



DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF AUDIT SERVICES  
233 NORTH MICHIGAN AVENUE  
CHICAGO, ILLINOIS 60601

REGION V  
OFFICE OF  
INSPECTOR GENERAL

December 10, 2002

Common Identification Number: A-05-02-00026

Mr. Marvin Pember  
Senior Vice President and Chief Financial Officer  
Clarian Health Partners, Inc.  
1701 Senate Blvd, Room B107  
Indianapolis, Indiana 46202

Dear Mr. Pember:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled "Audit of Medicare Education Payments Claimed by the Clarian Health Partners, Inc. for the Period January 1 to December 31, 1999." A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determinations 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 (5 U.S.C. 552, as amended by Public Law 104-231), OIG OAS reports issued to the Department's grantees 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-05-02-00026 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson  
Regional Inspector General  
for Audit Services

Enclosures – as stated

**Direct Reply to HHS Action Official:**  
Associate Regional Administrator  
Centers for Medicare & Medicaid Services  
U.S. Department of Health and Human Services  
233 North Michigan Avenue, Suite 600  
Chicago, Illinois 60601-5519

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF MEDICAL EDUCATION  
PAYMENTS CLAIMED FOR THE  
PERIOD JANUARY 1 TO  
DECEMBER 31, 1999**

**CLARIAN HEALTH  
PARTNERS, INC.  
INDIANAPOLIS, INDIANA**



**JANET REHNQUIST  
Inspector General**

**DECEMBER 2002  
A-05-02-00026**



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OFFICE OF AUDIT SERVICES  
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Marvin Pember  
Senior VP and Chief Financial Officer  
Clarian Health Partners, Inc.  
1701 Senate Blvd, Room B107  
Indianapolis, Indiana 46202

Dear Mr. Pember:

This final report provides the results of an Office of Inspector General (OIG) review of medical education payments claimed by Clarian Health Partners, Inc. (Clarian) for the period January 1 to December 31, 1999. The objective of this review was to determine the accuracy of resident full time equivalent (FTE) counts used by Clarian to calculate direct graduate medical education (GME) and indirect medical education (IME) payments.

We determined that Clarian overstated their resident FTE counts by 87.26 FTEs (51.48 GME and 35.78 IME). This overstatement occurred because Clarian did not compute the FTE counts in accordance with federal regulations. As a result of these errors, Clarian overclaimed reimbursement by a total of \$263,884 (\$260,161 GME and \$3,723 IME).

We are recommending that Clarian: 1) reduce the FTE counts reported on its FY 1999 Medicare cost report by 51.48 for GME and 35.78 for IME, 2) strengthen controls to ensure that future FTE counts are calculated in accordance with Federal requirements, and 3) determine whether the errors identified in our review have occurred in prior Medicare cost reports and coordinate with its fiscal intermediary, AdminaStar Federal, to make any necessary financial adjustments.

Clarian agreed with our recommendation to strengthen internal controls but did not agree with some of our findings and submitted additional comments. The fiscal intermediary also responded to our draft report, indicating that it had incorporated our findings in the cost report currently being settled but would consider Clarian's response in its final recalculations. These comments are summarized, together with an OIG response, in the body of this report and are attached as Appendix A.

## INTRODUCTION

### BACKGROUND

#### **Clarian Health Partners, Inc.**

The Clarian Health Partners, Inc. (Clarian) is a private, not-for-profit corporation comprised of three hospitals: Clarian Riley Hospital for Children, Clarian Methodist

Hospital, and Clarian Indiana University (IU) Hospital, all located in Indianapolis, Indiana. On January 1, 1997, Clarian entered into an agreement with the IU School of Medicine to be the primary teaching site for residents and fellows. In 1999, Clarian provided training to over 1,100 residents in approximately 70 teaching programs. On the 1999 cost report, Clarian reported a total of 1,259 hospital beds and Medicare reimbursement totaling \$214,261,610, of which \$40,066,046 represented the medical education costs of interns, residents, and fellows (residents).

### **Graduate Medical Education**

Since the inception of Medicare in 1965, the GME program has shared in medical educational costs incurred by participating providers. Currently, Medicare makes two different types of payments – GME and IME. Both GME and IME payments are calculated annually based on formulas that are driven by the number of FTEs and the proportion of Medicare days of care. During FY 1999, Clarian claimed \$10,053,495 for GME and \$30,012,551 for IME.

