DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

FEB 23 2006

TO: Herb Kuhn
Director, Center for Medicare Management
Centers for Medicare & Medicaid Services

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

SUBJECT: Graduate Medical Education for Dental Residents Claimed by the University of Iowa Hospitals and Clinics for Fiscal Years 2001 and 2002 (A-04-04-06011)

Attached is an advance copy of our final report on Medicare graduate medical education (GME) payments for dental residents claimed by the University of Iowa Hospitals and Clinics (the Hospital) in Iowa City, IA. We will issue this report to the Hospital within 5 business days.

Based on congressional interest, we reviewed 10 hospitals to determine the effect of the Balanced Budget Act of 1997 on direct and indirect GME payments for dental residents included in hospitals' counts of full-time equivalent (FTE) residents. That legislation permitted hospitals to count FTE residents who train in nonhospital settings in their calculations of indirect, in addition to direct, GME payments. This report focuses on the Hospital's arrangements with the University of Iowa College of Dentistry, which is a nonhospital setting.

Our objective was to determine whether the Hospital included the appropriate number of dental residents in its FTE counts when computing Medicare GME payments for fiscal years (FYs) 2001 and 2002.

The Hospital generally included the appropriate number of dental residents in its FTE counts used to compute FYs 2001 and 2002 GME payments. However, the number of FTE residents claimed by the Hospital included didactic, i.e., classroom, time for the residents when working in nonhospital settings. We have set aside $338,490 as the amount that the Hospital claimed corresponding to this didactic time for the Centers for Medicare & Medicaid Services (CMS) to determine whether there is a basis to disallow this claimed amount based on current CMS guidance.

We recommend that the Hospital work with CMS to resolve the $338,490 related to FYs 2001 and 2002 FTEs for the didactic time of residents assigned to nonhospital settings.

The Hospital acknowledged that it claimed the didactic time of residents assigned to nonhospital settings but believed that the time was allowable. We continue to recommend that the Hospital work with CMS to resolve this issue.

If you have any questions or comments about this report, please 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 Lori S. Pilcher, Regional Inspector General for Audit Services, Region IV, at (404) 562-7750. Please refer to report number A-04-04-06011.

Attachment

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General
Office of Audit Services

REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

FEB 24 2006

Report Number: A-04-04-06011

Ms. Donna Katen-Bahensky
Director and Chief Executive Officer
University of Iowa Hospitals & Clinics
200 Hawkins Drive, 1353 JCP
Iowa City, Iowa 52242-1009

Dear Ms. Katen-Bahensky:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Graduate Medical Education for Dental Residents Claimed by the University of Iowa Hospitals and Clinics for Fiscal Years 2001 and 2002." A copy of this report will be forwarded to the action official named on the next 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 the HHS action 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.

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).

Please refer to report number A-04-04-06011 in all correspondence.

Sincerely,

Lori S. Pilcher
Regional Inspector General
for Audit Services, Region IV

Enclosures

HHS Action Official:

Mr. David Dupre
Acting Regional Administrator
Centers for Medicare & Medicaid Services, Region V
Department of Health and Human Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

GRADUATE MEDICAL EDUCATION FOR DENTAL RESIDENTS CLAIMED BY THE UNIVERSITY OF IOWA HOSPITALS AND CLINICS FOR FISCAL YEARS 2001 AND 2002

Daniel R. Levinson
Inspector General

FEBRUARY 2006
A-04-04-06011

Office of Inspector General

http://oig.hhs.gov

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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

The Medicare program makes two types of payments to teaching hospitals to support graduate medical education (GME) programs for physicians and other practitioners. Direct GME payments are Medicare's share of the direct costs of training residents, such as salaries and fringe benefits of residents and faculty and hospital overhead expenses. Indirect GME payments cover the additional operating costs that teaching hospitals incur in treating inpatients, such as the costs associated with using more intensive treatments, treating sicker patients, using a costlier staff mix, and ordering more tests. Payments for both direct and indirect GME are based, in part, on the number of full-time equivalent (FTE) residents trained by the hospital. The number of FTEs used for the current year's payments is the 3-year "rolling average" of the FTE count for the current year and the preceding 2 cost-reporting years.

