the State's share should have been \$17.5 million. However, Iowa incurred no liability for the graduate medical education program because the intergovernmental transfer provided by the University of Iowa less the State's share gave Iowa a net gain of \$6.6 million.

Intergovernmental transfers in the Iowa Medicaid graduate medical education program undermine the basic premise of Medicaid, which is that the program is a joint State and Federal effort.

CMS has been working with States to halt the inappropriate use of intergovernmental transfers that artificially inflate the Federal share of the Medicaid program. CMS required Iowa to make provisions in its State plan to rescind the requirement for publicly owned entities to return graduate medical education payments to the State through intergovernmental transfers. Iowa stopped requiring publicly owned entities to return graduate medical education payments to the State through intergovernmental transfers as of March 2005. Therefore, we have no recommendations.

STATE AGENCY'S COMMENTS

We provided the State agency with an opportunity to respond to the audit findings. Because the audit did not contain any recommendations, the State agency elected not to submit written comments on the audit results presented in this report.