The GME reimbursement includes the direct costs of operating an approved medical resident training program, primarily the salaries and fringe benefits of the residents and expenses paid to teaching physicians for direct teaching activities. Hospitals are paid for direct GME costs based on Medicare's share of a hospital-specific, per resident amount multiplied by the number of FTE residents. Under Section 1886 of the Social Security Act (the Act) and 42 CFR 412.113, GME costs are excluded from the definition of a hospital's operating costs and, accordingly, are not included in the calculation of payment rates under the hospital inpatient prospective payment system (PPS).

The IME 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-onto a hospital's Diagnosis Related Group payment. In other words, the greater the number of Medicare patients, the higher the IME payments. The IME formula is designed to reimburse a hospital for its increased patient care costs and its calculation uses the resident to hospital bed ratio.

### **OBJECTIVE, SCOPE AND METHODOLOGY**

The objective of our review was to determine the accuracy of Clarian's resident FTE counts for claiming GME and IME on the FY 1999 Medicare cost report. Our audit was conducted in accordance with generally accepted government auditing standards.

We determined the accuracy of the resident counts reported on the cost reports for GME and IME by reconciling the FTEs reported on the FY 1999 cost reports to supporting documentation. In addition, we verified the following for each resident on Clarian's rotation schedules:

1. participation in an approved teaching program;
2. foreign medical graduate eligibility, if applicable;
3. time spent in allowable areas and activities;
4. the appropriate proportion of total time claimed;

5. the appropriate initial residency weighing factor for GME only;
6. classifications for primary care and specialty residency programs; and
7. the FTE count claimed.

We determined the dollar effect of our audit adjustments by recalculating worksheet E-3, Part IV, for GME and worksheet E-3, Part A, for IME on Clarian’s FY 1999 Medicare cost report.

Our review of the internal control structure was limited to obtaining an understanding of the internal controls over reporting FTEs. We conducted the audit fieldwork at Clarian Hospital, Indiana University School of Medicine, and our office from November 2001 through March 2002.

### **RESULTS OF REVIEW**

We found that Clarian overclaimed \$263,884 (\$260,161 GME and \$3,723 IME) on the 1999 cost report because Clarian did not compute the FTE counts in accordance with Federal regulations. The following chart summarizes our audit findings by FTE.

<b>SUMMARY OF AUDIT RESULTS</b>			
<b>FINDINGS</b>	<b>GME</b>	<b>IME</b>	<b>TOTAL</b>
Rotations Outside Clarian’s Facilities Without Written Agreements	28.87	11.78	40.65
Unallowable Research Activities	0	21.55	21.55
Improper Weighting Factor for Residents Outside the Initial Residency Period	20.93	0	20.93
Residents Not Enrolled in a Residency Program	3.17	3.73	6.90
Unallowable Activities	0.42	0.98	1.40
Underclaimed Residents Enrolled in Approved Residency Programs	-1.91	-2.26	-4.17
<b>Total FTEs</b>	<b>51.48</b>	<b>35.78</b>	<b>87.26</b>

#### **Rotations Outside Clarian’s Facilities Without Written Agreements**

We found that 40.65 FTEs (28.87 GME and 11.78 IME) were included for residents that rotated to hospital providers not associated with Clarian and non-hospital settings. Clarian did not maintain written agreements with these facilities. The IU School of Medicine maintains the only written agreements with the non-provider and non-hospital settings; however, these agreements are not in accordance with the Federal regulations.

Regulations at 42 CFR 413.86(f)(4)(ii) provide that for a resident’s time to be included in the FTE count for purposes of Medicare reimbursement, the hospital must have a written agreement with the nonhospital site. This agreement must indicate that the hospital will pay the cost of the resident’s salary and fringe benefits while the resident is training in the

nonhospital site, and the hospital is providing reasonable compensation to the nonhospital site for supervisory teaching activities.

Other items that must be included in the written agreement are 1) the hospital's compensation to the nonhospital site for supervisory teaching activities and 2) the hospital's requirement to incur all or substantially all of the costs for the training program in the nonhospital setting.

### **Unallowable Research Activities**

Clarian inflated the IME count by 21.55 FTEs for the resident's time spent in research not related to patient care activities. The Federal regulations state that a resident's research time can be included in the FTE count if 1) the resident is enrolled in an approved program and 2) the research is directly related to patient care activities.

