



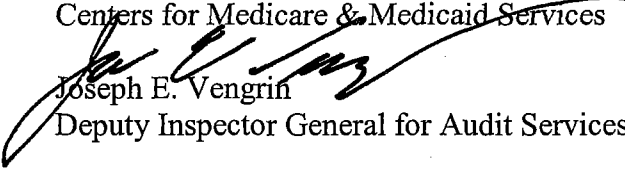
DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

FEB - 7 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 Louisville Hospital for Fiscal Years 2000 Through 2002 (A-04-04-06005)

Attached is an advance copy of our final report on Medicare graduate medical education (GME) payments for dental residents claimed by the University of Louisville Hospital (the Hospital) in Louisville, KY. 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 review focused on the Hospital's arrangements with the University of Louisville School 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) 2000 through 2002.

The Hospital appropriately included dental residents in its FTE counts used to compute FYs 2000 and 2001 GME payments. However, in the counts for FY 2002, the Hospital inappropriately included a dental resident who was a graduate of a foreign dental school. Federal law stipulates that to qualify for Medicare education reimbursement, a foreign medical graduate must have (1) passed the Foreign Medical Graduate Exam or (2) received certification from, or passed the examination of, the Educational Commission for Foreign Medical Graduates. The Hospital did not have written procedures to prevent the inclusion of FTEs for foreign dental school graduates who had not met these requirements. As a result, the Hospital overstated its direct and indirect GME claims by \$15,759 for FY 2002.

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 \$139,704 as the amount that the Hospital claimed corresponding to this didactic time for the Centers for Medicare & Medicaid Services (CMS) to determine whether to disallow this claimed amount based on current CMS guidance.

We recommend that the Hospital:

- file an amended cost report, which will result in a refund of the \$15,759 associated with the foreign dental school graduate;
- establish and follow written procedures to ensure that the FTE counts for foreign dental school graduates meet Medicare requirements;
- determine whether errors similar to those identified in our review occurred in Medicare cost reports after FY 2002 and refund any overpayments; and
- work with CMS to resolve the \$139,704 related to FYs 2000 through 2002 FTEs for the didactic time of residents assigned to nonhospital settings.

The Hospital concurred with our first, third, and fourth recommendations but did not directly address our second recommendation. We continue to recommend that the Hospital establish and follow written procedures to ensure that the FTE counts for foreign dental school graduates meet Medicare requirements.

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-04-04-06005.

Attachment

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

FEB - 8 2006

Report Number: A-04-04-06005

Mr. Bob P. Barbier  
Vice President of Operations  
Chief Financial Officer  
University of Louisville Hospital  
530 South Jackson Street  
Louisville, Kentucky 40202-3611

Dear Mr. Barbier:

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 Louisville Hospital for Fiscal Years 2000 Through 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-04-04-06005 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "L. S. Pilcher", with a long horizontal stroke extending to the right.

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

Enclosures

**HHS Action Official:**

Mr. Roger Perez  
Acting Regional Administrator  
Centers for Medicare & Medicaid Services, Region IV  
Department of Health and Human Services  
61 Forsyth Street SW., Suite 4T20  
Atlanta, Georgia 30303

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**GRADUATE MEDICAL EDUCATION  
FOR DENTAL RESIDENTS CLAIMED  
BY THE UNIVERSITY OF LOUISVILLE  
HOSPITAL FOR FISCAL YEARS 2000  
THROUGH 2002**



**Daniel R. Levinson  
Inspector General**

**FEBRUARY 2006  
A-04-04-06005**

# *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 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 Louisville Hospital (the Hospital) and its arrangements with the University of Louisville School of Dentistry (the Dental School). The Dental School is a nonhospital setting. In January 1999, 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 more than \$24 million in direct (\$7 million) and indirect (\$17.8 million) GME payments for the 3-year period that ended December 31, 2002. FTEs used to calculate reimbursable GME costs averaged 205 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) 2000 through 2002.

