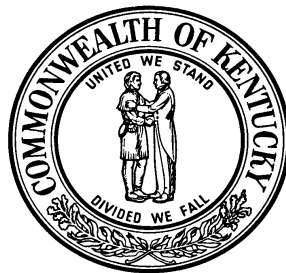


**EXAMINATION OF THE
QUALITY AND CHARITY CARE TRUST, INCORPORATED**



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May 23, 2012

James R. Ramsey, President, University of Louisville
Board of Directors, Quality and Charity Care Trust, Incorporated

The Auditor of Public Accounts (APA) has completed its examination of the Quality and Charity Care Trust, Incorporated (QCCT).

Examination procedures included reviewing the agreement between the Quality and Charity Care Trust, Inc., University Medical Center (UMC), Commonwealth of Kentucky, Louisville Metro and the University of Louisville; assessing compliance with the requirements of the agreement; analyzing detailed financial information; and conducting interviews of all parties involved, as well as others with expertise or professional knowledge of health care relevant to the agreement.

Findings in this report include:

- QCCT board structure is not conducive for providing proper oversight.
- QCCT board failed to meet as required by the QCCT bylaws.
- QCCT board meetings were not effective for proper oversight.
- QCCT board lacks written policies and procedures.
- QCCT board did not have sufficient communication with the audit firm.
- QCCT board did not review or approve the annual funding calculation.
- QCCT does not have an updated agreement in place.
- QCCT funds are not accounted for at the patient level.
- Indigent Care Log does not provide adequate information for proper accountability of QCCT funds.

The purpose of this examination was not to provide an opinion on financial statements, but to ensure appropriate processes are in place to provide strong oversight of QCCT funds through a review of the QCCT board and UMC's policies, QCCT board governance, University of Louisville and QCCT internal controls and financial transactions relating to QCCT.



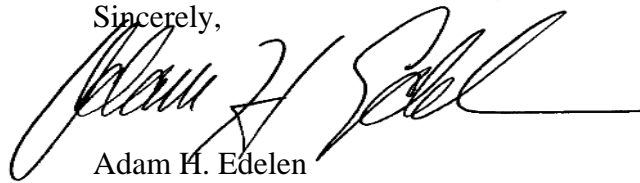
James R. Ramsey, President, University of Louisville
Board of Directors, Quality and Charity Care Trust, Incorporated
May 23, 2012

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Detailed findings and recommendations based on our examination are presented in this report to assist all parties involved for improving procedures and internal controls.

If you wish to discuss this report further, please contact Libby Carlin, Assistant Auditor of Public Accounts or me.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam H. Edelen", with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

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Examination of the Quality and Charity Care Trust, Incorporated

Examination Objectives

On January 12, 2012, the University of Louisville President requested the Auditor of Public Accounts (APA) review the recent audits of the Quality and Charity Care Trust (QCCT). The purpose of the APA examination was to determine if QCCT funds are administered in a manner to ensure QCCT objectives are met and accountability and transparency exist. The examination was not to perform a financial statement audit of QCCT or to address the need for additional funding for treatment of indigent patients at University Hospital.

QCCT Background

The purpose of QCCT is to receive funds from the Commonwealth of Kentucky (Commonwealth) and Louisville Metro Government (Louisville Metro) and disburse those funds to University Medical Center (UMC) for providing hospital care to indigent patients at University Hospital. University Hospital is the only hospital in Kentucky that receives QCCT funding. The current QCCT agreement was signed in April 1996. QCCT is under the supervision and management of the QCCT board of directors, comprised of nine members.

Findings and Recommendations

Finding 1: QCCT board structure is not conducive for providing proper oversight. The University of Louisville has significant influence over the QCCT board. Because the University of Louisville administers the QCCT funds, this board structure extends its management function as opposed to providing a structure for accountability.

Recommendation: We recommend appointments for the controlling number of board members be given to the Commonwealth and Louisville Metro.

Finding 2: QCCT board failed to meet as required by the QCCT bylaws. The QCCT board met on December 5, 2007 and not again until February 13, 2012. Per the QCCT bylaws, the board should meet in May and November of each calendar year.

Recommendation: We recommend the QCCT board meet as required per the bylaws, which is a minimum of twice a year.

Finding 3: QCCT board meetings were not effective for proper oversight. The board meetings were brief and did not present sufficient information regarding the use of QCCT funds, compliance with required reports per the QCCT agreement, information regarding an investment policy, investment earnings, or other information relevant to board oversight.

Recommendation: We recommend the QCCT board meetings include activities that promote accountability of QCCT funds received and transferred to UMC.

Finding 4: The QCCT board lacks written policies and procedures. Information was provided indicating the QCCT board follows the University of Louisville's policies and procedures but it did not appear that the University of Louisville's policies and procedures were communicated to the QCCT board members.

Recommendation: We recommend the QCCT board develop written policies relevant for effective oversight and administration of QCCT.

Finding 5: QCCT board did not have sufficient communication with the audit firm. The QCCT board did not receive communications typical for oversight boards.

Recommendation: We recommend the QCCT board request the audit firm to communicate directly with the QCCT board regardless of whether the QCCT audit is separately engaged or included in the University of Louisville's audit contract.

Finding 6: QCCT board did not review or approve the annual funding calculation. The University of Louisville performs the annual funding calculation and submits the calculated contribution amount to the Commonwealth and Louisville Metro. The QCCT board does not review this calculation or approve the contribution totals.

Recommendation: We recommend the QCCT board review and approve the annual funding calculation prior to submission to the Commonwealth and Louisville Metro.

Finding 7: QCCT does not have an updated agreement in place. The agreement refers to the local governments as Jefferson County and the City of Louisville. The agreement does not address the rebate to Louisville Metro or state the reason for a \$5 million reduction from the Commonwealth's funding increase calculation. The agreement is unclear as to whether the intent is to provide funding for specific individuals or to provide funding to UMC for general use to support an indigent care program. The agreement is also unclear as to whether QCCT funds can be used for indigent care of non-Kentucky residents. The percentage used for QCCT has not been reevaluated over time and is outdated. The QCCT agreement does not clearly define the mission of QCCT so it is difficult to determine whether the intent of funding is to help offset a higher share of indigent cases.

Recommendation: We recommend the QCCT agreement be updated to address the current parties, all funding arrangements, require QCCT funding be applied to individual patient accounts, clarify the residency requirements, modified to reflect that reimbursement should be based on cost, and address the intent of QCCT funding.

Finding 8: QCCT funds are not accounted for at the patient level. UMC does not apply QCCT funds to specific patient accounts. Also UMC cannot identify which indigent patients received QCCT funding within its accounting system.

Recommendation: We recommend QCCT funds be applied to specific patient accounts. Also, we recommend UMC reconciles QCCT funds applied to patient accounts to its accounting system.

Finding 9: Indigent Care Log does not provide adequate information for proper accountability of QCCT funds. The Indigent Care Log is used by UMC to identify patient accounts that were funded by QCCT. This log could not be reconciled to UMC indigent care reports. Write-off accounts are used as evidence to support the patients benefitting from QCCT funding, but this process gives the appearance that QCCT funds are used to cover bad debt.

Recommendation: We recommend the QCCT board require UMC to implement procedures to improve accountability for QCCT funds.

Conclusion

The findings indicate that over time the QCCT board appeared to extend the University of Louisville's management function. Therefore, accountability is weak. Overall, the agreement was not administered in a way that promoted accountability and transparency. QCCT serves a population that is the neediest in the Louisville Metro area, therefore it is important to have strong accountability to ensure this population receives the benefits of QCCT funding.

Background

Examination Objectives

On January 12, 2012, University of Louisville President, James Ramsey, submitted a request to the Auditor of Public Accounts (APA) requesting a review of the recent Quality and Charity Care Trust (QCCT) audits to ensure the funding for this program was utilized to provide health care to the indigent population. Upon consideration of the factors leading to this request, the APA determined an expanded examination was warranted to address significant concerns surrounding QCCT.

The purpose of this examination is not to perform a financial statement audit of QCCT, nor is it to address the need for additional funding for treatment of indigent patients at University Medical Center (UMC), which is the beneficiary of QCCT funds for University Hospital. Instead, the purpose of this examination is to determine whether QCCT funds are administered in a way to ensure QCCT objectives are met, and that the proper level of accountability and transparency exists for activities funded with public dollars. In order to meet these objectives, the examination focused on the following questions:

- Is the QCCT board and current QCCT agreement structured to provide proper oversight and accountability of the QCCT funds and program operations?
- Is the QCCT board and UMC in compliance with the current QCCT agreement?
- Are QCCT funds appropriately expended and reported?
- Can the indigent population served by QCCT funding be accurately identified?

Scope and Methodology

The scope of the QCCT examination was a review of transactions and activities from July 1, 2008 through June 30, 2011. However, since the last revision of the QCCT agreement was in 1996, certain information prior to July 1, 2008 was also relevant to the examination.