The Provider Reimbursement Manual (PRM) section 2405.3.F2 states that a resident must not be included in the IME count if the resident is engaged exclusively in research. Resident time spent "exclusively" in research means that the research is not associated with the treatment or diagnosis of a particular patient of the hospital. As a result, the resident's time devoted specifically to performing research that is not related to delivering patient care, whether the research occurs in the hospital complex or not, may not be included.

In addition, residents involved in clinical research outside the context of an approved program are not countable for direct GME or IME reimbursement. Rather, patient care services provided by these residents should be paid as Part B services.

### **Improper Weighting Factor for Resident's Outside the Initial Residency Period**

Clarian overstated the GME count by 20.93 FTEs because the IU School of Medicine applied the incorrect weighting factor for residents exceeding the initial residency period. Clarian claimed the inappropriate weighing factor for 96 residents.

Regulations at 42 CFR 413.86(g)(1) defines the initial residency period as the minimum number of years required for board eligibility. In addition, this period is limited to the first residency program. The time period can range from 3 to 5 years depending on the program. During the initial residency period, the resident can be counted as a full FTE for GME purposes. However, when a resident exceeds the initial residency period, the resident must be counted as a one half FTE.

### **Residents Not Enrolled in a Residency Program**

We found that 6.90 FTEs (3.17 GME and 3.73 IME) were included in Clarian's counts, even though these residents were not enrolled in a residency program. Regulations at 42 CFR 413.86 (f)(1) state that a resident must be enrolled in an approved program working in all areas of the hospital to be counted.

Clarian inappropriately included the following residents in the FTE count for GME:

1. two residents that resigned from a residency program,
2. seven residents that were not enrolled in a program,
3. one resident that exceeded their program's accreditation period, and
4. one resident that did not complete an accredited residency prior to enrolling in the medical genetics program.

### **Unallowable Activities**

Clarian overstated the FTE counts for GME and IME by .42 and .98, respectively, for residents on extended leave of absences, and residents that completed rotations in the hospital's psychiatric department.

We found .90 FTEs (.42 GME and .48 IME) for residents who exceeded the leave limitations during their residency. The IU School of Medicine has established limitations for leave of absences. In addition, an annual American Medical Association (AMA) publication entitled "Graduate Medical Education Directory", also known as "The Green Book", lists the certification requirements and absence limitations for residency programs. Residents are required to make up absences exceeding these limitations. The resident's absence can only be included in the count, when the time is made up, not when the absence occurs.

Clarian included three residents, totaling .50 FTEs, who rotated to a non-PPS area of the hospital, the psychiatric unit, for IME reimbursement purposes. Regulations at 42 CFR 412.105 (f)(ii) states that in order to be counted, the resident must be assigned to the portion of the hospital subject to the prospective payment system (PPS) or the outpatient area of the hospital.

### **Underclaimed Residents Enrolled in Approved Residency Programs**

We found that Clarian understated the FTE counts for GME and IME by 1.91 and 2.26, respectively, because an error in the resident database excluded residents that were enrolled in approved residency programs during 1999.

We verified the resident's rotations and weighing factors and concluded that these residents should have been included in the GME and IME count. As a result, we are recommending that these FTEs be added to the counts.

## **CONCLUSION AND RECOMMENDATIONS**

We found that Clarian overstated the counts for the GME and IME by 51.48 and 35.78 FTEs, respectively. As a result, Clarian overclaimed \$263,884 (\$260,161 GME and \$3,723 IME) on the 1999 cost report because Clarian did not compute these counts in accordance with Federal regulations.

We recommend that Clarian:

- 1) Make an adjustment to reduce the FTE counts reported on its FY 1999 Medicare cost report by 87.26 (51.48 GME and 35.78 IME), reducing total reimbursement by \$263,884,
- 2) Strengthen controls to ensure that future FTE counts are calculated in accordance with Federal requirements, and
- 3) Determine whether the errors identified in our review have occurred in prior Medicare cost reports and coordinate with its fiscal intermediary, AdminaStar Federal, to make any necessary financial adjustments.

### **AUDITEE COMMENTS and OIG RESPONSE**

Clarian provided written comments on our draft report, concurring with our recommendation to strengthen internal controls but did not agree with some of our findings. AdminaStar, the fiscal intermediary, responded that it would use our findings pending receipt of the Clarian response. Clarian's response and the letter from Adminastar are attached as Appendixes. Specific Clarian comments are summarized, as follows:

#### **Clarian Comment**

Clarian officials considered IUSOM a related party for Medicare purposes. As a result of this relationship, IUSOM maintained all agreements with various providers. Clarian claimed the residents for GME reimbursement when these residents were physically at another provider or in a non-provider setting.

