



ESSENT HEALTHCARE, INC.

Section:	Corporate Compliance	Effective Date:	11/01/05
Subject:	Recruiting Agreements	Revision Date:	12/31/07
Policy #:	CC-26	Review Date:	11/19/09
Responsible Party:	VP Corporate Compliance	Revision #:	2

Scope:

This policy applies to all Essent facilities.

Purpose:

The purpose of this policy is to provide direction as to Essent's policies and procedures for the recruiting of physicians and other referral sources.

Policy:

It is the policy of Essent Healthcare, Inc. to fully comply with all Federal, State and Local laws and regulations with regards to its recruitment agreements with referral sources. The procedures outlines below must be followed when entering into recruiting agreements with referral sources (including immediate family members of referral sources).

Recruitment of physicians to practice in the geographic area served by Essent facilities is appropriate in certain circumstances to:

1. add physicians in an under-served geographic location (as defined below);
2. add or enhance a service of the medical staff where there is a documented need for such enhancement; or
3. increase coverage where there is a documented shortage.

Note: A recruitment arrangement is valid when a physician is being recruited to join the hospital's medical staff (along with meeting the other requirements of this policy). If the physician is already a member of the hospital's medical staff, the hospital cannot offer a recruitment arrangement to that physician.

Recruitment agreements are not appropriate to:

1. retain a physician currently on the medical staff (*i.e.*, retention agreements); or
2. provide additional compensation to existing medical staff members.

Under no circumstances are recruiting agreements to be tied expressly, by implication, or by "private understanding" to hospital utilization; accordingly, the analysis and/or materials generated and factors



ESSENT HEALTHCARE, INC.

Section:	Corporate Compliance	Effective Date:	11/01/05
Subject:	Recruiting Agreements	Revision Date:	12/31/07
Policy #:	CC-26	Review Date:	11/19/09
Responsible Party:	VP Corporate Compliance	Revision #:	2

considered in connection with the recruitment of a physician should not include estimated or projected hospital or other referrals.

DEFINITIONS:

Physician, pursuant to Stark II, is defined as physicians, osteopaths, oral surgeons, dentists, podiatrists, optometrists, and chiropractors. The recruitment of mid-level practitioners is not covered by this policy and require Corporate approval on a case-by-case basis.

Under-served geographic location is determined by one or more of the following (for purposes of this policy only):

1. a population to physician ratio in the community that is deficient in the particular specialty (with reference to the applicable ratio set forth by respected industry sources, *e.g.*, MGMA) of the physician being recruited;
2. demand for a particular medical service in the community coupled with a documented lack of availability of the service or long waiting periods for the service, if the physician is being recruited to increase availability of that service;
3. designation of the community (or that portion of the community that the physician is serving) at the time the recruitment agreement is executed as a Health Professional Shortage Area (HPSA) as defined in 42 CFR 5.1-5.4;
4. a demonstrated reluctance of physicians to relocate to the hospital due to the hospital's physical location (this criterion is intended to refer to a hospital located in a rural or economically-disadvantaged inner-city area and applies only where there is a documented need for the service);
5. a reasonably expected reduction in the number of physicians of that specialty serving the hospital's service area due to the anticipated retirement within the next three year period of physicians presently in the community; or
6. a documented lack of physicians serving indigent or Medicaid patients within the hospital's service area, provided that newly recruited physicians commit to serving a substantial number of Medicaid and indigent patients.



ESSENT HEALTHCARE, INC.

Section:	Corporate Compliance	Effective Date:	11/01/05
Subject:	Recruiting Agreements	Revision Date:	12/31/07
Policy #:	CC-26	Review Date:	11/19/09
Responsible Party:	VP Corporate Compliance	Revision #:	2

1. Essential Conditions: All physician recruitment agreements should qualify within the hospital's current recruitment objectives and must satisfy at least one of three essential conditions (in addition to joining the hospital's medical staff):
 - a. The physician's medical practice must move at least 25 miles; or
 - b. The physician will establish a new practice to which he or she derives at least 75% of his or her revenues from patients not seen or treated by the physician at his or her prior medical practice site during the preceding three (3) years, measured on an annual basis (fiscal or calendar year); for the initial "start up" year of a recruited physician's practice, the 75% test will be satisfied if there is a reasonable expectation that the recruited physician's practice for the year will derive at least 75% of its revenues from patients not seen or treated by the physician at his or her prior medical practice site during the preceding three (3) years; or
 - c. The physician is (or will be upon the commencement of the payments under the recruitment agreement) in his or her first year of practice.