To address the examination objectives, the APA conducted numerous interviews with QCCT board members, UMC and University of Louisville employees with direct knowledge of QCCT requirements and administration, and others knowledgeable of hospital administration. In addition, auditors reviewed the QCCT agreement and analyzed financial documents and reports. Also, the QCCT board activities and board policies were assessed primarily using the *APA's 32 Board Recommendations for Public and Nonprofit Boards*. The auditors reviewed recent QCCT audits and related working papers, and reviewed patient logs and individual accounts of patients identified by UMC as being part of the hospital's patient population eligible for QCCT funding.

Background

QCCT History

The purpose of QCCT is to receive funds from the Commonwealth of Kentucky (Commonwealth) and Louisville Metro Government (Louisville Metro) and to disburse those funds to UMC for providing hospital care to indigent patients at University Hospital. The Commonwealth and Louisville Metro contributed \$24.9 and \$9.6 million, respectively, during fiscal year 2011. University Hospital is the only hospital in Kentucky that receives QCCT funding, under the only agreement of its kind in the state.

The University of Louisville contracted with Humana Health Care to manage University Hospital in 1983, under the name Humana Hospital-University of Louisville. Since Humana was a for-profit organization, concerns existed about its ability to continue to provide the same level of indigent care provided by the former public hospital. University Hospital had acted as a safety net hospital for the area's poor, and as a result had significant indigent care costs. In order to ensure the hospital could continue to serve this population and to help offset the cost for Humana Health Care, the Commonwealth, the City of Louisville, and Jefferson County entered into an agreement to provide Humana Hospital-University of Louisville funding to support indigent care. As a result, QCCT was incorporated in April 1983 to establish a board to oversee and administer the funding, and an agency agreement was signed in May 1983 between the newly formed QCCT and the University of Louisville establishing the University of Louisville as the agent permitted to carry out the duties necessary to meet the obligations of the QCCT agreement. Specifically, the agency agreement authorized and directed the University of Louisville to receive and disburse funds, as well as enter into contracts, engage auditors, and file required reports on behalf of QCCT.

Humana Health Care managed the hospital until its affiliation agreement with the University of Louisville terminated in February 1996. In anticipation of this termination, UMC was created in 1995 to manage University Hospital. The UMC board was made up of three members each from Jewish Hospital HealthCare Services and Norton Healthcare, and six members from the University of Louisville. As a result of this change in operations, the QCCT agreement was revised in 1996 to add UMC as a party to the agreement.

In July 2007, the UMC board restructured due to the withdrawal of representatives from Norton Healthcare and Jewish Hospital HealthCare Services from the UMC board. This restructure resulted in the University of Louisville having significant control of the UMC board due to the loss of competing hospital representation. In

Background

October 2011, largely due to the relationship between University of Louisville and UMC, the Kentucky Office of the Attorney General ruled that UMC meets the definition of a public entity and is subject to Kentucky's Open Records laws. Even though UMC presented arguments opposing its position as a public entity and has filed an appeal to the Attorney General's ruling, UMC complied with all APA requests for information relating to this examination.

QCCT Agreement

As noted earlier, the current QCCT agreement was executed in April 1996, between Jefferson County, the City of Louisville, the University of Louisville, the Commonwealth, and UMC. The following is a summary of significant requirements in the QCCT agreement relevant to understanding our report:

- The City of Louisville, Jefferson County, and the Commonwealth's funding shall be increased by the lesser of the prior fiscal year's percentage increase in Consumer Price Index (CPI) or the prior fiscal year's percentage increase in general fund tax revenues multiplied by the prior year's required funding.
- QCCT's obligations are to receive, invest, and disburse government funding. Also, the QCCT articles of incorporation state the business and affairs of QCCT shall be under the supervision, management and control of the board.
- The University of Louisville's obligation is to manage QCCT funds in accordance with the QCCT agreement, including the appointment of board members, and the receipt and disbursement of funds on behalf of the QCCT board.
- UMC's obligations are to:
 - Provide hospital care to indigents but shall have the rights of billing and collections.
 - Furnish all necessary emergency hospital care required by any individual regardless of their ability to pay.
 - Generate a bill and retain in the files of the hospital within 15 days after the discharge of each indigent or medically needy individual receiving hospital care.
 - Provide a summary statement to the QCCT board and the funding governments, identifying each indigent and medically needy individual by patient number, county of residence and billed charges within 30 days after the end of the QCCT fiscal year.
 - No portion of funding provided by Jefferson County and City of Louisville or the interest earned shall be used to provide hospital care for indigents and

Background

- medically needy who are not residents of Jefferson County, Kentucky.
- Within 45 days after the end of the QCCT fiscal year, a reconciliation should be performed between the monthly payments made to UMC and the total amount of billed charges. If billed charges exceed total monthly funding and to the extent QCCT has funding remaining, QCCT will pay the amount of the difference to UMC. If monthly payments made to UMC exceed billed charges, UMC shall repay the overpayments to QCCT within 45 days of the end of the QCCT fiscal year.

The examination reviewed compliance with the 1996 QCCT agreement. Therefore, all citations and recommendations for improvement are in reference to this agreement.

QCCT Board and Administration

QCCT is under the supervision and management of the QCCT board of directors, comprised of nine members. Per the QCCT agreement, “QCCT shall be administered by nine directors. All directors shall be appointed by the Board of Trustees of the University of Louisville, provided however, that one director shall be appointed from a list of three nominees submitted by the chairman of the Louisville and Jefferson County Board of Health; one director shall be appointed from a list of three nominees submitted by the County Judge/Executive of Jefferson County; one director shall be appointed from a list of three nominees submitted by the Mayor of the City of Louisville; and one director from the nomination of the Governor of the Commonwealth of Kentucky.” The term for board members is one year. Per the QCCT bylaws, the board should meet in May for a regular meeting and the annual meeting should be in November at which time the officers should be elected.

University of Louisville provides the staff to administer and account for QCCT activities. The funding to QCCT from the Commonwealth and Louisville Metro is determined annually by a calculation outlined in the QCCT agreement. University of Louisville employees perform the annual QCCT funding calculation to determine the amount of funds the Commonwealth and Louisville Metro should provide for the fiscal year. QCCT funding is received by the University of Louisville, and the QCCT funds are then transferred to UMC monthly in the amount of one-twelfth of the total funds determined for the year.

UMC deposits QCCT funds into a general revenue account. UMC does not apply QCCT funds to specific patient accounts. Instead, in

Background

order to support the amount of the QCCT funds spent, UMC maintains an Indigent Care Log to reflect that indigent care charges exceed total QCCT funding. The log is a list of patients and their total billed charges, and includes information relating to outstanding indigent charges and indigent write off charges. (See Appendix A).

Defining “Indigent” and “Medically Needy”

A consideration throughout the examination was determining an appropriate interpretation of “indigent” and “medically needy”, which is essential to understanding the intent of the QCCT agreement. According to inquiries with professionals in the medical community, hospitals create their own charity care guidelines. Also, state regulations and federal programs, such as Medicaid and Disproportionate Share Hospital (DSH), define criteria for indigents. The medical community also utilizes terminology such as “underinsured” and “uninsured” when referring to charity care, although these terms may not be equivalent to the indigent terminology utilized in the QCCT agreement. Because there are no clear definitions for indigent and medically needy, it was critical for the QCCT agreement to clearly define the individuals eligible for QCCT funding.

Per the QCCT agreement, the definition of indigent is an individual that:

1. Is not eligible for benefits under portions of the Social Security Act;
2. Is not eligible for any government health insurance program, not covered by a private insurance plan or whose coverage for hospital care from private insurance, Medicare or Medicaid is exhausted; and
3. Has income from all sources equal to or less than that of the Federal poverty level.

The QCCT agreement also defines medically needy as an individual who does not have sufficient income, resources, or insurance benefits or other means of paying for all of the charges rendered or to be rendered in connection with their hospital care.

These guidelines provided the auditors a basis for reviewing indigent information at University Hospital in relation to the QCCT agreement. Since UMC has the ability to define its own charity care policies, and no universally accepted definition of either indigent or medically needy exists, the examination also considered potential conflicts between UMC’s practices and the intent of the QCCT agreement.

Findings and Recommendations - Board Structure and Oversight

Finding 1: QCCT board structure is not conducive for providing proper oversight.

Currently, the QCCT board is structured as required by the QCCT agreement and articles of incorporation. As previously noted, the QCCT agreement states, “QCCT shall be administered by nine directors. All directors shall be appointed by the Board of Trustees of the University of Louisville, provided however, that one director shall be appointed from a list of three nominees submitted by the chairman of the Louisville and Jefferson County Board of Health; one director shall be appointed from a list of three nominees submitted by the County Judge/Executive of Jefferson County; one director shall be appointed from a list of three nominees submitted by the Mayor of the City of Louisville; and one director from the nomination of the Governor of the Commonwealth of Kentucky.”