#### **OIG Response**

Regardless of Clarian's relationship with IUSOM, the written agreements did not comply with Federal regulations as stated in the finding.

#### **Clarian Comment**

Some research activities were inappropriately excluded as not patient care related. Published research documents were sufficient to document patient care activities.

#### **OIG Response**

Clinical research or other activities not associated with the treatment or diagnosis of a particular patient of the hospital are not allowable activities for IME purposes.

#### **Clarian Comment**

Clarian officials believed that five residents were not outside their initial residency period and provided an attachment for details.



**OIG Response**

Nothing in the attachment caused us to change our conclusion that these residents were outside their initial residency period. The IUSOM applied the incorrect initial residency period for three residents in the internal medicine and pediatrics programs. The initial residency period for these programs is three years. The remaining two residents had completed their residency programs and further training would be weighted as a one half FTE.

**APPENDIXES**

October 15, 2002

Mr. Paul Swanson  
Regional Inspector General  
Region V, Office of Inspector General  
Department of Health and Human Services  
Office of Audit Services  
233 North Michigan Avenue  
Chicago, IL 60601

RE: CIN: A-05-02-00026

Dear Mr. Swanson:

Clarian Health Partners, Inc. is responding to the results of the Office of Inspector General (OIG) review of Medical Education Payments for its fiscal year ended December 31, 1999.

In their findings the OIG reported that Clarian Health Partners, Inc. overstated their resident count by 87.26 FTE's (51.48 GME and 35.78 IME). While we concur with some of the findings and will work to strengthen controls to ensure such computational errors do not occur in the future; we also disagree with some of the findings and wish to offer the following comments and related documentation as appropriate.

### General Comments

#### **Tracking of Residents in Facilities**

Each program is responsible for tracking where their residents are located. In order to ensure that the appropriate controls are in place the following steps will be taken:

1. This issue will be addressed in a COGME meeting where the importance of the process is emphasized. A handout will be created that explains the policy of how the payroll tracking forms are to be used and the importance of them being completed accurately. Program Directors will be asked to review this information with their coordinators.
2. These issues will be addressed in a special program coordinator's meeting where the policy and processes will be reviewed with them. The impact of errors will be specifically addressed in these sessions.
3. A set of materials will be created that can be used for both of the above meetings and can then be used as a guide for the appropriate completion of the tracking forms each month. This document will include instructions for how to deal with vacations, leave of absence and partial month rotations.

#### **Initial Residency Period**

Every applicant applying for a residency position at IUSOM is required to identify any previous residency experiences that they have participated in. A database will be kept to identify this information to ensure that the hospital is not submitting residents for reimbursement who are not eligible based upon their years of training. This database needs to be shared with the hospital. The current tracking system used by the IUSOM has a deficiency in it that does not allow for this tracking or does not adjust for it. Even though residents year of training is reported this may not be correlated to any previous residency training program years.

## **Research Tracking**

A standardized process for tracking of research rotations will be created. Currently CMS recognizes two different types of research rotations. These are clinical or patient care related and “bench” research, which occurs in a laboratory. CMS does not reimburse for bench research. As a first step in clarifying this process a set of standardized definitions needs to be agreed upon for research rotations. The following are proposed:

Clinical Research: Any research rotation, in which a resident participates that has direct clinical application. This includes clinical trials, clinical procedures, and other such activities that include direct patient contact. However, it is recognized that not all clinical research includes direct patient contact. An example of this would be a retrospective chart review.

Bench Research: Any research that is conducted in a laboratory setting that does not include direct patient participation. While this research may have future applications to patient care it is most often conducted either with animal models or other types of scientific processes.

The information created about research rotations will be provided and include in item number 1 above and communicated to both the program directors and residency coordinators. The importance will be stress to those tracking resident activity on the importance of coding research activity appropriately.

## **Comments Specific to Review Findings**

### **Rotations Outside of Clarian Facilities Without Written Agreements:**

OIG findings were that 40.65 FTE's (28.87 GME and 11.78 IME) were inappropriately claimed by Clarian Health.

It is our contention that since Clarian Health has partnered with Indiana University School of Medicine (IUSOM) and is considered a related party for Medicare purposes in their Medical Education mission, it is appropriate that IUSOM would maintain all written agreements in relationship to these “partnerships” with various providers.

