



June 5, 2002

Common Identification Number A-06-02-00018

Mr. Edward L. Tyrrell, Vice President  
Methodist Healthcare Systems  
6565 Fannin, M.S. MT 709  
Houston, Texas 77030-2707

Dear Mr. Tyrrell:

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 "Audit of Graduate Medical Education Reimbursements Claimed by the Methodist Hospital For Fiscal Year 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 (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-06-02-00018 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink that reads "Gordon L. Sato".

Gordon L. Sato  
Regional Inspector General  
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Dr. James R. Farris, MD  
Regional Administrator  
Centers for Medicare and Medicaid Services  
1301 Young Street, Room 714  
Dallas, TX 75202

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF GRADUATE MEDICAL  
EDUCATION REIMBURSEMENTS  
CLAIMED BY THE METHODIST  
HOSPITAL FOR FISCAL YEAR 1999**



**JANET REHNQUIST**  
Inspector General

**JUNE 2002**  
**A-06-02-00018**

# ***Office of Inspector General***

<http://oig.hhs.gov/>

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June 5, 2002

Common Identification Number A-06-02-00018

Mr. Edward L. Tyrrell, Vice President  
Methodist Healthcare Systems  
6565 Fannin, M.S. MT 709  
Houston, Texas 77030-2707

Dear Mr. Tyrrell:

This audit report presents the results of an Office of Inspector General (OIG) review of medical education payments claimed by the Methodist Hospital (MH) during the fiscal year ended (FY) December 31, 1999. The objective of this review was to determine the accuracy of resident Full Time Equivalent (FTE) counts used by the MH during FY 1999 to calculate direct graduate medical education (GME) and indirect medical education (IME) payments.

We determined that MH overclaimed GME reimbursements by \$30,230. This overstatement occurred because MH misclassified non-primary residents as primary residents on the cost report. The cost classification error did not affect the GME/IME FTE count or IME reimbursement.

We are recommending that MH revise its claims for FY 1999 by using our audit results. This would reduce the MH claim for GME by \$30,230.

We also are recommending that MH review subsequent Medicare cost reports for the cost classification error identified in our review and make any necessary financial adjustments.

In addition, we are recommending that MH strengthen controls to ensure that future GME reimbursements are calculated in accordance with Federal requirements.

A MH official responded to our draft report in a letter dated May 31, 2002. In that response the official expressed agreement with all of our findings and recommendations. See Appendix A to this report for the full text of the response to our draft.

## **BACKGROUND**

### **Methodist Hospital**

The MH is a 1,250 bed teaching hospital located in Houston, Texas. As the primary, private, adult teaching hospital for Baylor College of Medicine, MH is one of the nation's leading centers for medical education and research. The MH is the anchor facility for Methodist Health Care System. The MH reported Medicare reimbursements totaling \$193,203,980 for the period January 1, 1999 through December 31, 1999. Of the \$193,203,980 reported, \$20,247,545 was for medical education costs of interns, residents, and fellows (residents).

### **Graduate Medical Education Cost Reimbursement**

Medical education costs are reimbursed separately by Medicare for two distinct activities; GME and IME. Medicare reimbursement is calculated differently for GME and IME.

The GME includes the direct costs of operating an approved medical resident training program such as the salaries and fringe benefits of the residents and expenses paid to teaching physicians for direct teaching activities. The GME reimbursement is based on a formula. A provider is reimbursed using a fixed per resident amount which varies from provider to provider. Medicare also makes a distinction between residents in primary care and non-primary care specialties. The per resident amount for primary care specialties is higher than the per resident amount for non-primary care specialties because the primary care specialty amount is updated annually for inflation. The per resident amount for non-primary care specialties was frozen as of 1996. The MH claimed GME payments of \$3,634,734 during FY 1999.

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-on* to a hospital's Diagnosis Related Group payment. In other words, the greater the number of Medicare patients, the higher the IME payments<sup>1</sup>. 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. The MH reported IME reimbursements of \$16,612,811 during FY 1999.

### **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, MH reported total weighted FTE counts of 167.79 residents for GME and 190.90 residents for IME. The hospital in which a resident works can include his/her time towards the FTE count. Some MH residents performed all of their duties at MH and some MH residents rotated throughout the year to other hospitals. In total, no resident can be counted for more than 1.0 FTE.