Although the board is structured in accordance with the QCCT agreement, the structure is not conducive for proper oversight. The current structure gives the University of Louisville significant influence over the QCCT board. Because the University of Louisville also administers the QCCT funds, this board structure extends its management function as opposed to providing a structure for strong accountability. Furthermore, the University of Louisville has oversight authority for UMC, the recipient of QCCT funds, due to the University of Louisville’s positions on UMC's board and also due to its ownership interest in University Hospital. Based on these factors, the QCCT board structure is geared more toward providing an administrative function than for proper oversight.

University of Louisville’s control over board appointments and administrative functions was initially established at a time when the relationships between all the parties to the QCCT agreement were more independent, and therefore, the board structure was likely more effective. However, over time, the business relationships between the various parties changed. Although Humana Health Care was contracted by the University of Louisville to manage the hospital, it was a for-profit company that was independent of the university. When UMC was created, it was created with the sole intent of managing the university-owned hospital. Although it is appropriate for the University of Louisville to participate on the board for strategic direction and to provide a management perspective, it is no longer in a position of providing the independent accountability originally envisioned in the initial QCCT agreement.

Recommendation

We recommend the QCCT agreement be revised, with appointments for the controlling number of board members given to the Commonwealth and Louisville Metro. Although it is acceptable for UMC and University of Louisville to have board representation, the board chair should be a representative of the Commonwealth or Louisville Metro.

Findings and Recommendations - Board Structure and Oversight

Finding 2: QCCT board failed to meet as required by the QCCT bylaws.

QCCT's bylaws states, "the Annual meeting of the Board of Directors shall be held during the month of November of each calendar year at the call of the Chairman of the Board. At each annual meeting, the Board of Directors shall elect its officers to serve for terms of one year each and until their respective successors are elected and accept office." The bylaws also state, "a regular meeting of the Board of Directors shall be held each year during the month of May at the call of the Chairman of the board."

The QCCT board met on December 5, 2007, and did not meet again until February 13, 2012. By not meeting as required, there was a lack of oversight and monitoring of QCCT funds. For example, the QCCT annual financial audit was not reviewed or approved by the QCCT board. In addition, the QCCT board did not get an update from the ombudsperson, or perform any other business functions, such as reviewing the reports prepared by UMC and electing officers.

Recommendation

We recommend the QCCT board meet as required per the bylaws, which is a minimum of twice a year. To ensure proper oversight, we further recommend the QCCT board should meet at least quarterly.

Finding 3: QCCT board meetings were not effective for proper oversight.

The QCCT articles of incorporation state, "The business and affairs of the Corporation shall be under the supervision, management and control of a Board of Directors, which shall exercise the Corporation's powers and authority." The QCCT board is charged with overseeing QCCT funds to ensure the funds are used in accordance with their intended purpose.

A review of the minutes of previous QCCT board meetings, as well as the APA's attendance at the February 13, 2012 meeting, indicated the board meetings were brief and did not present sufficient information regarding the use of QCCT funds, compliance with required reports per the QCCT agreement, information regarding an investment policy, investment earnings, or other information relevant to board oversight.

Per the QCCT agreement, within 30 days after the end of the QCCT fiscal year, UMC is required to provide a summary statement identifying each indigent and medically needy individual by patient number, county of residence, and billed charges. The QCCT board minutes do not indicate the Indigent Care Log was reviewed by the board. By reviewing detailed reports, the QCCT board can determine how QCCT funds were expended and if that use was in accordance with the agreement. The QCCT board will also gain an

Findings and Recommendations - Board Structure and Oversight

understanding of the needs of the indigent population and; therefore, make informed decisions on how future QCCT funds should be expended.

Recommendation

We recommend the QCCT board meetings include activities that promote accountability of QCCT funds received and transferred to UMC. This includes:

- Obtaining disbursement details to monitor payments of QCCT funds to UMC;
- Obtaining specific reports on the use of QCCT funds, and comparing expenditures to the Indigent Care Log;
- Reviewing investment policies and strategies; and
- Obtaining reports on investment earnings.

Finding 4: QCCT board lacks written policies and procedures.

As part of the examination, the QCCT board's written policies and procedures were requested. Policies and procedures specific to QCCT do not exist, and information was provided indicating the QCCT board follows the University of Louisville's policies and procedures. However, through a review of board minutes and inquiry, it did not appear that the University of Louisville's policies and procedures were communicated to the board members of QCCT.

Written policies and procedures are necessary for proper and effective oversight. The QCCT articles of incorporation state, "the business and affairs of the Corporation shall be under the supervision, management, and control of the Board of Directors, which shall exercise the Corporation's powers and authority."

We reviewed the *APA's 32 Board Recommendations for Public and Nonprofit Boards* to determine which recommendations were applicable to the QCCT board to meet its fiduciary responsibilities. We determined the following policies and procedures are applicable:

- A properly defined and clear mission statement;
- Adoption of a code of ethics and conflict of interest policy;
- Adoption of a financial disclosure policy;
- Written procurement policy, including who has the authority to enter into agreements on behalf of the QCCT board;
- Policy on how concerns or allegations about the QCCT board or use of QCCT funds are received, investigated, and addressed; and
- Policy concerning the loss or theft of financial information and access to information technology, which is especially important to QCCT given the sensitive nature of information received.

Findings and Recommendations - Board Structure and Oversight

In addition, the assessment of the board's policies identified that new board appointees may not be familiar with QCCT's responsibilities. When interviewing QCCT board members, some were not sure of the length of their term on the QCCT board. In order for a new QCCT board member to effectively perform their duties, a proper understanding of QCCT's objectives and QCCT board's fiduciary responsibilities is essential. Orientation with relevant QCCT information, such as QCCT bylaws, details of the QCCT agreement, activities of the board, and board policies would be a useful tool for the new QCCT board members.

Recommendation

We recommend the QCCT board:

- Develop written policies relevant for effective oversight and administration of QCCT; and
- Implement an orientation program for new QCCT board members stressing their responsibilities.

Finding 5: QCCT board did not have sufficient communication with the audit firm.

While performing a review of QCCT audit firm's workpapers, we noted an area of concern. The QCCT audit is performed as a part of the University of Louisville's audit; however, QCCT is not included as part of the University of Louisville's audit report. The original agency agreement between QCCT and the University of Louisville established the university's responsibility to contract for the audit; however, it did not specify whether the audit should be a separate engagement. While including the QCCT audit with the University of Louisville's audit contract is not an incorrect practice based on auditing standards, there are benefits to having a separate audit engagement. A separate audit engagement would provide the QCCT board with a greater degree of detail and an increased level of communication with the audit firm. In addition, the QCCT board would have more control over the audit contract to select the audit firm and the ability to impose various requirements, including auditor rotation.

Also, audit documentation indicates the QCCT board did not receive board communications typical for oversight boards. Statement on Auditing Standards (SAS) 114 - *The Auditor's Communication with Those Charged with Governance* provides a framework for effective communication between the auditor and client in relation to the audit of financial statements. SAS 114 states, "The auditor is required to communicate with those charged with governance those matters related to the financial statement audit that are, in the auditor's professional judgment, significant and relevant to the responsibilities for those charged with governance in overseeing the

Findings and Recommendations - Board Structure and Oversight

financial reporting process. Because governance structures vary by entity, the auditor should determine the appropriate person(s) within the governance structure with whom to communicate. The appropriate person(s) may differ depending on the matter to be communicated. When the appropriate person(s) is not clearly identifiable, the auditor and the engaging party should agree on the relevant person(s) within the governance structure with whom to communicate.” Under the current QCCT board structure, the audit firm may have considered the University of Louisville the governance body for QCCT, although it is an example of how the QCCT board as a whole may have missed opportunities for communication with the auditor.

Recommendation

We recommend the QCCT board:

- Consider separately engaging an audit firm for the QCCT audit.
- Request the audit firm communicate directly with the QCCT board regardless of whether the QCCT audit is separately engaged or included in the University of Louisville’s audit contract.

Finding 6: QCCT board did not review or approve the annual funding calculation.

Per the QCCT agreement, the government funding shall be increased by the lesser of the prior fiscal year’s percentage increase in Consumer Price Index (CPI) or the prior fiscal year’s percentage increase in general fund tax revenues multiplied by the prior year’s required funding. The University of Louisville performs this calculation, and submits the calculated contribution amount to the Commonwealth and Louisville Metro. Upon review of this calculation, we noted the QCCT board does not review this calculation, or approve the contribution totals prior to their submission to the Commonwealth and Louisville Metro.

Recommendation

We recommend the board review the funding calculation, and approve the contribution amounts prior to their submission to the Commonwealth and Louisville Metro.

Findings and Recommendations - QCCT Administration

Finding 7: QCCT does not have an updated agreement in place.

An updated agreement is important to ensure funds are used properly and in accordance with the intended purpose by clarifying the responsibilities of all parties involved. QCCT is governed by an outdated agreement. The original QCCT agreement, drafted by legal counsel at University of Louisville, was written in 1983. The agreement was revised in 1996, and has not been updated since that time even though it contains outdated references and does not address all provisions currently in place. Auditors noted nine amendments; however, they only address suspending the use of QCCT funding to meet the DSH match requirements. Based on our review of the agreement, we noted numerous weaknesses.