If the hospital is relying on subsection (b), then the hospital must document the basis for its conclusion that the recruited physician is reasonably expected to derive at least 75% of his or her revenues from new patients.

If a physician is sought after but does not meet one of the conditions for recruitment under this Policy, you may consider utilizing a different arrangement with the physician, such as an employment relationship, personal service agreement, or space or equipment rental agreement. Please refer to the applicable policies.

2. Geographic Area Served by the Hospital: The recruited physician must establish his or her medical practice within the area composed of the lowest number of contiguous zip codes from which the hospital draws at least 75 percent of its inpatients.
3. Permitted Financial Arrangements
 - a. **Income Guarantee**: The physician recruitment agreement may provide for a gross cash receipt revenue guarantee which should reflect the going market rate for a particular specialty and expire after a set time period (*i.e.*, ordinarily one (1) year, but in no event to exceed three (3) years) (the "Guarantee Period"). The material terms of the agreement should not be renegotiated during the term of the agreement. At the end of the Guarantee Period, a repayment



ESSENT HEALTHCARE, INC.

Section:	Corporate Compliance	Effective Date:	11/01/05
Subject:	Recruiting Agreements	Revision Date:	12/31/07
Policy #:	CC-26	Review Date:	11/19/09
Responsible Party:	VP Corporate Compliance	Revision #:	2

obligation (the “Repayment Amount”) may exist under the terms of the agreement. The Repayment Amount should either (1) be repaid in full within six (6) months, without interest (as an incentive for prompt repayment), or (2) be repayable over a term generally not to exceed three (3) years and evidenced by a promissory note, bearing interest from the end of the guaranty period at a floating rate equal to prime plus one percent (1%). The total of the Support Period and the repayment or forgiveness (see below) period should not exceed four (4) years.

- i. Forgiveness: The contract may provide for the forgiveness of the Repayment Amount, over a predetermined period [generally three (2) years, if the Guarantee Period is one (1) year], if the physician remains in the community, agrees to continue emergency room coverage and maintains medical staff privileges at the hospital. Forgiveness shall be on the basis of 1/24th [if two (2) years is the forgiveness period] of the Repayment Amount for each month where all conditions are fulfilled. In certain circumstances, however, a period of forgiveness less than two (2) years may be appropriate and must be approved in advance by the appropriate Corporate Officers. The forgiveness feature should be used consistently by a hospital for similar situations and under no circumstances should it be based upon the volume or value of any referrals by the referring physician.
- ii. Determination of Net Collectable Revenue Amount: For those recruited physicians entering into a solo practice, the dollar amount of the gross cash receipts guarantee may include the commercially reasonable, market cost of overhead and operating expenses for the recruited physician. These expenses may include support staff salary and benefits, office and equipment rental and expenses, malpractice insurance, and other similar routine and ordinary expenses (*i.e.*, only those expenses that are deductible by the physician as business expenses). Physician recruiting agreements cannot include direct payment by the hospital to a third party for ordinary operating expenses, and office or equipment rentals cannot be paid directly by the hospital to a third party (however, such expenses may be included in the guarantee amount). Before committing to a revenue guarantee, the hospital CEO is to verify the reasonably expected income level for an established physician of the recruited specialty and that number is to be used in the calculations utilized to compute the net collectable revenue guarantee. Guaranteeing income or the payment of expenses in excess of that which can be reasonably expected in the community may be construed as payments for other items, such as referrals to the hospital. Each CEO is responsible for maintaining documentation of the reasonably expected income level.



ESSENT HEALTHCARE, INC.

