



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office Of Inspector General  
Office Of Audit Services

Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza  
New York, NY 10278

June 10, 2008

Report Number: A-02-05-01027

Mr. Matthew Babcock  
Vice President, Chief Operating Officer  
St. Elizabeth Medical Center  
2209 Genesee Street  
Utica, New York 13501

Dear Mr. Babcock:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Nursing and Allied Health Education Payments to St. Elizabeth Medical Center for the Period January 1, 2004, Through December 31, 2004." We will forward a copy of this report to the HHS action official noted below.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please direct them to the HHS action official. Please refer to report number A-02-05-01027 in all correspondence.

Sincerely,

A handwritten signature in black ink that reads "James P. Edert".

James P. Edert  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Nan Foster Reilly, Acting Consortium Administrator  
Consortium for Financial Management & Fee for Service Operations  
Centers for Medicare & Medicaid Services  
601 East 12<sup>th</sup> Street, Room 235  
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF NURSING AND  
ALLIED HEALTH EDUCATION  
PAYMENTS TO ST. ELIZABETH  
MEDICAL CENTER FOR THE  
PERIOD JANUARY 1, 2004,  
THROUGH DECEMBER 31, 2004**



Daniel R. Levinson  
Inspector General

June 2008  
A-02-05-01027

# ***Office of Inspector General***

<http://oig.hhs.gov>

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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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# *Notices*

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Pursuant to Federal regulations, Medicare shares in the costs that providers incur for approved nursing and allied health education activities (42 CFR §§ 413.85(d) and 413.50(a)(2)).

Reasonable costs of medical education programs operated by a hospital are excluded from the calculation of Federal Medicare payment rates under the hospital inpatient prospective payment system (42 U.S.C. §§ 1395(w)(a)(4) and (x)). Costs related to these education programs are identified separately on the cost report and paid on a reasonable cost basis, provided the programs meet Medicare reimbursement requirements. If certain conditions are met, Medicare also reimburses hospitals for the costs of certain non-provider operated medical education programs.

Pursuant to 42 CFR § 413.85(g)(3), a provider that has transferred ownership of a previously provider-operated program to a wholly owned subsidiary educational institution in order to meet accreditation standards may continue to receive reasonable cost payment. For transfers of ownership prior to October 1, 2003, Medicare reimburses the provider for clinical training costs and classroom courses included in the previously provider-operated program.

St. Elizabeth Medical Center (St. Elizabeth) offers separate nursing and allied health education programs in Utica, New York – a 2-year nursing program through the St. Elizabeth College of Nursing and a 2-year allied health program through the St. Elizabeth School of Radiography. The College of Nursing was established as a hospital-based nursing program. However, St. Elizabeth restructured its previously provider-operated nursing education program to meet accreditation standards. For the period January 1, 2004, through December 31, 2004 (calendar year 2004), St. Elizabeth claimed total Medicare costs of \$1,560,915 for its nursing and allied health education programs.

### **OBJECTIVE**

Our objective was to determine whether St. Elizabeth's nursing and allied health education programs met Medicare program eligibility and cost reimbursement requirements.

### **RESULTS OF REVIEW**

For calendar year 2004, St. Elizabeth's nursing and allied health education programs met both Medicare program eligibility and cost reimbursement requirements. As a result, this report contains no recommendations.

## **ST. ELIZABETH MEDICAL CENTER COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In its May 28, 2008, comments on the draft report, St. Elizabeth disagreed with the Office of Inspector General conclusion that classroom costs for one nursing course did not qualify for Medicare reasonable cost reimbursement. While St. Elizabeth agreed it added a course to its curriculum after St. Elizabeth transferred ownership of its nursing education program to the St. Elizabeth College of Nursing, St. Elizabeth provided documentation that the course, “Nursing 122: Practicum in Caring Processes,” was a clinical course with no classroom time. Thus, the costs were allowable under Medicare regulations. Based on the new documentation provided, we have revised our report. St. Elizabeth’s comments appear as the Appendix.

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# INTRODUCTION

## BACKGROUND

### Medicare Nursing and Allied Health Education Programs

Pursuant to Federal regulations, Medicare shares in the costs that providers incur for approved nursing and allied health education activities (42 CFR §§ 413.85(d) and 413.50(a)(2)). Federal regulations (42 CFR § 413.85(c)) define approved educational activities as formally organized or planned programs of study that are operated by providers, enhance the quality of inpatient care at the provider, and meet State licensing and accrediting requirements.

Pursuant to 42 CFR § 413.85(f)(1), to be considered the operator of an approved program, a provider must (1) directly incur the training costs, (2) have direct control of the program curriculum, (3) control the administration of the program, including collection of tuition, maintenance of payroll records, and responsibility for day-to-day program operation,<sup>1</sup> (4) employ the teaching staff, and (5) provide and control both classroom instruction and clinical training (when classroom instruction is a requirement for program completion).<sup>2</sup> If certain conditions are met, Medicare also reimburses hospitals for the costs of certain non-provider operated programs.