Agreement has not been updated in over 15 years.

The current agreement was last updated over 15 years ago. The agreement still refers to the local governments as Jefferson County and the City of Louisville instead of the merged Louisville Metro government.

Agreement does not clearly address the Louisville Metro rebate.

Also, the agreement does not address current funding agreements in place. The University of Louisville has a verbal agreement to annually rebate part of Louisville Metro's QCCT funding. Currently, Louisville Metro contributes its entire calculated amount, but at the end of the fiscal year is rebated a portion of that amount. The table below identifies the amount of the rebates provided to Louisville Metro for fiscal years 2009 through 2011.

	Louisville Metro QCCT Contribution	QCCT Rebate to Louisville Metro	Louisville Metro Net Contribution
FY 09	\$ 9,469,800	\$ 2,469,800	\$ 7,000,000
FY 10	\$ 9,643,104	\$ 2,643,104	\$ 7,000,000
FY 11	\$ 9,643,104	\$ 2,643,104	\$ 7,000,000

This annual rebate does not appear to be approved by the board. Inquiry regarding this rebate identified that Louisville Metro was considering ending its QCCT funding due to budgetary constraints. Therefore, an agreement was reached in which Louisville Metro would fully fund its calculated contribution, and an annual rebate would be returned to alleviate some of its budgetary pressure.

Agreement does not clearly explain the purpose of a \$5 million reduction to the Commonwealth's funding increase calculation, nor does other evidence exist to support its purpose.

In addition, the QCCT agreement identifies a reduction of \$5 million from the Commonwealth's annual funding increase calculation. The auditors inquired as to the reason for a \$5 million dollar reduction, and were provided an explanation indicating the Commonwealth's payment is partially comprised of this amount due to a lease arrangement for the University Hospital property since it is state-owned. UMC pays the University of Louisville \$5 million annually, and in turn University of Louisville transfers this to the

Findings and Recommendations - QCCT Administration

Commonwealth to be added to the remaining portion of the Commonwealth's contribution. The Commonwealth pays the full state appropriation for QCCT, but the \$5 million was not subject to an increase. Upon requesting a copy of the lease agreement to verify the purpose and value of the payment, the auditors were notified the written lease agreement does not reference the \$5 million payment. Therefore, auditors were unable to confirm the nature of this funding arrangement and confirm that the amount is accurate.

Agreement intent is not clear for applying QCCT funding to specific patient accounts.

It is not clear as to whether the intent of the agreement is to provide QCCT funding for specific indigent or medically needy individuals, or whether it was intended to provide funding to UMC for general use to support an indigent care program. This ambiguity in the agreement was debated in interviews throughout the examination with various individuals having a historical perspective on this agreement. However, certain provisions in the agreement imply that tracking of patient level charges was intended, such as a requirement for reports for indigent patient billings. It is important for the QCCT agreement to clearly state a requirement for tracking or applying QCCT charges to specific indigent patient accounts. This ensures QCCT funding is accurately applied to the patients meeting the specific definitions for indigent or medically needy. This also ensures QCCT is refunded when indigent patient charges are subsequently covered by other forms of payment, and to comply with residency requirements in the QCCT agreement as presented in Finding 9.

Agreement does not specify funding should be for Kentucky residents.

During the examination, questions arose as to whether QCCT funds are used to support indigent care for non-Kentucky residents. Auditors noted there is not a requirement in the QCCT agreement that funds are to be used for Kentucky residents only. The only related stipulation in the agreement is a residency requirement for funding received from Louisville Metro, which shall be used only for Jefferson County residents. Based on the review of the Indigent Care Log, patients outside Kentucky were written off to QCCT. If the intent of the Commonwealth's funding is to use taxpayer dollars to serve Kentucky residents, this objective is not met by UMC's inclusion of non-Kentucky patients on the Indigent Care Log, which is used by UMC to support its total indigent care costs eligible for QCCT funding.

The cost to charges percentage in the agreement should be reevaluated.

Also, per the QCCT agreement, "Billed Charges for hospital care furnished by corporation shall mean fifty-eight percent (58%) of its usual and customary charges established by corporation from time to time for hospital care, and for hospital care of a type not provided by the corporation and furnished by any entity other than corporation or its affiliates (as defined in the Affiliation Agreement)

Findings and Recommendations - QCCT Administration

shall mean one hundred percent (100%) of the charges made by such entity to Corporation.” The percentage was based on the cost-to-charges ratio at the time, to attempt to apply QCCT charges only to an approximate cost for patient care and to avoid a profit earned for providing charity care. However, the percentage has not been reevaluated over time, and is outdated. Estimated information provided by UMC during the examination suggests that the cost-to-charges ratio specific to Jefferson County charity, may be as low as 29%. (See Appendices B and C). Although cost data is proprietary information for hospitals due to the competitive environment, the QCCT agreement may be more clearly defined using cost as opposed to cost-to-charges ratios that require frequent reevaluation.

The QCCT agreement was originally intended to help a for-profit hospital management company, Humana Health Care, maintain indigent care at a level that had been met by a government managed hospital, Humana Hospital-University of Louisville. Throughout the examination, concerns were presented to the APA as to whether this funding is still necessary and whether the true intent of providing funding for indigent care is being served given that other Kentucky hospitals do not get additional government funding for indigent care other than Medicaid and DSH payments. A review of the Louisville Metro area hospitals’ indigent case data indicates University Hospital has the largest number of indigent cases. (See Appendix D). Neither, the QCCT agreement, bylaws, nor the articles of incorporation, clearly define the mission of QCCT so it is difficult to determine whether the intent of funding is to help offset this higher share of indigent cases. Furthermore, if the intent is to offset the higher proportion of indigent cases in the metro area, the agreement should build in monitoring tools to base funding on meeting specific benchmarks for indigent cases in relation to metro area hospitals.

Recommendation

We recommend the QCCT agreement be updated to address the following:

- The agreement should reflect the current parties to the agreement.
- The agreement should include all funding arrangements and, specifically the rebate provided to Louisville Metro and supporting documentation regarding the \$5 million reduction of the Commonwealth’s funding increase calculation.
- The agreement should explicitly require QCCT funding be applied to specific indigent patient accounts, and provide a process for refunding QCCT

Findings and Recommendations - QCCT Administration

when a patient subsequently becomes eligible for other funding sources.

- The agreement should clarify the residency requirements to be eligible for QCCT funds.
- The agreement should be modified to reflect that reimbursement is based on the cost of providing indigent care, as opposed to a cost-to-charges ratio. If a cost-to-charges ratio is necessary, the agreement should require an annual reevaluation of this ratio and it should be presented to the QCCT board annually for approval.
- The agreement should address the specific intent of QCCT funding, and build in appropriate monitoring tools, such as maintenance of effort benchmarks compared to area hospitals, to ensure the objectives are met.

Finding 8: QCCT funds are not accounted for at the patient level.

The QCCT agreement requires UMC to generate a bill and retain it in its files within 15 days after the discharge of each indigent or medically needy individuals receiving hospital care. This requirement suggests QCCT funds be applied to individual indigent patient accounts and that UMC maintain an account for individual patient charges. However, UMC does not apply QCCT funds to specific patient accounts.

UMC stated it cannot identify which indigent patients received QCCT funding within its accounting system. UMC indicated that QCCT funds do not need to be tracked at the patient level because indigent care expenses in total always exceed QCCT revenue.

Furthermore, the QCCT agreement stipulates the local government's funding, or interest earned thereon, should be used to provide hospital care for indigents who are residents of Jefferson County. As noted above, QCCT funds are not applied to patient level charges and therefore UMC cannot document specific Jefferson County residents receiving QCCT funding. Again as noted above, UMC indicates its methodology for complying with these requirements is to prove that over a specified period, the charges associated with providing hospital care to indigents in Jefferson County exceed the QCCT funding levels.

The methodology UMC uses to document its charges of providing care to indigents is through the maintenance of an Indigent Care Log. The Indigent Care Log is also used to meet the QCCT agreement requirement to provide a summary statement identifying each indigent and medically needy individual by patient number, county of residence, and billed charges within 30 days following the

Findings and Recommendations - QCCT Administration

end of the fiscal year. This log, as well as cost estimate summaries, is how UMC supports that indigent care expenses incurred exceed the QCCT revenue. (See Appendices B and C). This methodology does not sufficiently address the need to account for specific patients benefitting from QCCT funds and is not conducive to providing the QCCT board sufficient information related to the use of QCCT funds for proper accountability.

Recommendation

We recommend, in order to improve its transparency in relation to the use of QCCT funds, UMC should apply QCCT funds to specific patient accounts. This methodology will give UMC the ability to determine the specific residences of indigent patients receiving QCCT benefits, and report on its compliance with the requirement that local government funds should be used for only Jefferson County residents.