Based on congressional interest, we undertook a review of 10 hospitals to determine the effect of the Balanced Budget Act of 1997 on direct and indirect GME payments for dental residents included in hospitals' counts of FTE residents. That legislation permitted hospitals to count FTE residents who train in nonhospital settings in their calculations of indirect, in addition to direct, GME payments.

This report focuses on the University of Iowa Hospitals and Clinics (the Hospital) and its arrangements with the University of Iowa College of Dentistry (the Dental School). The Dental School is a nonhospital setting. In July 2000, the Hospital entered into an agreement with the Dental School to allow the Hospital to claim GME payments for dental residents in return for reimbursing the Dental School for residents' salaries and related teaching faculty costs. For all FTEs, including dental FTEs, the Hospital claimed about $45 million in direct ($13 million) and indirect ($32 million) GME payments for the 2-year period that ended June 30, 2002. FTEs used to calculate reimbursable GME costs averaged 372 per year.

OBJECTIVE

Our objective was to determine whether the Hospital included the appropriate number of dental residents in its FTE counts when computing Medicare GME payments for fiscal years (FYs) 2001 and 2002.

SUMMARY OF FINDING

The Hospital generally included the appropriate number of dental residents in its FTE counts used to compute FYs 2001 and 2002 GME payments. However, the number of FTE residents claimed by the Hospital included didactic, i.e., classroom, time for the residents when working in nonhospital settings. We have set aside $338,490 as the amount that the Hospital claimed corresponding to this didactic time for the Centers for Medicare & Medicaid Services (CMS) to determine whether there is a basis to disallow this claimed amount based on current CMS guidance.

RECOMMENDATION

We recommend that the Hospital work with CMS to resolve the $338,490 related to FYs 2001 and 2002 FTEs for the didactic time of residents assigned to nonhospital settings.

HOSPITAL'S COMMENTS

The Hospital acknowledged that it claimed the didactic time of residents assigned to nonhospital settings but believed that the time was allowable.

The complete text of the Hospital's comments is included as the appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We continue to recommend that the Hospital work with CMS to resolve this issue.

TABLE OF CONTENTS

INTRODUCTION

BACKGROUND

Medicare Payments for Graduate Medical Education

Since its inception in 1965, the Medicare program has shared in the costs of educational activities incurred by participating providers. Medicare makes two types of payments to teaching hospitals to support graduate medical education (GME) programs for physicians and other practitioners. Direct GME payments are Medicare's share of the direct costs of training residents, such as salaries and fringe benefits of residents and faculty and hospital overhead expenses. Indirect GME payments cover the additional operating costs that teaching hospitals incur in treating inpatients, such as the costs associated with using more intensive treatments, treating sicker patients, using a costlier staff mix, and ordering more tests. Payments for both direct and indirect GME are based, in part, on the number of full-time equivalent (FTE) residents trained by the hospital. The number of FTEs used for the current year's payments is the 3-year "rolling average" of the FTE count for the current year and the preceding 2 cost-reporting years.

Balanced Budget Act of 1997

The Balanced Budget Act of 1997 placed some controls on the continuing growth of GME reimbursement by imposing caps on the number of residents that hospitals are allowed to count for the purpose of direct and indirect GME payments. Dental FTEs are not included in the caps. The legislation also created incentives for hospitals to train residents in freestanding nonhospital settings, such as clinics and ambulatory surgical centers, by permitting hospitals to count FTE residents who train in nonhospital settings in their calculations of indirect, in addition to direct, GME payments.

Based on congressional interest, we undertook a review of 10 hospitals to determine the effect of the Balanced Budget Act on direct and indirect GME payments for dental residents included in hospitals' counts of FTE residents.