Pursuant 42 CFR § 413.85(g)(3), a provider that has transferred ownership of a previously provider-operated program to a wholly owned subsidiary educational institution to meet accreditation standards may continue to receive reasonable cost payment. If the transfer of ownership was prior to October 1, 2003, and the provider has continued to incur the costs of both the classroom and clinical training portions of the program, Medicare reimburses the provider for clinical training costs and classroom courses included in the previously provider-operated program.

Pursuant to 42 U.S.C. 1395(w)(a)(4) and (x), reasonable costs of nursing and allied education programs operated by a hospital are excluded from the calculation of payment rates under the hospital inpatient prospective payment system. The costs of these education programs are separately identified on the cost report as “pass-through” costs and are paid on a reasonable cost basis, provided the programs meet the Medicare reimbursement requirements set forth in 42 CFR § 413.85.

Federal regulations (42 CFR § 413.85(d)(2)) state that the net cost of approved educational activities is determined by deducting the revenues that a provider receives from tuition and student fees from the provider’s total allowable educational costs that are directly related to approved educational activities. Total allowable educational costs are those costs incurred by the provider for trainee stipends, compensation of teachers, and other costs. These costs do not

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<sup>1</sup>The provider may contract with another entity to perform some administrative functions. However, the provider must maintain control over all aspects of the contracted functions.

<sup>2</sup>The provider may enter into an agreement with an educational institution to furnish basic academic courses required for completion of the program. However, the provider must furnish all courses relating to theory and practice.

include patient care costs, costs incurred by a related organization, costs that constitute a redistribution of costs from an educational institution to a provider, and costs funded by non-Medicare sources.

Federal regulations (42 CFR §§ 413.24 (a) and (b)) state that providers receiving payment on a reimbursable cost basis must provide adequate cost data. The cost data must be based on financial and statistical records capable of verification by qualified auditors. The regulations further require providers to use adequate cost finding methods to ascertain, from accounting records, the cost of various types of services furnished.

## **St. Elizabeth Medical Center**

St. Elizabeth Medical Center (St. Elizabeth) is a 201-bed community hospital and a regional teaching institution located in Utica, New York. St. Elizabeth offers separate nursing and allied health education programs – a 2-year nursing program through the St. Elizabeth College of Nursing (College of Nursing) and a 2-year allied health program through the St. Elizabeth School of Radiography (School of Radiography).

The College of Nursing was established as a hospital-based nursing program. However, St. Elizabeth restructured its previously provider-operated nursing education program to meet accreditation standards in 1997. During our audit period, the nursing education program was operated by the College of Nursing, a wholly owned subsidiary educational institution of St. Elizabeth.

For the period January 1, 2004, through December 31, 2004 (calendar year 2004), St. Elizabeth claimed total Medicare costs of \$1,560,915 for its nursing and allied health education programs.<sup>3</sup>

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

### **Objective**

Our objective was to determine whether St. Elizabeth's nursing and allied health education programs met Medicare program eligibility and cost reimbursement requirements.

### **Scope**

Our audit period covered calendar year 2004. We did not review St. Elizabeth's overall internal control structure. Rather, we reviewed St. Elizabeth's procedures relevant to the objective of the audit.

We performed fieldwork at St. Elizabeth and the College of Nursing, in Utica, New York.

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<sup>3</sup>This total is comprised of \$1,497,092 and \$68,823 for the nursing and allied health education programs, respectively.

## **Methodology**

To accomplish our objectives, we:

- reviewed applicable Federal laws, regulations and guidance;
- held discussions with the Centers for Medicare & Medicaid Services (CMS) and fiscal intermediary officials to obtain an understanding of policies, procedures, and guidance for determining program eligibility and allowable “pass-through” costs;
- determined if the College of Nursing and School of Radiography were licensed by New York State or if the programs were accredited by recognized national professional organizations;
- determined whether St. Elizabeth incurred nursing and allied health education costs;
- determined if St. Elizabeth had direct control of the education programs’ curricula, classroom instruction, and clinical training;
- held discussions with St. Elizabeth officials regarding the administration of the nursing and allied health education programs;
- reviewed costs claimed by the hospital for educational activities, including compensation of teachers and other costs and revenues received from tuition and student fees generated by the College of Nursing and School of Radiography;
- evaluated the nursing course curriculum to determine if clinical training costs and classroom courses were included in the program prior to the restructuring of the nursing program; and
- verified the net allowable Medicare reimbursable costs for the nursing and allied health education programs.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

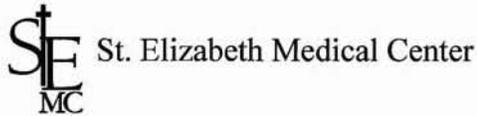
## **RESULTS OF REVIEW**

For calendar year 2004, St. Elizabeth’s nursing and allied health education programs met both Medicare program eligibility and cost reimbursement requirements. As a result, this report contains no recommendations.