We also recommend UMC reconcile QCCT funds applied to patient accounts to its accounting system. This will improve UMC's ability to provide the QCCT board precise reporting of the use of QCCT funds.

Finding 9: Indigent Care Log does not provide adequate information for proper accountability of QCCT funds.

The QCCT agreement requires UMC deliver, within 30 days following the end of the fiscal year, a summary statement identifying each indigent and medically needy individual by patient number, county of residence, and billed charges. UMC uses the Indigent Care Log to meet this requirement.

In addition to the information required by the QCCT agreement, the Indigent Care Log contains information regarding non-QCCT payments applied to patients' accounts, amounts outstanding, and amounts written off to the indigent fund. UMC indicated all non-Medicare patients, including those with insurance coverage or other forms of payment, are included on the log. Therefore, the log is not comprised of only individuals who initially met pre-defined criteria for indigent or medically needy. As presented in Appendix A, UMC considers the patient accounts with amounts in the two columns labeled "outstanding indigent fund" and "write-off indigent fund" as accounts funded by QCCT. The auditors reviewed 50 patient accounts from these two QCCT columns on the FY 2011 Indigent Care Log. Based on this review, we noted the following problems:

Applications were not completed for income verification.

Auditors noted 33 of 50 patient files reviewed, or 66%, did not complete an application for income verification to determine that the patient was eligible for QCCT funding. These patients were determined to be eligible for QCCT write-off and medically needy based on failed collection attempts, and a low collectability score given by an external collection agency. UMC personnel are not aware of the scoring methods used by the collection agency, so there

Findings and Recommendations - QCCT Administration

is no evidence to determine that the patient did not have the means to pay or otherwise meet the definitions of indigent or medically needy as defined in the QCCT agreement. Once a low collectability score is given, UMC moves the uncollected balance to the column labeled “write off indigent fund” of the Indigent Care Log. (See Appendix A). UMC considers the patient accounts with amounts in the two columns labeled “outstanding indigent fund” and “write-off indigent fund” as accounts funded by QCCT. Since write off accounts are used as evidence to support the patients benefitting from QCCT funding and there is no other documentation justifying why an individual was deemed indigent or medically needy; this process gives the appearance that QCCT funds are used to cover bad debt. However, UMC contends the collection agency uses a separate contractor to search for available assets and other factors, thereby acting as a screening function to determine if patients have resources to pay. Although auditors recognize this process likely sorts potential paying patients from others, the lack of documentation to identify the reason a patient was deemed QCCT eligible makes it difficult for auditors to confirm the individuals met QCCT criteria.

Another concern noted in the testing of patient files was a patient was originally denied eligibility for QCCT funding because the individual was not a resident of Kentucky. However, the patients’ account was ultimately written off as QCCT after collection attempts failed, and the patient was deemed medically needy. Auditors scanned the Indigent Care Log (see Appendix A) to determine whether other non-Kentucky residents were written off to QCCT, and did note other instances.

QCCT was not reimbursed for patients subsequently deemed eligible for other payment sources.

Auditors noted patients deemed eligible for QCCT on the Indigent Care Log that were subsequently determined to be eligible for other payment sources, such as Medicaid. Since the QCCT funds were not applied to specific patient accounts, QCCT did not receive a refund for those payments. UMC indicated this was because there are more indigent patients listed in the log than QCCT could fund, therefore a refund would not be likely. Due to weaknesses in the composition of the Indigent Care Log noted in this finding, auditors could not substantiate UMC’s assertion.

Patients can remain on the Indigent Care Log for more than one fiscal year.

Auditors noted a potential for patients to remain on the Indigent Care Log for numerous fiscal years. Therefore, UMC’s practice of using the log to evidence those indigent and medically needy patients receiving QCCT benefits, and to evidence that hospital charges exceed QCCT funding for a given year is not an accurate methodology since the same patient charges may be used to support QCCT funding for multiple fiscal years. If UMC chooses to use the log to support the amount of indigent patient costs for a given year,

Findings and Recommendations - QCCT Administration

The Indigent Care Log did not agree to UMC's indigent care reports.

then UMC should have a process to ensure individual patient costs are used only once.

The Indigent Care Log did not agree to UMC's indigent care reports. The indigent care report is presented in Appendix B. Auditors found this discrepancy is because the indigent care reports were based on estimated data. The auditors attempted to obtain more accurate reports, but were notified that all UMC indigent care reports were compiled using estimated data. The differences noted between the Indigent Care Log and the indigent care reports raised concerns about UMC's methodology for accounting for QCCT funds, as noted earlier.

As noted earlier, UMC utilizes the Indigent Care Log to identify those individuals that are receiving the benefit of QCCT funding, primarily by suggesting that patients listed in either the "outstanding indigent fund" or "write-off indigent fund" columns would be costs to be incurred by the hospital if not funded by QCCT. However, this is a weak methodology because the findings indicate the Indigent Care Log is comprised of individuals that may not be eligible for QCCT funding, such as those patients that did not complete an application for income verification. Also, testing indicates the potential for individuals to remain on the log for more than one fiscal year. The same costs should not be used as evidence of total indigent care funding in excess of QCCT's contribution more than once. Also, other weaknesses in the log, such as the inability to agree costs from the log to indigent care reports draws into question the accuracy of this methodology. The finding identifies that UMC's methodology is not sufficient for it to provide accurate reporting related to the indigent population served by QCCT funding, or to illustrate how it complied with the QCCT agreement.

Recommendation

We recommend the QCCT board require UMC to implement procedures to improve accountability for QCCT funds including:

- All patients considered for QCCT funding should have an application and meet specific criteria as required by the QCCT agreement to receive QCCT funding. If the QCCT board approves, the criteria may be similar to other programs requiring income verification.
- UMC should reimburse the QCCT account when patients that were provided QCCT funding are subsequently determined to be eligible for other sources of funding. In order to implement this recommendation, UMC would need better tracking of specific patients benefiting from QCCT funding.

Findings and Recommendations - QCCT Administration

- UMC should ensure cost data doesn't contain duplicate patient costs from previous fiscal years. Once written off to QCCT, to keep patient account costs from being included in subsequent fiscal years it is acceptable to adjust the Indigent Care Log.
- UMC should reconcile QCCT funding applied to specific patient accounts to the general ledger. In order to perform this reconciliation, UMC may need to establish additional general ledger accounts for the purpose of recording detailed QCCT expenditure transactions and may need a separate log for QCCT eligible patient. Also, rather than utilizing cost estimates, all indigent care cost reports should agree to the general ledger.

Conclusion

The purpose of the QCCT examination was to determine if QCCT funds are administered in a manner that ensures a proper level of accountability and transparency, as well as meeting the QCCT objectives outlined in the agreement. The results of the examination identify the governance structure for the QCCT funds needs improvement. QCCT funding did not receive the attention it deserved due to a board structure that was not suited for proper oversight, an out-dated agreement, and administrative processes that failed to provide sufficient details for determining compliance with the agreement or for assessing whether the intended objectives were met.

The findings indicate over time the QCCT board appeared to extend the University of Louisville's management function. With the primary activities being administrative in nature, there was little incentive for the QCCT board to meet and therefore, opportunities for engaging in active oversight functions were missed. Therefore, accountability is weak. UMC was charged with interpreting and carrying out the terms of an agreement initially written for a different organization, with a different structure. In the absence of clear direction, it appears UMC applied QCCT funding to its total unfunded costs of providing hospital care for non-Medicare patients. Although UMC did provide estimated data to illustrate its assertion that total indigent care costs exceeded QCCT funding, it did not have sufficient recordkeeping to support that those costs are derived from patients that met pre-defined criteria for indigent or medically needy.

Overall the agreement was not administered in a way that promoted accountability and transparency. QCCT serves a population that is the neediest in the Louisville Metro area, therefore it is important to have strong accountability to ensure this population receives the benefits of QCCT funding.

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APPENDICES

Appendix A - Indigent Care Log Excerpt (Unaudited)

Presented below is an excerpt of the Indigent Care Log, which is maintained by the UMC Business Office to reflect total billed charges for indigent care. The log is also used to meet the requirement as noted in the QCCT agreement that within 30 days following the end of the fiscal year, a summary statement identifying each indigent and medically needy individual by patient number, county of residence, and billed charges. UMC considers the patient accounts with amounts in the two columns labeled "outstanding indigent fund" and "write-off indigent fund" as accounts funded by QCCT. The log also contains information regarding non-QCCT payments applied to the patient's accounts, amounts outstanding, and amounts written off to the indigent fund. During the examination, UMC indicated this log is also used as evidence to support that QCCT eligible indigent care costs exceed QCCT funding.