University of Iowa Hospitals and Clinics

The University of Iowa Hospitals and Clinics (the Hospital) is a 769-bed teaching hospital in Iowa City, IA. The Hospital participates in the training of dental residents affiliated with the University of Iowa College of Dentistry (the Dental School). The Dental School is a nonhospital setting. In July 2000, the Hospital entered into an agreement with the Dental School to allow the Hospital to claim GME payments for dental residents in return for reimbursing the Dental School for residents' salaries and related teaching faculty costs.

For all FTEs, including dental FTEs, the Hospital claimed about $45 million in direct ($13 million) and indirect ($32 million) GME payments for the 2-year period that ended June 30, 2002. FTEs used to calculate reimbursable GME costs averaged 372 per year.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Hospital included the appropriate number of dental residents in its FTE counts when computing Medicare GME payments for fiscal years (FYs) 2001 and 2002.

Scope

Our review of the Hospital's internal control structure was limited to understanding those controls used to determine the number of residents counted for direct and indirect GME payments. We neither assessed the completeness of the Hospital's data files nor evaluated the adequacy of the input controls, except for limited testing of data from computer-based systems. The objective of our review did not require a complete understanding or assessment of the Hospital's internal control structure. We restricted our review to dental residents.

We performed the audit at the Hospital in Iowa City, IA. We obtained information documenting the dental FTEs reported on the Hospital's Medicare cost reports from the Hospital, the Dental School, and the fiscal intermediary.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal criteria, including section 1886 of the Social Security Act and 42 CFR parts 412 and 413;
- gained an understanding of the Hospital's procedures for identifying, counting, and reporting dental resident FTEs on the Medicare cost reports;
- reconciled the dental resident FTEs reported on the Hospital's FYs 2001 and 2002 Medicare cost reports to supporting documentation;
- reviewed supporting documentation to determine whether the Hospital appropriately included dental residents in the FTE resident counts when computing direct and indirect GME payments on the Medicare cost reports;
- reviewed financial records at the Hospital and the Dental School to determine whether the Hospital incurred all of the costs of training dental residents in nonhospital settings; and
- summarized the audit results and provided them to the fiscal intermediary to recompute GME payments on the FYs 2001 and 2002 cost reports.

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

FINDING AND RECOMMENDATION

NON-PATIENT-CARE ACTIVITIES

The Hospital generally included the appropriate number of dental residents in its FTE counts used to compute FYs 2001 and 2002 GME payments. However, the number of FTE residents claimed by the Hospital included didactic, i.e., classroom, time for the residents when working in nonhospital settings. We have set aside $338,490 as the amount that the Hospital claimed corresponding to this didactic time for the Centers for Medicare & Medicaid Services (CMS) to determine whether there is a basis to disallow this claimed amount based on current CMS guidance.

RECOMMENDATION

We recommend that the Hospital work with CMS to resolve the $338,490 related to FYs 2001 and 2002 FTEs for the didactic time of residents assigned to nonhospital settings.

HOSPITAL'S COMMENTS

The Hospital acknowledged that it claimed the didactic time of residents assigned to nonhospital settings in FYs 2001 and 2002. However, the Hospital believed that the didactic time of residents in nonhospital settings was allowable.

The complete text of the Hospital's comments is included as the appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We continue to recommend that the Hospital work with CMS to resolve this issue.

