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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON D C 20548

CIVIL DIVISION

July 6, 1970

Dear Mr. Bell:

BEST DOCUMENT AVAILABLE

The General Accounting Office has reviewed Medicare cost reimbursements to hospitals by Group Hospital Service, Incorporated, Syracuse, New York, and Associated Hospital Service, Incorporated, Youngstown, Ohio, acting in their capacity as intermediaries under subcontracts with the Blue Cross Association In accordance with the provisions of title XVIII of the Social Security Act and their subcontracts with the Blue Cross Association, these intermediaries are to determine the reasonableness of the costs of hospital services furnished to Medicare patients

During our review, we examined the procedures and practices followed by both intermediaries in making final cost settlements with hospitals, and we examined the cost reports of selected hospitals which had been audited by public accounting firms whose services were subcontracted for by the intermediaries

We reviewed settlements made by Group Hospital Service, Incorporated, with the Crouse-Irving Hospital, Syracuse, New York, and the Tioga General Hospital, Waverly, New York The reimbursements covered by our review at these two hospitals were for the 6-month period ending December 31, 1966, and amounted to $478,700 and $134,800, respectively No significant deficiencies were noted with respect to the settlements made with these hospitals

The purpose of this report is to bring to your attention certain excessive costs which were allowed by the Associated Hospital Service, Incorporated, in making settlements with the St Elizabeth Hospital, Youngstown, Ohio, and the Salem City Hospital, Salem, Ohio On the basis of our examination of pertinent hospital records and the audit workpapers of the Associated Hospital Service, Incorporated, and its audit subcontractor, we believe that excessive costs totaling $12,300 were charged to the Medicare program

We are bringing our findings to your attention so that consideration can be given to adjusting the reimbursements to the hospitals and to making changes in reimbursement instructions to the intermediaries, particularly with regard to the method of payment for services of

supplies and drugs sold were to be considered as ancillary services and the Medicare share of the costs of these items was to be determined on the basis of the percentage of Medicare program charges to total charges for ancillary services.

The Salem City Hospital included medical supply and drug charges in its computation of Medicare's share of ancillary expenses. However, instead of including the costs of medical supplies and drugs in ancillary services, the hospital included these costs in routine inpatient services from which Medicare's share of costs was determined on the basis of the percentage of Medicare patient days to total hospital patient days. Because the percentage of Medicare patient days to total hospital patient days was greater than the percentage of Medicare charges to total charges for ancillary services, this deviation from the prescribed cost report format provided the hospital with additional reimbursement amounting to $4,200.

After we brought this matter to the attention of the hospital, the intermediary, and the intermediary's auditors, the correct method was subsequently used to compute Medicare's share of medical supplies and drug costs for the next two cost reporting periods ending December 31, 1967, and December 31, 1968. If such corrective action had not been taken, Medicare's share of hospital costs would have been overstated $16,100 for the period ending December 31, 1967, and $10,700 for the period ending December 31, 1968.

Reimbursement of physicians' salaries

At the Salem City Hospital, 10 unlicensed foreign doctors served as house physicians at various times during the last 6 months of 1966. We were informed by the intermediary that these doctors employed by the hospital did not have licenses to practice medicine and fell into one of two categories: (1) they were in a resident training program at some other hospital in the area, or (2) they had completed their residency and were waiting to take their State board examinations for licensure to practice. Hospital officials informed us that most of these physicians' duties were performed in the emergency room (outpatient service) under the direction of a licensed physician. Their job descriptions also called for them to respond to emergency situations which arose within the hospital.

In order for these doctors to perform the functions assigned to them, they must be graduates of recognized foreign schools of medicine and must pass an Educational Council for Foreign Medical Graduates examination This council is sponsored by the Association of Medical Colleges, the American Medical Association, and the Federation of State Medical Boards of the United States.