***Patient Number	Inpatient/ Outpatient	Bill thru Date	Total Billed Charges	Estimated Other Sources	Paid Other Sources	Outstanding Indigent Fund	Write Off Indigent Fund	County Name	***Patient Name	***SS#	***DOB
	I	6/18/2011	\$ 1,135,034.90	\$ -	\$ -	\$ 1,135,034.90	\$ -	JEFFERSON			
	I	6/27/2011	\$ 1,043,284.72	\$ -	\$ -	\$ 1,043,284.72	\$ -	FLOYD INDIANA			
	I	6/29/2011	\$ 918,194.61	\$ -	\$ -	\$ 918,194.61	\$ -	JEFFERSON			
	I	5/16/2011	\$ 891,684.07	\$ -	\$ -	\$ 891,684.07	\$ -	CALDWELL/DAVIES			
	I	6/30/2011	\$ 794,743.02	\$ -	\$ -	\$ 794,743.02	\$ -	OTHER INDIANA			
	I	4/8/2011	\$ 477,533.31	\$ -	\$ 30,000.00	\$ 447,533.31	\$ -	HARRISON INDIANA			
	I	5/5/2011	\$ 440,942.17	\$ -	\$ -	\$ 440,942.17	\$ -	JEFFERSON			
	I	5/20/2011	\$ 405,288.64	\$ -	\$ -	\$ 405,288.64	\$ -	JEFFERSON			
	I	4/12/2011	\$ 329,473.96	\$ -	\$ 1,371.80	\$ 328,102.16	\$ -	ADAIR			
	I	3/4/2011	\$ 318,859.94	\$ 243.37	\$ -	\$ 318,616.57	\$ -	JEFFERSON			
	I	6/30/2011	\$ 317,337.70	\$ -	\$ -	\$ 317,337.70	\$ -	JEFFERSON			
	I	3/18/2011	\$ 299,593.19	\$ -	\$ 15.00	\$ 299,578.19	\$ -	JEFFERSON			
	I	5/26/2011	\$ 278,953.86	\$ -	\$ 10,500.00	\$ 268,453.86	\$ -	HARDIN			
	I	3/17/2011	\$ 267,720.88	\$ -	\$ 15.00	\$ 267,705.88	\$ -	METCALFE/MONROE			
	I	5/27/2011	\$ 239,726.98	\$ -	\$ -	\$ 239,726.98	\$ -	NICHOLAS/OHIO			
	I	2/9/2011	\$ 238,240.56	\$ -	\$ 15.00	\$ 238,225.56	\$ -	JEFFERSON			
	I	3/17/2011	\$ 230,939.42	\$ -	\$ -	\$ 230,939.42	\$ -	CLARK INDIANA			
	I	2/4/2011	\$ 337,367.70	\$ -	\$ 118,663.21	\$ 218,704.49	\$ -	JEFFERSON			
	I	2/8/2011	\$ 211,370.50	\$ (20.46)	\$ -	\$ 211,390.96	\$ -	JEFFERSON			
	I	5/31/2011	\$ 210,136.15	\$ -	\$ -	\$ 210,136.15	\$ -	OWEN			
	I	5/23/2011	\$ 209,821.03	\$ -	\$ -	\$ 209,821.03	\$ -	HARRISON INDIANA			
	I	3/3/2011	\$ 222,799.19	\$ 13,282.45	\$ -	\$ 209,516.74	\$ -	OTHER INDIANA			
	I	3/31/2011	\$ 206,117.50	\$ -	\$ -	\$ 206,117.50	\$ -	NELSON			
	I	2/21/2011	\$ 202,751.45	\$ -	\$ -	\$ 202,751.45	\$ -	SHELBY			
	I	4/22/2011	\$ 201,431.51	\$ -	\$ -	\$ 201,431.51	\$ -	CLARK INDIANA			
	I	5/15/2011	\$ 199,435.59	\$ -	\$ -	\$ 199,435.59	\$ -	JEFFERSON			
	I	6/9/2011	\$ 198,839.51	\$ -	\$ 50.00	\$ 198,789.51	\$ -	JEFFERSON			
	O	2/22/2011	\$ 17,165.82	\$ -	\$ -	\$ 5,545.76	\$ 11,620.06	JEFFERSON			
	I	3/9/2011	\$ 25,404.76	\$ -	\$ -	\$ 5,080.95	\$ 20,323.81	JEFFERSON			
	I	2/3/2011	\$ 183,727.90	\$ -	\$ 10,500.00	\$ 4,251.78	\$ 168,976.12	BULLITT			
	O	8/31/2010	\$ 6,087.86	\$ 6,087.86	\$ -	\$ (6,087.86)	\$ 6,087.86	JEFFERSON			
	O	8/23/2010	\$ 15,697.10	\$ 15,697.10	\$ 6,290.00	\$ (6,290.00)	\$ -	JEFFERSON			
	O	8/13/2010	\$ 6,470.61	\$ 6,470.61	\$ -	\$ (6,470.61)	\$ 6,470.61	JEFFERSON			
	O	7/17/2010	\$ 6,523.64	\$ 6,523.64	\$ -	\$ (6,523.64)	\$ 6,523.64	JEFFERSON			
	O	7/6/2010	\$ 6,528.15	\$ 6,528.15	\$ -	\$ (6,528.15)	\$ 6,528.15	CLARK INDIANA			
	O	8/26/2010	\$ 9,362.83	\$ 9,362.83	\$ 100.00	\$ (7,590.26)	\$ 7,490.26	JEFFERSON			
	O	7/5/2010	\$ 6,114.06	\$ 6,114.06	\$ 1,935.26	\$ (8,049.32)	\$ 6,114.06	JEFFERSON			
	O	8/11/2010	\$ 8,523.20	\$ 8,523.20	\$ -	\$ (8,523.20)	\$ 8,523.20	JEFFERSON			
	O	8/1/2010	\$ 6,747.13	\$ 6,747.13	\$ 2,149.03	\$ (8,896.16)	\$ 6,747.13	JEFFERSON			
	I	7/2/2010	\$ 13,857.99	\$ -	\$ 861.21	\$ (9,292.91)	\$ 22,289.69	TRIMBLE			
	O	8/30/2010	\$ 11,092.66	\$ 11,092.66	\$ -	\$ (11,092.66)	\$ 11,092.66	BULLITT			

*** Information in the columns was redacted due to Health Insurance Portability and Accountability Act (HIPAA) regulations.

Source: University Medical Center

Appendix B - Jefferson County Charity Care (Unaudited)

Presented below are estimated charity care charges and costs for Jefferson County at University Hospital. This information documents how QCCT and DSH funds are applied for charity care. QCCT and DSH funding for indigent care in FY 2009 and FY 2010 exceed the total estimated indigent care costs; however, in FY 2011 indigent care costs exceed QCCT and DSH funding. The data below analyzes program costs as opposed to charges. The QCCT agreement currently permits funding for 58% of billed charges. In Finding 7, the APA recommends that QCCT reimbursement should be based on the cost of providing indigent care and not charges. There are limitations to this information, as it does not agree to data reported in the UMC Indigent Care Log (Appendix A). UMC indicated this is due to the use of estimates in compiling the information below.

	Cases	Patient Days	Billed Charges	Costs Per Filed Cost Reports
<i>FY 2009</i>				
Inpatient	3,100	13,185	\$ 88,328,294	\$ 29,262,256
Outpatient	44,092		82,712,979	23,622,970
Total	<u>47,192</u>		<u>\$ 171,041,273</u>	<u>52,885,226</u>
Less: DSH Funding for Jeffers on County Charity Care				26,875,989
Less: QCCT funds @ 90%				30,849,236
Total				<u>57,725,225</u>
Cost in excess of funding				<u>\$ (4,839,999)</u>
<i>FY 2010</i>				
Inpatient	3,916	22,150	\$ 110,994,629	\$ 35,410,061
Outpatient	50,249		97,222,793	25,687,626
Total	<u>54,165</u>		<u>\$ 208,217,422</u>	<u>61,097,687</u>
Less: DSH Funding for Jefferson County Charity Care				32,882,842
Less: QCCT funds @ 90%				31,715,564
Total				<u>64,598,406</u>
Cost in excess of funding				<u>\$ (3,500,719)</u>
<i>FY 2011</i>				
Inpatient	4,096	15,363	\$ 112,376,861	\$ 36,161,645
Outpatient	48,078		104,344,061	25,957,787
Total	<u>52,174</u>		<u>\$ 216,720,922</u>	<u>62,119,432</u>
Less: DSH Funding for Jefferson County Charity Care				28,273,171
Less: QCCT funds @ 90%				31,105,080
Total				<u>59,378,251</u>
Cost in excess of funding				<u>\$ 2,741,181</u>

Source: University Medical Center

Appendix C - Total Indigent Care Costs (Unaudited)

Presented below are indigent care costs and total number of cases for Jefferson and non-Jefferson County residents for FY 2009 through FY 2011. The amounts below are based on information from the hospital's financial statements.