APPENDIX

UNIVERSITY of IOWA HOSPITALS & CLINICS

University of Iowa Health Care

Hospital Administration

Office of the CFO
200 Hawkins Drive 1352 JCP
Iowa City, Iowa 52240
319-384-8006 Tel
319-356-3862 Fax
www.uihealthcare.com

Ms. Lori S. Pilcher
Regional Inspector General for Audit Services, Region IV
61 Forsyth Street S.W.
Suite 3T41
Atlanta, Ga 30303

Report Number: A-04-04-06011

Dear Ms. Pilcher:

We appreciate the opportunity to offer comments on the draft audit report entitled "Graduate Medical Education for Dental residents Claimed by the University of Iowa Hospitals and Clinics for Fiscal Years 2001 and 2002." We are pleased that the Office of Inspector General auditors found that we included the appropriate number of dental residents in computing FTE counts for GME payments. In addition, the auditors found appropriate documentation of dental residents' time allocation and were therefore able to determine the amount of time spent in didactic activities. While not expressly stated in the report, the auditors also found that the hospital incurred all costs (faculty, supplies, etc.) associated with training dental residents in non-hospital settings.

However, we believe the finding that didactic time in a non-hospital setting should not be allowed to be in error. Because didactic time training is an activity related to patient care, it is clearly eligible for inclusion in our determination of FTE's for direct GME. We have attached a copy of a letter from Mr. Tzvi M Hefter, Director, Division of Acute Care, Plan and Provider Purchasing Policy Group, HCFA, dated September 24th, 1999 responding directly to this question. In his letter he states:

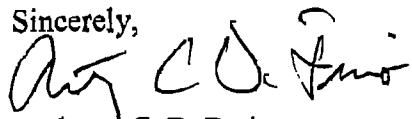
> "HCFA interprets the phrase patent care activities broadly to include any patient care oriented activities that are part of the residency program. As you stated in your letter, this can include resident participation in "1) the direct delivery of patient care, such as clinical rounds, discussions, and conferences, and 2) scholarly activities, such as educational seminars, classroom lectures, research conferences, patient care related research as part of the residency program and presentations of papers and research results to fellow residents, medical students and faculty." Therefore, as long as the residents are primarily involved in patient care oriented activities and other program requirements are met, a hospital may include other educational activities as part of the entire time spent by residents in nonhospital settings and include this time in its FTE count and GME/IME payment calculations."

The didactic time claimed by the University of Iowa falls squarely within the parameters defined by Mr. Hefter. The University of Iowa program was structured in reliance on that

guidance. It would be inequitable to change the rules retroactively and seek repayment of funds that were correctly claimed under the guidance existing at the time the costs were incurred.

Thank you again for the opportunity to offer our views.

Sincerely,



Anthony C. DeFurio
Associate Director and Chief Financial Officer
University of Iowa Hospitals and Clinics

DEPARTMENT OF HEALTH & HUMAN SERVICES Health Care Financing Administration

7500 SECURITY BOULEVARD
BALTIMORE MD 21244-1850

SEP 2 4 1999

Mr. B. Scott McBride
Vinson & Elkins L.L.P.
2300 First City Tower
1001 Fannin Street
Houston, TX 77002-6760

Dear Mr. McBride:

This is in response to your letter regarding the calculation of full time equivalent (FTE) resident counts in nonhospital settings for determining direct (GME) and indirect (IME) graduate medical education payments. You specifically inquired about Health Care Financing Administration's (HCFA) interpretation of "patient care activities" in relation to the time residents spend in nonhospital sites.

HCFA interprets the phrase "patient care activities" broadly to include any patient care oriented activities that are part of the residency program. As you stated in your letter, this can include resident participation in "1) the direct delivery of patient care, such as clinical rounds, discussions, and conferences, and 2) scholarly activities, such as educational seminars, classroom lectures, research conferences, patient care related research as part of the residency program, and presentations of papers and research results to fellow residents, medical students, and faculty." Therefore, as long as the residents are primarily involved in patient care oriented activities and other program requirements are met, a hospital may include other educational activities as part of the entire time spent by residents in nonhospital settings and include this time in its FTE count and GME/IME payment calculations.

If you have further questions, please call Rebecca Hirshorn at 410-786-3411 or Michelle Lefkowitz at 410-786-5316 of my staff.

Sincerely,

Terri M. Hefter
Director
Division of Acute Care
Plan and Provider Purchasing Policy Group