Specifically, we believe that as a result of IUSOM's relationship to Clarian Health, there are legitimate occasions where it would be appropriate for Clarian Health, as the provider paying for a resident stipend, to claim a resident for GME when in fact the resident maybe physically at another provider or in a non-provider setting. For example, if IUSOM operated a program with 20 approved slots, they might contract with one provider to fund 10 slots, another provider 5 and another 5. Location of these providers could be such that partial day rotations could occur at various providers, and as such these are tracked and reported to the various entities for appropriate reporting of IME, however rather than bill each provider for small increments of stipends, the stipend is billed to and paid by one provider. The end result being that a given resident will not be counted as more than 1 FTE for GME or IME, however, the facility claiming the individual components are not always the same. As a result we believe, the impact on GME was overstated by 21.83 and IME by 7.27.

### **Non-allowable Research Activities:**

It is Clarian's contention that some research activities have been inappropriately excluded as not patient care related. The published research documents were presented to the auditors as to the study and care given to patients along with findings. We believe that these are sufficient to document the patient related activities. Further, we believe that linking a “research rotation” to specific patient(s) record(s), as requested during this review, is an unreasonable level of documentation.

**Improper Weighting Factor or Resident's Outside the Initial Residency Period:**

We believe that there are 5 individuals representing .79 FTEs for GME that were inappropriately identified as outside of their initial residency period (see attachment A for details).

**Residents Not Enrolled in a Residency Program:**

We have no comments other than the general comments above related to strengthening policies and controls.

**Unallowable Activities:**

We have no comments other than the general comments above related to strengthening policies and controls.

We appreciate the opportunity to respond to the results of the OIG review. While we are not necessarily in agreement with all of the findings, we appreciate the experience and the deficiencies brought to light and welcome the opportunity to strength our policies and procedures, where appropriate, for the future.

Sincerely,



Terry L. Cole, CPA  
Director, Revenue and Reimbursement

Enclosures

Cc: ✓ Lynn Barker, OIG  
Marvin Pember, Clarian Health



September 13, 2002

Department of Health and Human Services  
Office of Audit Services  
Attention: Paul Swanson  
Regional Inspector General  
For Audit Services  
233 North Michigan Avenue  
Chicago, IL 60601

Identification Number: A-05-02-00026

Dear Paul:

Outlined below is AdminaStar Federal's response to the draft report entitled "Audit of Medical Education Payments Claimed by the Clarian Health Partners, Inc. for the period January 1 to December 31, 1999." In theory, AdminaStar Federal does agree with the adjustments being proposed by the OIG.

The above noted report reflects the OIG's analysis of the total allowable intern and resident FTE count for Clarian Hospital for 1999. The report was compiled by reviewing payroll records and comparing them to the intern and resident schedule of hours worked. This review resulted in the following adjustments:

Submitted FTEs for Indirect Medical Education	572.98
OIG's Audited FTEs for Indirect Medical Education	<u>547.30</u>
Variance	-35.28
Submitted FTEs for Direct Medical Education	607.36
OIG's Audited FTEs for Direct Medical Education	<u>555.88</u>
Variance	-51.58

The intermediary had not yet reviewed the Clarian FTE counts for the 12/31/99 cost report, so we are unable to document how the OIG's count would have differed from the FI count. However, the 12/31/98 count has been audited by the FI and the following adjustments were made:

Submitted FTEs for Indirect Medical Education 12/31/98	601.31
Intermediary Audited FTEs for IME for 12/31/98	<u>569.42</u>
Variance	-31.89

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Submitted FTEs for Direct Medical Education 12/31/98	601.75
Intermediary Audited FTEs for DME for 12/31/98	<u>553.17</u>
Variance	-40.58

The submitted numbers are from the Master Schedule used at audit. The provider's submitted cost report amounts were estimates and the Master Schedule given at audit was to be considered "submitted".

With regard to the recommendation to review prior year settled cost reports, once the provider completes their review of the current year findings, we will work with them to incorporate any adjustments necessary to prior year counts for the years subject to reopening.

In conclusion, the intermediary has incorporated the counts determined by the OIG into the 12/31/99 cost report currently being settled. Any changes as a result of the provider's response to the OIG will be applied at that time.

If you have any questions or need any further information, please contact me at (317) 841-4590 or Pam Dallas at (317) 841-4565.

Sincerely,



Steve Heck, Director  
Medicare Audit and Reimbursement

SH/mrc