	FY 2011	FY 2010	FY 2009
Jefferson County	\$ 62,119,432	\$ 61,097,687	\$ 52,885,226
Outside Jefferson County	26,052,394	27,903,257	33,912,099
Total Indigent Care Costs	88,171,826	89,000,944	86,797,325
Percentage of Jefferson County Costs	70.45%	68.65%	60.93%
Percentage of Outside Jefferson County Costs	29.55%	31.35%	39.07%
Total Percentage	100.00%	100.00%	100.00%
QCCT Funding (net of rebate)	31,918,096	32,156,015	31,807,129
State DSH Funding (net of match)	36,064,119	36,582,099	35,052,801
Total Funding	67,982,215	68,738,114	66,859,930
Difference	\$ 20,189,611	\$ 20,262,830	\$ 19,937,395
QCCT Funding - Contractual Amount:			
State	\$ 24,918,100	\$ 25,221,411	\$ 24,807,129
City **	9,643,104	10,000,149	9,469,800
Total QCCT Funding	\$ 34,561,204	\$ 35,221,560	\$ 34,276,929
Indigent Care Cases:			
Inpatient	5,604	5,360	5,271
Outpatient	58,132	61,038	54,336
Total Indigent Care Cases	63,736	66,398	59,607

** FY 2010 includes \$365,000 of accumulated investment earnings.

Source: University Medical Center

Appendix D - Louisville Metro Area Charity Care Data (Unaudited)

Presented below is the charity care data for the Louisville Metro area hospitals for calendar years 2009 and 2010. Calendar year 2011 information was incomplete, therefore it was not included. Per the Kentucky Cabinet for Health and Family Services (CHFS), Office of Health Policy, charity care is defined according to each hospital's policy at the time of discharge. The information submitted to CHFS is the hospital's best estimation as to how a patient is categorized at the time of the billing. Based on the information below, University Hospital reported the largest number of estimated charity care cases and charges in calendar years 2009 and 2010. Auditors noted a discrepancy between estimated cases reported to CHFS, and the cases reported in Appendix C. It appears the cases reported in Appendix C are based on the Indigent Care Log. Finding 9, in this report, identifies weaknesses noted with the Indigent Care Log.

Louisville Metro Area Hospitals	Calendar Year 2010		Calendar Year 2009	
	Charity Cases	Total Charges	Charity Cases	Total Charges
Baptist Hospital East	832	\$ 2,064,476	810	\$ 1,845,820
Jewish Hospital and St Mary's Healthcare	627	\$ 4,311,537	754	\$ 4,302,804
Norton Audubon Hospital	1,085	\$ 5,594,274	149	\$ 1,094,982
Norton Brownsboro Hospital	107	1,572,694	3	16,958
Norton Hospital	990	5,217,431	91	1,884,881
Norton Suburban Hospital	894	3,939,228	99	603,798
Total Norton Healthcare	3,076	\$ 16,323,627	342	\$ 3,600,619
University of Louisville Hospital	22,968	\$ 194,254,277	27,049	\$ 235,673,393

Source: Kentucky Cabinet for Health and Family Services, Office of Health Policy

AGENCY RESPONSE



DR. JAMES R. RAMSEY, PRESIDENT, UNIVERSITY OF LOUISVILLE

May 17, 2012

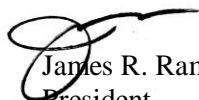
Mr. Adam Edelen
Kentucky State Auditor
209 St. Clair Street
Frankfort, KY 40601-1817

Dear Adam:

Thank you for responding to my request to have the Office of the Auditor of Public Accounts review the Quality and Charity Care Trust (QCCT). As we have discussed, the availability of and ability to provide health care for our most vulnerable citizens are defining characteristics of any community. The QCCT is evidence that Louisville and the Commonwealth of Kentucky value these citizens.

Thank you for providing the entities associated with the QCCT contract the opportunity to respond to your findings and recommendations. In the attached, current QCCT board chair David L. Dunn, M.D., Ph.D., UofL Executive Vice President for Health Affairs, and James Taylor, President and Chief Executive Officer of UMC, have provided a brief bit of background. Further, Dr. Dunn, in his role as QCCT board chair, has responded to findings and recommendations 1-7, and Mr. Taylor, in his role with UMC, has responded to findings and recommendations 8-9.

Sincerely,



James R. Ramsey
President

Attachment

The Campaign for Kentucky's Premier Metropolitan Research University



University of Louisville • Louisville, Kentucky 40292 • P. 502.852.5417 • F. 502.852.7226 • ChartingOurCourse.org

The Quality and Charity Care Trust is an essential funding mechanism to help ensure adequate resources exist for University Medical Center to carry out its mission of providing health care services to the people of Louisville and Kentucky, regardless of their ability to pay. At the time of its establishment and creation of the original agreement nearly 30 years ago, there was considerable deliberation regarding the creation of a bureaucracy to administer the program, and its attendant costs, or utilizing the human and intellectual resources available at the University of Louisville, thus increasing the funds available for the actual delivery of care. As is pointed out in the report, the latter path was chosen at significant cost reduction to the state.

While the QCCT resource is unique within the state, many other health care providers throughout the nation have similar publicly funded instruments via taxes. For example, Cincinnati/Hamilton County Ohio designates some \$26 million from property taxes for adult care only that is provided at University Hospital in Cincinnati. Nashville/Davidson County Tennessee designates \$44 million from its General Funds to provide comparable care at Nashville General Hospital. This in comparison to the \$7 million provided from general funds from Louisville Metro Government, which actually is less than the contract calls for. The auditors note the \$5 million lease payment from UMC to the Commonwealth in finding 7. These funds actually revert back to the QCCT as part of the state's portion of the contract. Yes, this specific contract is unique within the state; however, the premise of public funding to support the mission of providing care for those who cannot afford to pay is not.

All involved recognize that the QCCT board did not meet as specified by its bylaws due to the lack of a quorum. Changes in leadership among the entities have been cited as the reason. However, these changes in leadership now allow for this issue to be rectified. The QCCT board meeting held in February 2012 and the executive committee meeting May 10, 2012, are demonstrations of the board's commitment to remedying the problem. Additionally, the lack of meetings resulted in the inability of the board to review and approve the recommended annual funding calculation for the coming fiscal year. However, because the annual funding calculation is expressed in detail within the agreement, the board review and approval does not have a material impact on the calculation. That said, resuming the regularly scheduled meetings will resolve this issue of board review and approval.

The findings and recommendations of the Office of the Auditor of Public Accounts are very instructive in the development of a new agreement related to the Quality and Charity Care Trust that can lead to a strengthening of accountability and transparency into the use of the funds. These items must be addressed at the time of the creation of a new agreement. We look forward to those discussions.

At the same time, while the APA has made recommendations in other areas, it is important to recognize that the QCCT board and UMC have met the terms and reporting obligations of the agreement.

Caring for patients regardless of their ability to pay is a core value of University Medical Center; demonstrating that the organization responsibly stewards funding courses that support the

mission is vitally important. As your auditors found, University Medical Center provides a great deal more care for indigent patients than any source of funding covers, including the QCCT. Because of this annual gap in funding, every dollar allocated to lessen the financial burden on our operations is essential to UMC's ability to continue to provide this care.

Below are specific, detailed responses to each of the findings.

FINDING 1: QCCT board structure is not conducive for providing proper oversight.

Recommendation: Appointments for the controlling number of board members be given to the Commonwealth and Louisville Metro.

Response: Since the University of Louisville exclusively provides the management oversight and staffing for the Trust, the board structure was originally designed to provide Board members and staff who were most knowledgeable with, and took direct responsibility for, administering the Trust. The current structure operates in accordance with the current operating agreement. Over time, to our knowledge, there have been no requests for additional seats or different representation on the QCCT Board by the Commonwealth and Metro government. Since the early days of the Trust, the University of Louisville, as a quasi-agency of the Commonwealth, has taken the position that it de facto represents the Commonwealth and its interests. However, going forward, we agree with the recommendation regarding the structure of the board membership.

FINDING 2: QCCT board failed to meet as required by the QCCT bylaws.

Recommendation: The QCCT board meet as required per the bylaws, which is a minimum of twice a year.

Response: We agree that the board failed to meet as required by its bylaws due to the inability to have a quorum. This issue is being addressed and a meeting was held in February 2012 as well as an executive meeting on May 10, 2012.

Also of note, the board met July 2, 2009. This meeting was not reflected in the original draft audit report and we hope the final report includes this correction.

FINDING 3: QCCT board meetings were not effective for proper oversight.

Recommendation: The QCCT board meetings include activities that promote accountability of QCCT funds received and transferred to UMC.

Response: Future board meetings will be organized so that additional detail is available to enhance expansive discussion.

Because the Board was composed of several members who had a first-hand working knowledge of the Trust, many routine matters were delegated to staff. This is something for which past Board chairs have made a judgment call within their stated responsibilities. Additionally, an external audit of the Trust was conducted annually. This audit was shared with the QCCT board.

FINDING 4: The QCCT board lacks written policies and procedures.

Recommendation: The QCCT board develop written policies relevant for effective oversight and administration of QCCT.

