



Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
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April 2, 2003

CIN: A-01-02-00514

Mr. Michael J. Daly
President
Baystate Health System
759 Chestnut Street
Springfield, Massachusetts 01199

Dear Mr. Daly:

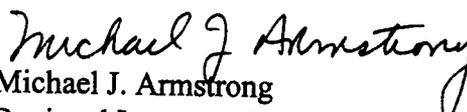
Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled, "Review of Graduate Medical Education Costs Claimed by the Baystate Medical Center for Fiscal Year Ended September 30, 1999." A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. 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, (Public Law 90-23), OIG, OAS reports issued to the Department's grantee and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-01-02-00514 in all correspondence relating to this report.

Sincerely yours,


Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Mr. Joseph Tilghman,
Regional Administrator, Region VII
Centers for Medicare and Medicaid Services
Richard Bolling Federal Building
601 East 12 Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF
GRADUATE MEDICAL EDUCATION COSTS
CLAIMED BY THE
BAYSTATE MEDICAL CENTER
FOR FISCAL YEAR ENDED
SEPTEMBER 30, 1999**



JANET REHNQUIST
Inspector General

APRIL 2003
CIN: A-01-02-00514

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the department.

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EXECUTIVE SUMMARY

BACKGROUND

Since its inception in 1965, the Medicare program has shared in the costs of educational activities incurred by participating providers. Medicare makes payments for direct graduate medical education (GME) and indirect graduate medical education (IME) costs. Both GME and IME payments are calculated annually for hospitals based on the number of full-time equivalent (FTE) residents and the proportion of Medicare days of care. Thus, the amount of Medicare funds received by each hospital is determined, in part, by the number of residents at each hospital and the proportion of time residents spend in training. Medicare has capped its medical education reimbursement to the lesser of current FTE levels or those existing in fiscal year (FY) 1996.

The Baystate Medical Center (Hospital) is a teaching hospital affiliated with Tufts University School of Medicine. More than 500 resident physicians participate in the 24 graduate medical education programs conducted at the Hospital. The Hospital claimed approximately \$27 million for total GME and IME costs in FY 1999.

OBJECTIVE

The objective of our audit was to determine the accuracy of resident FTE counts used by the Hospital for claiming \$9 million in GME and \$18 million in IME payments in its FY 1999 Medicare cost report.

RESULTS OF REVIEW

We found that the Hospital's controls over the proper claiming of resident FTEs were generally adequate with the exception of 6.4 GME FTEs and 5.8 IME FTEs that did not meet Medicare criteria for reimbursement. The effect of these errors did not reduce the FTE counts below established limits on FTEs allowable to be claimed. Therefore, there was no adverse financial impact to the Hospital's FY 1999 GME/IME reimbursement. However, we believe such adjustments should be made and corrective policies be put in place in order to provide accurate historical information used in future years' reimbursements.

RECOMMENDATION

We recommend that the Hospital strengthen its procedures to ensure that resident FTE counts are computed in accordance with Medicare regulations.

The Hospital, in its March 25, 2003 response to our draft report (see APPENDIX), agreed with our findings and recommendation and indicated the corrective actions it has taken.

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INTRODUCTION

BACKGROUND

The Baystate Medical Center (Hospital) is a teaching hospital located in Springfield, Massachusetts affiliated with the Tufts School of Medicine. In 1999, more than 500 resident physicians performed residency rotations at the Hospital.

Graduate Medical Education and Indirect Medical Education Cost Reimbursement

Medical education costs are reimbursed separately for two distinct activities; Graduate Medical Education (GME) and Indirect Medical Education (IME). The Medicare reimbursement calculations for medical education costs claimed are different for GME and IME.

The formula for GME reimbursement includes the direct costs for salaries and fringe benefits for medical residents in an approved medical resident training program; expenses paid to teaching physicians for direct teaching activities; and overhead expenses related to the program. A provider is reimbursed using a fixed per resident amount which varies among providers. Medicare also makes a distinction between residents in primary care and non-primary care specialties. The per resident amount for primary and non-primary care specialties is updated annually for inflation, with the exceptions of fiscal years (FY) 1994 and 1995 for non-primary care specialties. The Hospital claimed reimbursement of \$9,128,435 for GME in FY 1999.

The IME reimbursement covers increased patient care costs such as the costs associated with the additional tests that may be ordered by residents which would not be ordered by a more experienced physician. The IME is an *add-on* to a hospital's Diagnosis Related Group payment. In other words, the greater the number of Medicare patients, the higher the IME payments.¹ The IME formula is designed to reimburse the hospital for increased patient care costs and its calculation uses the resident to hospital bed ratio. The Hospital received reimbursement of \$18,357,529 for IME in FY 1999.