Our examination disclosed that the hospital included $19,400 in salaries for these doctors in the nursing services cost center which

unlicensed foreign physicians A summary of the incorrect cost allocations to the Medicare program is presented in the following table

Description	Estimated overallocation and (underallocation) of costs to the Medicare program		
	Total	Salem City Hospital	St. Elizabeth Hospital
Medical supplies and drug costs incorrectly apportioned to the Medicare program	$ 9,500	$4,200	$5,300
Reimbursement of unlicensed foreign physician salaries:			
Salaries incorrectly allocated between inpatient and outpatient services	2,350	2,350	-
Salaries recovered as routine expense at 100 percent instead of in the manner prescribed for residents and interns not under an approved teaching program at 80 percent	550	550	-
Allowable emergency room expenses apportioned to non-allowable nursery expenses	(340)	(340)	-
Errors in determination of total allowable costs:			
Overallocations	1,440	880	560
Underallocations	(1,200)	(1,200)	-
Total	$12,300	$6,440	$5,860

SALEM CITY HOSPITAL

The hospital submitted a cost report for the 6-month period ending December 31, 1966, which showed that reimbursable costs for that period, less deductibles and coinsurance payable by the Medicare beneficiaries, amounted to $220,600. The cost report was audited by Lybrand, Ross Brothers, and Montgomery, a public accounting firm under contract with the Associated Hospital Service, Incorporated.

Medical supplies and drug costs

Our examination showed that the Salem City Hospital deviated from the format prescribed for the preparation of cost report forms. Medical

was totally charged to routine inpatient services. As a result, Medicare's share of hospital costs was overstated by $2,900 because (1) the hospital did not prorate these physicians' salaries between inpatient and outpatient services and (2) the physicians' salaries were recovered as routine hospital expenses instead of being recovered in the manner prescribed for residents and interns not under approved teaching programs.

Incorrect allocations between inpatient and outpatient services

According to an analysis made by the hospital controller, these foreign physicians spent 51.8 percent of their time in emergency room outpatient activities. Accordingly, 51.8 percent, or $10,000, of the $19,400 in salaries should have been charged to outpatient services instead of inpatient services. If this had been done, Medicare's share of these costs would have been reduced by $2,350 because the Medicare program's share of the costs of outpatient services was only 5.8 percent, whereas the program's share of inpatient costs was 29.2 percent.

Incorrect charges to part A of the Medicare program

The hospital included the salaries of the foreign doctors as routine inpatient costs under the part A program, rather than as residents and interns not under an approved training program under the part B medical insurance program. Hospital officials informed us that this was done because they did not consider these doctors to be regular physicians since most of their duties were performed under the direction of a licensed physician.

The hospital's position appeared to be contrary to an October 14, 1966, opinion issued by the Department of Health, Education, and Welfare (HEW) Office of the General Counsel with regard to a similar case in New Jersey. This opinion stated that foreign physicians, whether or not officially designated as interns or residents, can, for the purposes of title XVIII, be properly classified as residents and interns when they (1) are graduate medical students who have not been licensed as physicians; (2) perform services which can, for the purposes of title XVIII, be equated with interns' and residents' services; and (3) serve under supervision of hospital staff physicians and perform services which would otherwise be performed by interns and residents. The opinion stated further that, if these individuals are not serving under "approved programs," then reimbursement to the hospital would be under part B on an 80-percent cost reimbursement basis.

If these physicians' salaries had been reimbursed to the hospital under part B on an 80-percent cost reimbursement basis, the Medicare share of these costs would have been further reduced by $550.

Our examination revealed that no uniform policy with regard to hospital reimbursement for foreign physicians' costs was being followed by the Blue Cross Association and its local intermediary subcontractors.

In this connection, we noted that, in a letter dated April 7, 1969, to Blue Cross of Central Ohio, the Blue Cross Association took a position on Medicare reimbursement to hospitals for services of foreign physicians which appeared to be contrary to that of the HEW Office of the General Counsel. This letter stated that the services of foreign doctors who were unlicensed, unable to diagnose, and unable to bill for their own services were essentially the same as nurses or technicians and that the costs for these services should be classified as part A expense.

The director of hospital and Medicare audits for Blue Cross of Northeast Ohio informed us that he considered salaries paid to unlicensed foreign physicians, who have passed the Educational Council for Foreign Medical Graduates examination, to be reimbursable under part B For those foreign physicians who have not passed the examination, he said he would have to determine their exact duties; and, if they were working in the capacity of a doctor, he would classify their salaries also as part B expense.

The director of hospitals and provider relations of the Associated Hospital Service, Incorporated, after reviewing the facts surrounding the use of foreign physicians at the Salem City Hospital, agreed that Medicare reimbursement for the services should have been made under part B.

Because there appears to be no uniform interpretation as to the methods to be used in reimbursing a provider for the services of unlicensed foreign physicians, we believe that other hospitals may also have been reimbursed for similar costs at 100 percent under part A instead of 80 percent under part B. Accordingly, we believe that the Social Security Administration should advise the Blue Cross Association and other intermediaries of HEW's position with regard to the method of reimbursement to be used for services of unlicensed foreign physicians employed by hospitals.