## **ST. ELIZABETH MEDICAL CENTER COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In its May 28, 2008, comments on the draft report, St. Elizabeth disagreed with the Office of Inspector General conclusion that classroom costs for one nursing course did not qualify for Medicare reasonable cost reimbursement. While St. Elizabeth agreed it added a course to its curriculum after St. Elizabeth transferred ownership of its nursing education program to the St. Elizabeth College of Nursing, St. Elizabeth provided documentation that the course, “Nursing 122: Practicum in Caring Processes,” was a clinical course with no classroom time. Thus, the costs were allowable under Medicare regulations. Based on the new documentation provided, we have revised our report. St. Elizabeth’s comments appear as the Appendix.

# **APPENDIX**



**Matthew D. Babcock, FACHE**  
Vice President, Chief Operating Officer

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Utica, New York 13501-5999  
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mbabcock@stemc.org

May 28, 2008

Mr. James P. Edert  
Regional Inspector General for Audit Services  
Office of Inspector General  
Office of Audit Services  
Region II  
Jacob K Javits Federal Building  
26 Federal Plaza  
New York, NY 10278

CERTIFIED MAIL RETURN RECEIPT REQUESTED

Re: St. Elizabeth Medical Center  
Report Number: A-02-05-01027

Dear Mr. Edert:

Thank you for providing St. Elizabeth Medical Center with the opportunity to comment on the above report that you transmitted to us by your letter of May 9, 2008. We have had an opportunity to review the DRAFT Report. We have a few comments and we request that the Report be revised based upon our comments prior to its issuance.

Please note that on the bottom of page 3 to the top of page 4 of the Draft under Findings and Recommendations, the DRAFT Report states:

St. Elizabeth claimed Medicare reimbursement for nursing program costs related to one classroom course that was not included in its previously provider-operated nursing program. St. Elizabeth added the class to its nursing curriculum after St. Elizabeth transferred ownership of the nursing school. Therefore, the classroom costs for this course did not qualify for Medicare reasonable cost reimbursement.

Additionally, on page 5 of the DRAFT under Recommendations, the third and fourth bullets state:

- \* work with CMS to identify the portion of the total Medicare reimbursement of \$1,497,092 that pertains to nursing education classroom costs for the course added after St. Elizabeth transferred ownership of its nursing school and refund the unallowable costs to the Federal Government, and

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National Integrated Accreditation for Healthcare Organizations - Accredited

Mr. James P. Edert  
May 28, 2008  
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- \* work with CMS to identify all costs associated with courses added to the program curricula subsequent to calendar year 2004 and refund these unallowable costs to the Federal Government.

In reviewing the material provided during the audit, we note that the course in question, course 122 was not a classroom course, but was rather a clinical course. There was no classroom time related to this "clinical only" course. The fact that this is a clinical course only is supported by the College of Nursing Catalog for the years 2003 – 2005, which was provided at the time of the audit, but is also attached, in part, for your reference. The course description on page 64 in the catalog notes that there are 0 Theory hours, 0 Nursing Laboratory hours, and 112.5 "Clinical/Seminar" hours. The "focus" noted under the title of the course in the catalog, "Practicum in Caring Processes - *Focus: Concepts of Nursing Care: Clinical Application*" also suggests that this is a clinical course only. St. Elizabeth College of Nursing uses the industry reference to "Theory hours" to refer to classroom hours. We are enclosing a copy of the cover page and page 64 from the relevant College of Nursing Catalog for your reference. The full document was previously submitted during the field audit as noted above.

Also enclosed is a copy of the cover sheet from the Student's Course Description and Syllabus for Course 122. As you can see, there are no class hours and no lab hours, but 112.5 clinical instruction hours. The description indicates that Course 122 is a clinical only course.

St. Elizabeth does not challenge the finding that course 122 was a new course, but since there are no classroom hours for the course, only clinical hours for the course, there should be no recommendations in the Final Report to remove cost.

It is St. Elizabeth's position that if the finding is removed, Recommendation three and four should be eliminated and only Recommendations one and two would remain. Additionally, the material on page 4 that addresses "Inappropriate Classroom Costs" should be revised as there was no classroom time for the course in question.