### **SUMMARY OF FINDINGS**

The Hospital appropriately included dental residents in its FTE counts used to compute FYs 2000 and 2001 GME payments. However, in the counts for FY 2002, the Hospital inappropriately included a dental resident who was a graduate of a foreign dental school. Federal law stipulates that to qualify for Medicare education reimbursement, a foreign medical graduate must have (1) passed the Foreign Medical Graduate Exam or (2) received certification from, or passed the examination of, the Educational Commission for Foreign Medical Graduates. The Hospital did not have written procedures to prevent the inclusion of FTEs for foreign dental



school graduates who had not met these requirements. As a result, the Hospital overstated its direct and indirect GME claims by \$15,759 for FY 2002.

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 \$139,704 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.

## **RECOMMENDATIONS**

We recommend that the Hospital:

- file an amended cost report, which will result in a refund of \$15,759 associated with the foreign dental school graduate;
- establish and follow written procedures to ensure that the FTE counts for foreign dental school graduates meet Medicare requirements;
- determine whether errors similar to those identified in our review occurred in Medicare cost reports after FY 2002 and refund any overpayments; and
- work with CMS to resolve the \$139,704 related to FYs 2000 through 2002 FTEs for the didactic time of residents assigned to nonhospital settings.

## **HOSPITAL'S COMMENTS**

The Hospital concurred with our first, third, and fourth recommendations but did not directly address our second recommendation.

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 establish and follow written procedures to ensure that the FTE counts for foreign dental school graduates meet Medicare requirements.

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## **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 Louisville Hospital**

The University of Louisville Hospital (the Hospital) in Louisville, KY, has 404 beds and serves as the primary teaching hospital for the University of Louisville's Health Science Center. The University of Louisville's School of Dentistry (the Dental School) provides services to the general public through various dental clinics. The Dental School is a nonhospital setting. In January 1999, 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 more than \$24 million in direct (\$7 million) and indirect (\$17 million) GME payments for the 3-year period that ended December 31, 2002. FTEs used to calculate reimbursable GME costs averaged 205 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) 2000 through 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 both the Hospital and the Dental School in Louisville, KY. 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 (the 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 2000 through 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 2000 through 2002 cost reports.

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

## **FINDINGS AND RECOMMENDATIONS**

The Hospital appropriately included dental residents in its FTE counts used to compute FYs 2000 and 2001 GME payments. However, in the FTE counts for FY 2002, the Hospital inappropriately included a graduate of a foreign dental school who was not eligible for Medicare GME reimbursement. The Hospital did not have written procedures to prevent the inclusion of FTEs for this individual. As a result, the Hospital overstated its direct and indirect GME claims by \$15,759 for FY 2002.

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 \$139,704 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.

### **FOREIGN DENTAL SCHOOL GRADUATE**

In computing FY 2002 GME payments, the Hospital did not comply with Federal law requiring that foreign dental school graduates meet certain criteria.

Section 1886(h)(4)(D)(i) of the Act states that:

- . . . in the case of an individual who is a foreign medical graduate, the individual shall not be counted as a resident on or after July 1, 1986, unless —
- (I) the individual has passed the FMGEMS [Foreign Medical Graduate Exam] examination, or
  - (II) the individual has previously received certification from, or has previously passed the examination of, the Educational Commission for Foreign Medical Graduates.

The Hospital inappropriately included one FTE in the direct and indirect GME FTE counts for FY 2002. The Hospital should not have included this FTE because the dental resident, a graduate of a foreign dental school, had not passed the FMGEMS or received certification from, or passed the exam of, the Educational Commission for Foreign Medical Graduates. Although the Hospital appropriately removed the FTE for this dental resident from its FYs 2000 and 2001 counts, the Hospital inadvertently included the FTE in its FY 2002 counts. The Hospital did not have written procedures to prevent the inclusion of FTEs for foreign dental school graduates who had not met Medicare requirements.

As a result, Medicare overpaid the Hospital \$15,759 in GME payments for FY 2002. In addition, because of the 3-year rolling average, FTEs will be overstated in FYs 2003 and 2004.