Emergency room expenses

During our review at the Salem City Hospital, we found that the expenses for emergency room supplies amounting to $4,700 were charged to the nursery This misclassification resulted in the hospital's total allowable costs being understated by the same amount because the nursery expenses were not included in allowable costs, whereas the emergency room expenses were allowable under parts A and B of the Medicare program. The misallocation of these emergency room costs resulted in an understatement of reimbursable Medicare costs totaling $340.

Errors in treatment of income and expenses

At the Salem City Hospital, we found several instances where the incorrect treatment of income and expenses resulted in overstatements of

allowable hospital costs. We found that the hospital (1) included the costs of local telephone service for patients, a nonmedical expense, in allowable costs; (2) did not prorate equipment rental and interest expense to the appropriate accounting periods; (3) did not use donations designated for operating the student nursing home to reduce operating costs; (4) included in allowable costs identifiable nonmedical-service income and expenses generated by endowment property; and (5) treated a portion of the salary paid to a pathologist for professional services to patients as an allowable part A cost.

The incorrect treatment of these income and expense items resulted in overstated costs totaling $3,800 which resulted in an excessive Medicare reimbursement amounting to $880.

We also found that total costs were understated by $4,400 as a result of (1) the allocation of nursing school tuition and room income to an inappropriate accounting period and (2) an excessive reduction of costs attributable to the dietary department. The understatement of total costs resulted in an underpayment to the hospital of $1,200. The net effect of the hospital's incorrect treatment of income and expenses was an underpayment to the hospital of $320.

ST. ELIZABETH HOSPITAL

The hospital submitted a cost report for the 6-month period ending December 31, 1966, which showed that reimbursable costs for that period, less deductibles and coinsurance payable by the Medicare beneficiaries, amounted to $854,500. The cost report was audited by Lybrand, Ross Brothers, and Montgomery, a public accounting firm under contract with the Associated Hospital Service, Incorporated.

Medical supplies and drug costs

Our examination showed that the St. Elizabeth Hospital deviated from the format prescribed for the preparation of cost report forms. Medical supplies and drugs sold were to be considered as ancillary services, and the Medicare share of the costs of these items was to be determined on the basis of a percentage of Medicare program charges to total charges for ancillary services. Instead of including the costs of medical supplies and drugs in ancillary services, the hospital included these costs in routine inpatient services from which Medicare's share of costs was determined on the basis of the percentage of Medicare patient days to total hospital patient days. Because the percentage of Medicare patient days to total hospital patient days was greater than the percentage of Medicare charges to total charges for ancillary services, this deviation from the prescribed cost report format provided the hospital with additional reimbursement amounting to $5,300.

After we brought this matter to the attention of the hospital, the intermediary, and the intermediary's auditors, the correct method was

subsequently used to compute Medicare's share of medical supplies and drug costs for the next two cost reporting periods ending December 31, 1967, and December 31, 1968. If such corrective action had not been taken, Medicare's share of hospital costs would have been understated $9,200 for the period ending December 31, 1967, and overstated $8,000 for the period ending December 31, 1968.

Errors in treatment of income and expenses

At St. Elizabeth Hospital, we found three instances where nonpatient-care income was not offset against hospital costs. We found that income received from U S. Treasury Bills was understated because it was recorded when the bills were purchased and not allocated to the period in which it was earned. This omission resulted in an overstatement of total allowable costs of $100.

We also found that the hospital failed to record 1 month's rent received for space leased to the independent operator of the X-ray department. This resulted in the total allowable costs being overstated by $1,700. In the third instance, the hospital failed to reduce its allowable costs by $900 for bank interest earned on tuition income. This resulted in an overstatement of allowable costs by the amount of the interest. Had these nonpatient-care income amounts been properly offset against hospital costs, reimbursable Medicare costs for the hospital would have been reduced by $560.

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Copies of this report may be made available to the Blue Cross Association for its information and use. Your comments on the matters discussed in this report and advice as to any action taken in connection with these matters would be appreciated.

Sincerely yours,

JOSEPH P. ROTHER, JR

Joseph P. Rother, Jr.
Assistant Director

Mr. Robert M. Ball
Commissioner of Social Security
Department of Health, Education,
and Welfare