Section:	Corporate Compliance	Effective Date:	11/01/05
Subject:	Recruiting Agreements	Revision Date:	12/31/07
Policy #:	CC-26	Review Date:	11/19/09
Responsible Party:	VP Corporate Compliance	Revision #:	2

- b. Reimbursement for Non-recurring Expenses: The physician recruitment agreement may provide for the reimbursement of other types of reasonable non-recurring expenses, including start-up marketing expenses, relocation assistance (both office and household, including assistance with the purchase and/or sale of a residence), and moving expenses. Although recruited physicians may not be employees, all payments for such items should be on a basis consistent with the Corporate Human Resources Department policy for the payment/reimbursement of expenses for the relocation of similarly-compensated employees. If such incentives are offered, the overall recruitment package must still be reasonable and prudent.
- c. Additional/Different Incentives: In certain circumstances, it may be necessary to offer a recruit additional or different incentives to relocate. Examples of items occasionally requested include repayment of student loans (in this instance, repayment is to go directly to the lender) or signing bonuses in addition to the relocation assistance offered as a part of the standard relocation package. The offering of these other items to a recruited physician is to be market driven and necessary to compete legitimately with another local institution or to provide comparable assistance as in the case of recruitments to rural or physician shortage areas. The assistance that may be provided in this category must be approved by the appropriate Corporate Officers. Such assistance shall not be offered to a recruit until such prior approval is obtained. If such incentives are offered, the overall recruitment package must still be reasonable and prudent.
- d. Advances: Up to two (2) months support may be advanced to the physician prior to the commencement of the recruitment agreement. If such an advance is to be made, the advance must 1) be included in the physician recruitment agreement, or 2) otherwise be documented in writing and signed by the parties.
4. Agreement Requirements: The physician recruitment agreement must (1) be in writing and signed by the parties, and must specify the benefits provided by the hospital and the terms under which they are provided, and the obligations of each party, (2) state that the benefits will not be provided by the hospital for a period exceeding three years, (3) require the physician, if he or she agrees to treat patients receiving medical benefits or assistance under any federal health care program, to treat them in a nondiscriminatory manner, (4) state that the physician is not prohibited from maintaining staff privileges at, referring to or generating business for other facilities, (5) state that



ESSENT HEALTHCARE, INC.

Section:	Corporate Compliance	Effective Date:	11/01/05
Subject:	Recruiting Agreements	Revision Date:	12/31/07
Policy #:	CC-26	Review Date:	11/19/09
Responsible Party:	VP Corporate Compliance	Revision #:	2

the physician is not required to refer patients to the hospital, (6) require the physician to maintain staff privileges at the hospital, (7), state that as requested by the hospital, the physician will participate in managed care contracts with third party payers that have agreements with the hospital, and (8) state the benefits provided are not determined in a manner that takes in to account (directly or indirectly) the volume or value of any referrals by the physician or other business generated between the parties.

5. Recruitment into an Existing Practice: Frequently, and especially in light of today's managed care environment, physicians will seek to join or be employed by an existing practice, and in connection with joining the existing practice, assign the rights to payment under the recruitment agreement to the existing practice. However, the Office of Inspector General has expressed a concern that recruitment arrangements into existing practices can result in the existing practice receiving inappropriate benefits from the hospital. Therefore, the hospital must take the necessary steps to ensure that the recruited physician only receives those benefits necessary to induce the physician to reside in the community and such benefits do not inappropriately benefit physicians or medical practices already in the community. Thus, if a recruited physician is joining an existing practice either contemporaneously with the execution of the recruiting agreement, or subsequent to relocation within the community, the following conditions must be met:
- i. The recruited physician must be eligible for recruitment under at least one of the three essential conditions of this policy;
 - ii. The recruitment arrangement must be undertaken for legitimate reasons and not for the benefit of the existing practice;
 - iii. The physician recruitment agreement is also signed by the existing practice if the payments are directly or jointly made to the existing practice;
 - iv. Except for actual costs incurred by the existing practice in recruiting the new physician, the remuneration is passed directly through to or remains with the recruited physician;
 - v. Before committing to an income guarantee, the hospital is to verify the actual salary and benefits to be paid to the recruited physician reasonably by the existing practice and that number is to be used in the calculations utilized to compute the income guarantee;



ESSENT HEALTHCARE, INC.