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

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

- ✱ Residents must be in an approved program.<sup>2</sup>
- ✱ All residents in their “initial residency period” are eligible to be counted as 1.0 FTE. All residents who have exceed their initial residency period are weighted only as 0.5 FTE. “Initial Residency Period” is the minimum length of time that it takes the resident to be eligible for board certification.<sup>3</sup>
- ✱ 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.<sup>4</sup>
- ✱ 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.<sup>5</sup>
- ✱ Research performed must be part of the approved residency program.<sup>6</sup>

## **OBJECTIVE, SCOPE, and METHODOLOGY**

The objective of our review was to determine the accuracy of the FY 1999 resident FTE counts used by MH for GME and IME. Our audit was conducted in accordance with generally accepted government auditing standards. To test compliance with the criteria referred to previously and to determine the correct amount of medical education payments that MH is entitled to, we:

- ✓ Identified all residents who were claimed on the MH 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.
- ✓ Identified the specialty of each resident included on the Medicare cost report and determined if the specialty was approved in accordance with Federal Regulations.
- ✓ Identified the length of the “initial residency period” per specialty and determined if FTEs were properly weighted for residents who exceeded the “initial residency periods”.

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<sup>2</sup> 42 CFR 413.86(c)

<sup>3</sup> 42 CFR 413.86(g)

<sup>4</sup> 42 CFR 413.86(h)(1)(i)

<sup>5</sup> 42CFR 413.86(f)(4)

<sup>6</sup> 42 CFR 413.86 (f)

- ✓ Identified all residents that graduated from a foreign medical school and determined if they should be included in the FTE count.
- ✓ Identified where the residents worked throughout the year to determine if an adjustment was required because the resident: 1) spent time in research which was not allowable for the purposes of calculating FTEs, 2) rotated to another hospital, or 3) worked in a non-hospital setting without an appropriate written agreement between the MH and the non-hospital provider.
- ✓ Discussed the results of our audit with MH.
- ✓ Determined the net dollar effect of our audit adjustments to the GME FTE count by recalculating the MH FY 1999 Medicare cost report Worksheet E-3, Part IV for GME. Our audit adjustment had no effect on IME, therefore, Worksheet E, Part A for IME was not recalculated.

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 fieldwork was conducted at the Methodist Hospital from December 2001 through January 2002.

### FINDINGS IN DETAIL

The MH claimed \$20,247,545 for medical education cost reimbursements on its FY 1999 Medicare cost report; \$3,634,734 related to GME and \$16,612,811 related to IME. Our audit showed that the MH calculations of GME reimbursements were excessive. We identified a cost reporting error involving a misclassification of non-primary residents as primary residents. As a result, the MH overclaimed GME reimbursement on the FY 1999 Medicare cost report by \$30,230. There was no effect on the GME/IME FTE count or IME reimbursement. Our results are summarized in the following chart.

SUMMARY OF AUDIT RESULTS					
FINDING	GME FTE	IME FTE	GME EFFECT	IME EFFECT	TOTAL EFFECT
<b>Cost Report Classification Error</b>	N/A	N/A	\$30,230	\$0	\$30,230
<b>TOTALS</b>			\$30,230	\$0	\$30,230

## **MEDICARE COST REPORT CLASSIFICATION ERROR**

For reimbursement of GME costs, Medicare makes a distinction between residents in primary care residencies and residents in non-primary care residencies.

The 42 CFR 413.86(b) states that primary care residents are those enrolled in approved medical residency training programs in family medicine, general internal medicine, general pediatrics, preventive medicine, geriatric medicine, or osteopathic general practice. In addition, CMS clarified which residencies are considered primary care in a letter addressed to the Fiscal Intermediary dated September 30, 1996.

The average reimbursement per FTE is higher for primary care residents than for non-primary care residents because the average cost per resident for primary care specialties is updated annually by applying an inflation factor. The average reimbursement per resident for non-primary care residents was frozen as of 1996 and therefore is not updated annually.