### **NON-PATIENT-CARE ACTIVITIES**

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 \$139,704 as the amount

that the Hospital claimed corresponding to this didactic time for CMS to determine whether there is a basis to disallow this claimed amount based on current CMS guidance.

## **RECOMMENDATIONS**

We recommend that the Hospital:

- file an amended cost report, which will result in a refund of \$15,759 associated with the foreign dental school graduate;
- establish and follow written procedures to ensure that the FTE counts for foreign dental school graduates meet Medicare requirements;
- determine whether errors similar to those identified in our review occurred in Medicare cost reports after FY 2002 and refund any overpayments; and
- work with CMS to resolve the \$139,704 related to FYs 2000 through 2002 FTEs for the didactic time of residents assigned to nonhospital settings.

## **HOSPITAL'S COMMENTS**

The Hospital concurred with our first, third, and fourth recommendations. The Hospital did not directly address our second recommendation to establish and follow written procedures to ensure that the FTE counts for foreign dental school graduates meet Medicare requirements. However, the Hospital stated that its FYs 2003 and 2004 cost reports had been filed appropriately, excluding from the direct GME count any foreign dental school graduates who did not have the required certification.

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 establish and follow written procedures to ensure that the FTE counts for foreign dental school graduates meet Medicare requirements.

# **APPENDIX**

# University Hospital

APPENDIX  
Page 1 of 2a proud member of  
UofL Health Care

December 14, 2005

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

RE: University of Louisville Hospital  
Provider Number: 18-0141  
Response to "Graduate Medical Education for Dental Residents Claimed by the  
University of Louisville Hospital for Fiscal Years 2000 Through 2002" Draft Report  
Report Number A-04-04-06005

Dear Ms. Pilcher:

The Provider is in receipt of report number A-04-04-06005, "Graduate Medical Education for Dental Residents Claimed by the University of Louisville Hospital for Fiscal Years 2000 Through 2002", dated November 22, 2005. The Provider has reviewed the recommendations of the OIG, and have the following comments in response to the draft report, (see copy enclosed).

1. **File an amended cost report, which will result in a refund of \$15,759 associated with the foreign dental school graduate, (FY 2002).** The Provider's FY 2002 has been final settled upon desk review by AdminaStar Federal, (Medicare Intermediary). The final cost report settlement included this adjustment, therefore all amounts due regarding this issue have been refunded to CMS.
2. **Establish and follow written procedures to ensure that the FTE counts for foreign dental school graduates meet Medicare requirements.** The Provider's FY 2003 and FY 2004 cost reports have been filed appropriately excluding from the DGME FTE count, any foreign dental school graduates that did not have the required certification.
3. **Determine whether errors similar to those identified in our review occurred in Medicare cost reports after FY 2002 and refund any overpayments.** The Provider's FY 2003 and FY 2004 cost reports have been filed appropriately excluding from the DGME FTE count, any foreign dental school graduates that did not have the required certification. In addition, the Provider will assure that the FY 2005 cost report is filed this May 2006

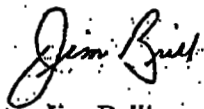


appropriately excluding any foreign dental school graduates from the DGME FTE count that did not have the required certification.

4. **Work with CMS to resolve the \$139,704 related to FY 2000 through FY 2002 FTEs for the didactic time of residents assigned to nonhospital settings.** It is currently the Provider's understanding, (at least under allied health and nursing graduate medical education programs), that didactic or classroom instruction is considered to be an allowable cost, (42 CFR § 413.85). It appears that current CMS regulations on Direct Graduate Medical Education programs, other than allied health and nursing graduate medical education programs, are silent regarding this issue. The Provider awaits and appreciates any further guidance that CMS can provide in regard to this matter.

If you should have any questions or would like to discuss this matter further, please do not hesitate to contact me at (502) 562-3925.

Sincerely,



Jim Brill  
Director of Reimbursement and Managed Care  
University of Louisville Hospital

Enclosure

cc: Robert Barbier, Vice President Operations and CFO  
Mary Jane Adams, Vice President of Compliance and Ethics  
Rosie Lysinger, Controller  
Josh Perry, Reimbursement Manager