Medicare reimbursement requirements establish certain limits on the total number of resident FTEs that came in the fields of allopathic and osteopathic medicine. The total number of FTEs counted by the hospital in allopathic and osteopathic medicine may not exceed the total number of such resident FTEs counted by the hospital during its most recent cost reporting period ending on or before December 31, 1996.

Full Time Equivalent Considerations

A primary factor in the calculation of both the GME and IME reimbursements is the total count of FTE residents. During FY 1999, the Hospital reported total FTE counts of

¹ This is also true for direct GME, which uses as part of its formula the Medicare utilization for the particular hospital.

223.87 residents for GME and 237.27 residents for IME. The hospital in which a resident works can include his/her time towards the FTE count. In total, no resident can be counted for more than 1.0 FTE.

Federal regulations govern the FTE count for GME and IME. Factors to be considered when counting GME FTEs include:

- Residents must be in an approved program.²
- All residents in their “initial residency period” (IRP) are eligible to be counted as 1.0 FTE. All residents who exceed their initial residency period are weighted only as 0.5 FTE. The IRP is the minimum length of time it takes the resident to be eligible for board certification.³
- All residents who graduated from a foreign medical school must pass a Foreign Medical Graduate Examination in order to be counted in the GME reimbursement count.⁴
- Residents’ time in inpatient and outpatient settings is allowable. If a resident works in an outpatient setting which is not part of the hospital, the hospital can claim the time as if the resident worked in a part of the hospital provided an appropriate written agreement exists between the hospital and the non-hospital provider. The agreement should state that the costs of training the residents will be borne by the hospital.⁵
- Research must be performed as part of the approved residency program.⁶

Factors considered when counting IME FTEs are generally the same as the GME factors except:

- Time spent doing research can count for IME only if it relates to the direct care of a hospital patient.⁷
- Residents must work in either: 1) the prospective payment system portion of the hospital, 2) the outpatient department of the hospital⁸, or 3) a non-hospital setting, provided an appropriate written agreement exists between the hospital and the non-hospital provider.⁹

² 42 CFR 413.86(b)

³ 42 CFR 413.86(g)

⁴ 42 CFR 413.86(h)(1)(i)

⁵ 42 CFR 413.86(f)(4)

⁶ 42 CFR 413.86 (f)

⁷ Provider Reimbursement Manual 2405.3

⁸ 42 CFR 412.105(f)(ii)

⁹ 42 CFR 413.86(f)(3) and (f)(4)

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine the accuracy of resident FTE counts used by the Hospital for claiming GME and IME costs in its FY 1999 Medicare cost report. Our audit was conducted in accordance with generally accepted government auditing standards. To test compliance with applicable criteria and to determine the correct amount of medical education payments to which the Hospital is entitled, we:

- Reviewed the results of past GME/IME audits with the Medicare fiscal intermediary,
- Obtained copies of the Hospital's FY 1999 Medicare cost report and supporting Intern and Resident Information System (IRIS) file,
- Identified all residents who were claimed on the Hospital's FY 1999 Medicare cost report for GME and IME and reconciled the FTE counts to Medicare cost report, Worksheet E-3, Part IV for GME and Worksheet E, Part A for IME,
- Reviewed the residency programs from which residents rotate at the Hospital and determined if these programs were approved in accordance with Federal regulations,
- Ascertained the length of the IRP per specialty and verified if FTEs were properly weighted,
- Identified all foreign medical school graduates and determined if these residents should be included in the FTE count,
- Obtained the rotation schedules for all claimed residents and verified whether individual FTE time was properly computed and that such time was claimed in accordance with Medicare regulations,
- Discussed the results of our audit with the Hospital, and
- Determined the net dollar effect of our audit adjustments to the GME and IME FTE counts by recalculating the Hospital's FY 1999 Medicare cost report Worksheets E-3, Part IV for GME and Worksheet E, Part A for IME.

Our review of the internal control structure was limited to obtaining an understanding of the internal controls over reporting FTEs. This was accomplished through interviews and testing pertaining exclusively to GME and IME FTE counts. Our audit field work was conducted at the Hospital in Springfield, Massachusetts from March 2002 through July 2002.

The Hospital's response to our draft report is appended to this report (see APPENDIX).

FINDINGS AND RECOMMENDATIONS

The Hospital claimed \$27,485,964 for medical education cost reimbursements on its FY 1999 Medicare cost report; \$9,128,435 related to GME and \$18,357,529 related to IME. We found that the Hospital's controls over the proper claiming of resident FTEs were generally adequate. However, we identified 6.4 GME FTEs and 5.8 IME FTEs which did not meet Medicare criteria for reimbursement. The effect of these errors did not reduce the FTE counts below established limits on FTEs allowable to be claimed. Therefore, there was no adverse financial impact to the FY 1999 GME/IME reimbursement.