Response: We agree that written policies and procedures specific to the QCCT board do not exist. Historically, the board members have felt that “piggy backing” with UofL from an administrative standpoint eliminates costly duplicative services. Members of the QCCT Board in the past have felt that to conserve limited financial resources and check unnecessary and duplicative bureaucracy, it would use UofL’s staff, systems and processes when available. It may prove useful for the board to have its own policies and procedures in the future. In the

meantime, board members will be provided broader instruction and orientation upon joining the QCCT board. Additional learning/training opportunities will be offered to board members throughout their tenure on the board.

FINDING 5: QCCT board did not have sufficient communication with the audit firm.

Recommendation: The QCCT board request the audit firm to communicate directly with the QCCT board regardless of whether the QCCT audit is separately engaged or included in the University of Louisville’s audit contract.

Response: The opinion on the audited financial statements of the QCCT is addressed to the Board of Directors of the QCCT. BKD, UofL’s current external auditing firm, has presented the audited financial statements to the QCCT Board annually, in those periods when board meetings have been held. BKD will continue this communication of final results to the QCCT board. In all future audits, BKD will prepare and present a separate letter to the QCCT Board for the following:

- a. Engagement letter, outlining audit firm’s roles and responsibilities, as well as those responsible for managing the QCCT’s operations.
- b. Pre-audit communication letter discussing the planned audit responses and anticipated risk areas – this can be presented at a QCCT board meeting prior to the start of the audit, if desired.
- c. Statement on Auditing Standards (SAS 114) – The Auditor’s communication with those charged with governance.

Additionally, as a general rule, the above outlined audit procedures can be accomplished at the same cost as currently being charged for the engagement as long as the same auditing firm is contracted for both the QCCT and UofL engagements. However, it should be noted that if the external auditing firm were to be different than the firm used by the University of Louisville then the cost of the annual audit for the QCCT would increase significantly.

FINDING 6: QCCT board did not review or approve the annual funding calculation.

Recommendation: The QCCT board review and approve the annual funding calculation prior to submission to the Commonwealth and Louisville Metro.

Response: The calculation is expressly defined in great detail within the operating agreement and is thoroughly discussed with the Commonwealth and Metro government annually, making the review and approval by the board an informational item. However, we concur that the board should review this annually.

FINDING 7: QCCT does not have an updated agreement.

Recommendation: The QCCT agreement be updated to address the current parties, all funding arrangements, require QCCT funding be applied to individual patient accounts, clarify the residency requirements, modified to reflect that reimbursement should be based on cost, and address the intent of QCCT funding.

Response: We agree that a new agreement reflecting the current parties funding arrangements associated with the agreement is necessary. The original agreement was created in 1983 and last updated in 1996. We look forward to working with all the parties in the development of this agreement, which also should note current standard accounting practices for similar arrangements between safety net hospitals and funding partners. Finally, it is imperative that any new agreement make available the full financial resources necessary for meeting the medical needs of the indigent and medically underserved.

FINDING 8: QCCT funds are not accounted for at the patient level

Recommendation 1: UMC should apply QCCT funds to specific patient accounts.

Response 1: While QCCT funds are not applied directly to patient accounts, UMC does keep detailed (patient by patient) records and reports that reflect the total indigent charges on an annual basis, as called for by the contract.

[6. A. ... Within thirty (30) days following the end of the Trust Year, Corporation shall deliver to the Trust, the Local Governments and the Commonwealth a summary statement identifying each Indigent and Medically Needy by patient number, his county of residence and Billed Charges for such Indigent and Medically Needy.]

The Indigent Care Log documents every account from any patient that may qualify as indigent or medically needy treated at University Medical Center. As noted by the auditor, the log includes patient numbers, county of residence, and billed charges. This log is a dynamic document updated as individual resources change, regardless if it is months or years later. If a funding source, such as Medicare/Medicaid or commercial insurance is determined at a later time, the log is updated to reflect that new source of the payment and not counted against the funds used for indigent care.

Recommendation 2: UMC reconcile QCCT funds applied to patient accounts with its accounting system.

Response 2: Currently these accounts are not settled on a patient-by-patient basis, but instead are recorded to an overall indigent care account, once qualified. Records are maintained to show justification, patient-by-patient, with annual reports run and an annual external audit performed. However, it is the cumulative total that is reported annually, as called for by the QCCT contract.

In addition, UMC, in partnership with the QCCT board, has worked to maximize the benefit of the funds by keeping administrative costs to a minimum. The frugality of this partnership has reduced the operating expenses essentially to one annual audit. This has preserved the balance of the QCCT dollars to pay for patient care.

Through these measures UMC believes it has exceeded the record keeping and reporting requirements called for in the QCCT contract. However if the QCCT board requires further documentation in the future, UMC will work to the best of its ability to comply.

FINDING 9: Indigent Care Log does not provide adequate information for proper accountability of QCCT funds.

Recommendation 1: All patients considered eligible for QCCT funding should have an application on file and meet specific criteria as determined by the contract.

Response 1: UMC will more clearly document all attempts to obtain applications or income verification from patients. UMC would like to address the suggestion that verification of eligibility has not been given the highest priority to date. A large part of the indigent population that seeks care at UMC are unable or unwilling to sign or verify any document. UMC experiences frequent “walk-outs” of the emergency department immediately following treatment but prior to documentation, refusals to sign paperwork of any kind, or misreporting by patients. Due to these issues, UMC makes other efforts to verify patient financial status. These efforts include utilizing outside firms, including Chamberlin Edmonds, to help determine if the patient qualifies for QCCT funding. These activities include determining if patients hold public or private insurance, have an income or employment, or qualify for other government health programs. Patients who are determined not to be “indigent” or “medically needy” as specified in the contract, as well as patients who reside outside the Commonwealth, are noted as no longer QCCT eligible in the patient log.

At no point are QCCT funds used to cover bad debt.

[2.J. “INDIGENT” shall mean for purposes of the Trust, an individual who:

(1) Is not eligible for benefits under Titles V, XVIII or XIX of the Social Security Act;

(2) Is not eligible for any Government health insurance program, is not covered by a private insurance plan or whose coverage for Hospital Care from private insurance, Medicare or Medicaid is exhausted;

(3) Has income from all sources equal to or less than that required to qualify for free or reduced cost care under the Federal Hill-Burton Program using the current Office of Economic Opportunity Income Poverty Guidelines applicable to the Louisville, Kentucky-Indiana Standard Metropolitan Statistical Area.”

T. “MEDICALLY NEEDY” means an individual who, at the time of presentation for admission (unless one of the criteria set forth in Exhibit “B” hereof, is determined by Corporation to apply to such individual, and such determination is not reversed by the Ombudsman), at the time of discharge, or thereafter, does not have sufficient income, resources, insurance benefits or other means of paying for all of the charges rendered or to be rendered in connection with his Hospital Care.]

Recommendation 2: UMC should reimburse the QCCT account when patients are subsequently determined to be eligible for other source of funding.

Response 2: The current patient accounting is in compliance with the current contract. As patients are determined to be eligible for other sources of funding, that determination is noted in the patient log and the account is no longer considered QCCT eligible.

As noted in Response 1 to Finding 9, UMC makes every effort to properly identify if patients are QCCT eligible or qualify for another source of funding. These efforts resulted in the collection of

\$22 million from sources other than QCCT last year. Even with these efforts, there is always a significant shortfall in QCCT funding compared to the amount of care provided. Therefore, “refunds” have not been applied. If there had ever been a circumstance in which QCCT funding outpaced the provision of indigent care, UMC would have refunded the overpayment as per the contract.

Recommendation 3: The Indigent Care Log should be for each fiscal year, and patient accounts should not roll forward to future logs.

Response 3: As stated earlier, UMC manages patient reporting and accounting as specified by the current contract, which calls for a four-year cycle.

[5. A. (2) Any balance remaining in the Trust (net of all adjustments per Paragraph 6B) at the end of the Initial Term or at the end of each subsequent four(4) year period and the end of the term of the Affiliation Agreements shall be returned to the Local Governments in the same proportion that the funding by each local government bore to the Total Government Funding for such prior four-year period or portion thereof, and the pro-rata share of the funding by the Commonwealth shall be disbursed to the University to enhance the quality and support of its hospital-based programs.]

Patients are entered in the log according to the date of service performed; patients do not “roll” forward to future logs.

The four-year cycle is advantageous to all parties in QCCT. The additional time allows for UMC to continue to search for alternative sources of funding for patients determined to be indigent. When a source is found – sometimes years later – the new funding is applied to the year care was provided, allowing QCCT funds to be applied to the remaining balance of indigent care provided. These alternative sources of funding are applied in the log and reflected in the supplemental schedule included in the external auditor’s annual report.

Recommendation 4: UMC should reconcile QCCT funding applied to specific patient accounts.

Response 4: UMC will account for QCCT funding in the manner called for by the contract and the QCCT board. (See Response to Finding 8.)