Your May 9, 2008 cover letter asked St. Elizabeth Medical Center to include the status of any action taken on your recommendations, as well as any planned actions. Please be advised that no actions have been taken relative to Recommendations 3 and 4 as St. Elizabeth requests that those be eliminated. In reference to Recommendation 1, St. Elizabeth Medical Center believes that it has only claimed Medicare reasonable cost reimbursement for classroom courses in the previously provider-operated nursing education program. For Recommendation 2, St. Elizabeth Medical Center is in the process of separating classroom costs from clinical costs as has been recommended. It is expected that this project may take some time to accomplish. This recommendation is in the early stages of completion.

We would be pleased to discuss this further with you or your staff and ask for an opportunity to do so after receipt of this letter.

Please contact me with any questions. Thomas Everson of St. Elizabeth's Finance Department can also be contacted with any questions.

Mr. James P. Edert  
May 28, 2008  
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We thank you in advance for your consideration and assistance.

Very truly yours,



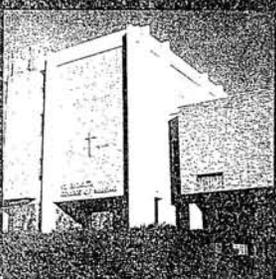
Matthew D. Babcock  
Vice President, Chief Operating Officer

Enclosures

cc: Brenda M. Ryan (w/ enc.) via e-mail at [Brenda.Ryan@oig.hhs.gov](mailto:Brenda.Ryan@oig.hhs.gov)  
Sister M. Johanna, President and Chief Executive Officer – St. Elizabeth Medical Center  
Marianne Monahan, President – St. Elizabeth College of Nursing  
Thomas Everson  
Louis Aiello  
Christopher J. Connors, Esq.

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M:DRCNOIG



ST. ELIZABETH  
COLLEGE OF NURSING  
CATALOG 2003 - 2005

Laboratory experiences provide an opportunity for the demonstration and practice of caring strategies that correlate with the theory content. During clinical experiences in acute care and community settings, the learner is guided in the application of caring processes for clients manifesting human responses to illness.

37.5 Theory Hours Second Semester  
 15.0 Nursing Laboratory Hours 4.5 Credits  
 67.5 Clinical Instruction Hours  
 Prerequisites: Nursing 110, 111, or Nursing 100 if applicable  
 Corequisites: BI107, BI152, SO101

**Nursing 121: Psych/Neuromuscular Nursing:  
 Caring Processes for Clients who have Difficulty Interacting with their Environment**  
**FOCUS: Concepts of Nursing Care: Clients with Environmental Barriers**

Nursing 121 provides the learner with a basic knowledge of the importance and inter-relationship of human system needs as they impact upon the client's cognitive, emotional, and physical interaction with the environment. Selected sensory, neuromuscular, and psychological disorders are studied that result in environmental barriers. Caring processes that facilitate change in the behaviors associated with these conditions are introduced to expand the learner's knowledge base for clinical practice.

Theories of human behavior and personality development are built upon as the learner is guided in understanding emotional balance and disequilibrium along the continuums. A major component of this course is enhancing the learner's critical thinking skills in the therapeutic use of self.

During clinical experiences in acute care and community settings, the learner is guided in the application of caring processes for the client with cognitive, emotional, and physical deficits.

45 Theory Hours Second Semester  
 67.5 Clinical Instruction Hours 4.5 Credits  
 Prerequisites: Nursing 110, 111, or Nursing 100 if applicable  
 Corequisites: BI107, BI152, SO101

**Nursing 122: Practicum in Caring Processes**  
**FOCUS: Concepts of Nursing Care: Clinical Application**

Nursing 122 provides the learner with an intensive clinical experience in the acute care setting. This practicum fosters the ability to unify and apply caring concepts central to nursing practice.

During this clinical experience, the learner is challenged to further develop critical thinking skills in the effective delivery of holistic client care. The educator, as a facilitator, guides the learner in practicing the roles of teacher, critical thinker, communicator, caregiver, and professional. An emphasis is on the use of continuums as a construct in the provision of nursing care.

Throughout this course, Jean Watson's carative factors are explored to heighten awareness of these as essential elements of the caring environment. Clinical preparation, guided by the educator, assists the learner to comprehend the interdisciplinary approach to managing systems imbalance. Additional teaching strategies and learning activities are used to enhance the learner's creative inquiry and ability to correlate theory with clinical practice.

0 Theory Hours Summer Session, end of First Year  
 0 Nursing Laboratory Hours 2.5 Credits  
 112.5 Clinical/Seminar Hours  
 Prerequisites: Nursing 110, 111, 120, 121

**Nursing 221: Caring Processes Related to Laboratory Tests and Diagnostic Procedures**  
**FOCUS: Concepts of Nursing Care:  
 Clients Undergoing Laboratory Tests and Diagnostic Procedures.**