FTEs NOT ELIGIBLE FOR MEDICARE REIMBURSEMENT

For FY 1999, the Hospital reported 244.01 resident FTEs into its computations for medical education reimbursement. However, Medicare reporting requirements for GME and IME limit allowable FTEs to the lesser of the current year or the 1996 fiscal year. As such, the Hospital was capped on its allowable FTEs to 237.27 IME FTEs and 223.87 GME FTEs.¹⁰ We reviewed the supporting documentation for all residents serving at the Hospital during FY 1999 and found that the Hospital had overstated its resident count by 6.4 GME FTEs and 5.8 IME FTEs. Such errors included:

- 2.8 FTEs for both GME and IME for time charged for 28 residents who rotated to non-provider settings where an appropriate written agreement did not exist between the Hospital and the outside provider,
- 2.4 GME FTEs for 9 residents exceeding their initial residency periods without appropriate weighting reductions,
- 1.8 IME FTEs for 11 residents representing time charged to non-reimbursable research activities, and
- 1.2 FTEs for both GME and IME for 4 residents whose time records contained miscellaneous clerical and documentation errors.

The above overstated FTEs do not reduce the actual FTE counts to the capped 1996 levels and, therefore, do not affect FY 1999 reimbursement. However, we believe such adjustments should be made and corrective policies be put in place in order to provide accurate historical information used in future years' reimbursements.

RECOMMENDATION

We recommend that the Hospital strengthen its procedures to ensure that resident FTE counts are computed in accordance with Medicare regulations.

¹⁰ GME FTEs net of weighting reductions for residents exceeding their IRP.

AUDITEE RESPONSE

In its March 25, 2003 response to our draft report (see APPENDIX), the Hospital agreed with our findings and recommendation. The Hospital indicated in its response that it has enhanced its policies and procedures for ensuring that (1) appropriate documentation is obtained and maintained for rotation arrangements made with non-hospital providers, (2) residents who received graduate medical training prior to coming to the Hospital receive proper GME FTE weighting and (3) resident research time is evaluated for proper inclusion or exclusion from the IME resident count.

APPENDIX



Baystate Medical Center

A Member of Baystate Health System
Springfield, Massachusetts 01199
413-794-0000

March 25, 2003

Mr. Michael J. Armstrong
Regional Inspector General for Audit Services
Office of Audit Services, Region I
John F. Kennedy Federal Building
Boston, MA 02203

RE: Common Identifier No. A-01-02-0054

Dear Mr. Armstrong:

We have reviewed the draft of the report providing Baystate Medical Center (the Medical Center") with the results of your audit entitled "Review of Graduate Medical Education Costs Claimed by the Baystate Medical Center for Fiscal Year Ending September 30, 1999 dated February 24, 2003. The report provided background on the treatment of indirect and direct graduate medical education ("IME/GME") costs, the objective, scope and methodology of your review, and your findings and recommendations.

Based on our review of the draft report, the Medical Center accepts and generally agrees with the findings disclosed therein and the conclusion that there is no adverse financial impact to the Hospital's FY 1999 IME/GME reimbursement.

Since the OIG's audit, the Medical Center has instituted a number of steps to further strengthen its already established policies and procedures for handling IME/GME costs and for ensuring compliance with Medicare cost reporting requirements in this area. Specifically, the Medical Center has done the following:

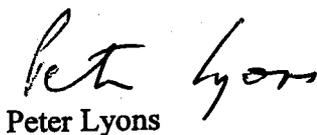
1. The Medical Center has enhanced its policies and procedures for handling arrangements with non-hospital providers through which the Medical Center's residents receive training. Procedural improvements include better identification of resident off-site rotations and training opportunities to ensure that appropriate documentation is obtained and maintained regarding these programs.

March 25, 2003
Page 2

2. For fiscal years subsequent to FY 1999, the Medical Center has instituted procedures to better identify residents that received graduate medical training prior to coming to the Medical Center. This identification process was undertaken to determine if adjustments needed to be made to the PGY status of any individuals and to verify that the individuals were still within their initial residency period and therefore entitled to full FTE weighting. The Medical Center also has instituted procedures to ensure that going forward this information will be obtained at the time that incoming residents arrive at the Medical Center.
3. The Medical Center continues to work with its residency program directors to refine its understanding and documentation of the types of research in which the residents are engaged as part of their training programs in order to ensure the proper inclusion or exclusion of research time from the IME resident count.

Baystate Medical Center remains committed to maintaining compliance with all Medicare rules and regulations related to the reporting and treatment of IME/GME costs. If I can be of any further assistance, please do not hesitate to contact me at 413-794-2578.

Sincerely,



Peter Lyons

Vice-President Finance, Support Services

ACKNOWLEDGMENTS

This report was prepared under the direction of Michael Armstrong, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

Robert Champagne, *Audit Manager*

Gregory Pasko, *Senior Auditor*

Mary Moriarty, *Auditor*

For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.