Section:	Corporate Compliance	Effective Date:	11/01/05
Subject:	Recruiting Agreements	Revision Date:	12/31/07
Policy #:	CC-26	Review Date:	11/19/09
Responsible Party:	VP Corporate Compliance	Revision #:	2

- vi. The costs allocated by the existing practice to the recruited physician do not exceed the actual additional incremental costs attributed to the recruited physician;
 - vii. Records of the actual costs and the passed through amounts are maintained for a period of at least 5 years and made available to the Secretary of Health and Human Services upon request;
 - viii. The remuneration from the hospital per the physician recruitment agreement is not to be determined in a manner that takes into account (directly or indirectly) the volume or value of any actual or anticipated referrals by the recruited physician or the existing practice (or any physician affiliated with the existing practice) receiving the direct payments from the hospital;
 - ix. The existing practice may not impose additional practice restrictions on the recruited physician other than conditions related to quality of care; and
 - x. The physician recruitment agreement does not violate the federal anti-kickback statute or any federal or state law or regulation governing billing or claims submission.
8. The hospital may offer an additional recruitment incentive to the recruited physician of up to \$5,000 to reimburse the recruited physician for legal and accounting assistance actually incurred by the recruited physician in negotiating his/her arrangement with the existing practice.
9. Certifications: The CEO of the hospital will be required to certify with respect to each physician recruiting agreement that:
- a. the physician being recruited satisfies at least one of the three required conditions;
 - b. the terms of the agreement are commercially reasonable and at fair market value;
 - c. there is a community and/or hospital need* for the recruitment; and
 - d. unless disclosed on the Corporate Office Contract Review Summary Sheet, there are no other agreements (oral or written) with the physician and the hospital.

***Note:** If the hospital is recruiting to address a hospital need and not community need, then the recruiting rationale and supporting documentation must be submitted to and approved by legal counsel in advance of any offer being made to the recruited physician.



ESSENT HEALTHCARE, INC.

Section:	Corporate Compliance	Effective Date:	11/01/05
Subject:	Recruiting Agreements	Revision Date:	12/31/07
Policy #:	CC-26	Review Date:	11/19/09
Responsible Party:	VP Corporate Compliance	Revision #:	2

References:

STARK II interim final rule 3/26/04 FR
OIG Compliance Guidance

CORPORATE OFFICE CONTRACT REVIEW SUMMARY SHEET

Facility Name:						
Referral Source:						
Effective Date:				Expiration Date:		
Termination Clause:						
Automatic Renewal:				Length:		
If not renewed, what is cancellation notice:						
Terms:						
Payment Terms: <i>(specify days of week, month, etc., how often?)</i>						
	Yes	No	N/A			
Compliance Checklist Included?						
Proforma Required?						
Insurance Required?				AMOUNT:		
Audit Required?						
Is certification evidencing coverage current?						
Does contract have " mutual save harmless" clause?						
Allow for recovery of reimbursement due to Medicare limitations?						
Does Contract contain open records provision?						
Is proof of Licensure or Accreditation Provided?						
Has background check been conducted (please attach)?						
Notification made to Corporate insurance risk management?*						
Is need for item or service clearly documented by the facility?						
Does the facility have documentation of Fair Market Value?						
Does contract contain HIPPA Language or BAA on File?						
Does facility have any other contracts with this referral source?						
Is party responsible to bill services defined?						

Explanations/Business Purpose

	Signature	Date		Signature	Date
Hospital CEO			Hospital CFO		

THIS SECTION FOR CORPORATE USE ONLY

	Signature	Date		Signature	Date
VP-Op's/Finance			CIO		
RVP-Operations			Corporate Controller		
VP- Clinical Operations			COO		
Compliance Officer			CFO		
CC to Regulatory Counsel			CEO		

*** Note - Insurance risk management must be notified well in advance of start date - failure to do so could result in hiring delay. Notification should be made to Jennifer Hockersmith, Ashton Tiffany LLC, 4041 N. Central Avenue Suite 1200, Phoenix, AZ 85012. Include completed application, copy of CV, projected start date, and employment status (full time, part time...)- Info can be faxed to Jennifer at (602) 257-5117.**