The MH erred in calculating its GME reimbursement on the FY 1999 Medicare cost report by improperly classifying, as primary care residents, 25.57 GME FTE's. Because of this error, the higher primary care average cost per resident rate was applied to these residents. This error resulted in an overstated GME reimbursement calculation of \$30,230 on the MH FY 1999 Medicare cost report.

## **CONCLUSION**

The MH overclaimed GME reimbursement on the FY 1999 Medicare cost report by misclassifying non-primary residents as primary residents. As a result, MH was overpaid \$30,230.

## **RECOMMENDATIONS**

We recommend that MH revise its claims for FY 1999 by using our audit results. This would reduce the MH claim for GME by \$30,230.

We also recommend that MH review subsequent Medicare cost reports for the cost classification error identified in our review and make any necessary financial adjustments.

In addition, we recommend that MH strengthen controls to ensure that future GME reimbursements are calculated in accordance with Federal requirements.

To facilitate identification, please refer to the referenced common identification number in all correspondence related to this report.

**AUDITEE COMMENTS**

A MH official responded to our draft report in a letter dated May 31, 2002. In that response the official expressed agreement with all of our findings and recommendations.

In a letter dated May 31, 2002 to the hospital's Fiscal Intermediary (FI), the hospital requested that the FI incorporate our audit findings into the final 1999 cost report.

See Appendix A to this report for the full text of the response to our draft.

Sincerely,

A handwritten signature in black ink that reads "Gordon L. Sato". The signature is written in a cursive style with a large initial "G".

Gordon L. Sato  
Regional Inspector General  
for Audit Services



Edward L. Tyrrell  
Vice President

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May 31, 2002

Mr. Gordon L. Sato  
Office of Inspector General  
Office of Audit Services  
1100 Commerce, Room 6B6  
Dallas, TX 75242

Re: The Methodist Hospital  
Graduate Medical Education  
FYE: December 31, 1999  
Common Identifier Number: A-06-02-00018

Dear Mr. Sato:

The purpose of this letter is to respond to a draft report issued by the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' (OIG) entitled "Audit of Graduate Medical Education Reimbursements Claimed by The Methodist Hospital (MH) for Fiscal Year 1999." For your convenience the OIG's recommendations are repeated below along with MH's responses.

**OIG Recommendation** – We recommend that MH revise its claims for FY 1999 by using our audit results. This would reduce the MH claim for GME by \$30,230.

**MH Response** – MH agrees with the OIG's recommendation, and has requested that its fiscal intermediary (FI) incorporate this finding into an amended fiscal year 1999 MH Medicare cost report, or into the FI's audit of MH's 1999 Medicare cost report (enclosed as Exhibit A).

**OIG Recommendation** – We also recommend that MH review subsequent Medicare cost reports for the cost classification error identified and make any necessary financial adjustments.

**MH Response** – MH will ensure that the OIG's findings are taken into consideration in the filing of its fiscal year 2000 and 2001 Medicare cost reports. Please note that MH's fiscal year 2000 Medicare cost report is due June 17, 2002, and its fiscal year 2001 Medicare cost report is due September 23, 2002.

**OIG Recommendation** – In addition, we recommend that MH strengthen controls to ensure that future GME reimbursements are calculated in accordance with Federal requirements.

Mr. Gordon L. Sato  
May 31, 2002  
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**MH Response** - During the OIG review, MH obtained a listing of all specialties and sub-specialties from the FI to address the OIG finding. This listing specifies whether a specialty is considered primary care or non-primary care. Accordingly, MH will ensure that it has a current FI listing of specialties to ensure that FTE's are properly recorded as primary or non-primary on future Medicare cost reports. MH will also ensure that the applicable Medicare regulations are properly considered in the filing of future Medicare cost reports.

Thank you for the opportunity to respond to your draft report. Please contact Daniel Wagner at 713-790-3252, or myself at 713-793-7171, if you have any questions or need any additional information.

Sincerely,



Edward L. Tyrrell, CHE  
Vice President

Enclosure

c: Jim Adams, MHCS  
Cyndi Baily, BCM  
Michael Brown, BCM  
Vicki Brownnewell, MHCS  
Richard Chaney, MHCS  
Lisa Miller, MHCS  
Mary Ann Swann, BCM  
Connie Wallace, MHCS  
Bert Zimmerli, MHCS