



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

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Region IX
Office of Audit Services
50 United Nations Plaza, Rm. 171
San Francisco, CA 94102-4912

Report Number: A-09-03-00048

Mr. Marty Lothes
Director of Provider Audit Reimbursement, California
United Government Services
5151B Camino Ruiz, Building G
Camarillo, California 93012-8645

Dear Mr. Lothes:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Audit of University of California at Los Angeles Medical Center's Organ Acquisition Costs Claimed for the Period July 1, 1998 Through June 30, 1999." A copy of this report will be forwarded to the HHS 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 action official. We request that you respond to the 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.

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Please refer to report number A-09-03-00048 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

Page 2 – Mr. Marty Lothes

Direct Reply to HHS Action Official:

Mr. Jeff Flick
Regional Administrator
Centers for Medicare & Medicaid Services
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF
UNIVERSITY OF CALIFORNIA AT
LOS ANGELES MEDICAL CENTER'S
ORGAN ACQUISITION COSTS
CLAIMED FOR THE
PERIOD JULY 1, 1998
THROUGH JUNE 30, 1999**



July 2004
A-09-03-00048

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

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



EXECUTIVE SUMMARY

BACKGROUND

The University of California at Los Angeles (UCLA) Medical Center is one of the largest multiorgan transplantation centers in the United States. On its fiscal year (FY) 1999 Medicare cost report, the Medical Center claimed \$23,217,027 for organ acquisition costs associated with kidney, liver, and heart transplants. Medicare reimburses certified transplant programs for its proportionate share of costs associated with the acquisition of organs for transplant to Medicare beneficiaries. Medicare's share of the \$23,217,027 claimed for FY 1999 was \$6,633,881.

OBJECTIVE

The objective of this self-initiated audit was to determine whether organ acquisition costs claimed on the FY 1999¹ Medicare cost report by the Medical Center for its kidney, liver, and heart transplant programs were allowable. Specifically, did the Medical Center:

- comply with Medicare law, regulations, and guidelines for claiming organ acquisition costs
- receive excess Medicare reimbursement for organ acquisition activities

SUMMARY OF FINDINGS

The Medical Center did not comply with Medicare law, regulations, and guidelines for claiming organ acquisition costs in the preparation of its Medicare Part A cost report and received excess Medicare reimbursement for organ acquisition activities. Specifically, the Medical Center did not have systems to accumulate certain costs of organ acquisition separate from the costs of post-transplant and other hospital activities. The table below summarizes the results of audit by cost category:

Results of Audit					
<u>Cost Category</u>	<u>Claimed¹</u>	<u>Allowable</u>	<u>Unallowable</u>	<u>Unsupported</u>	<u>Unaudited²</u>
Salaries	\$ 4,025,645	\$ 0	\$ 0	\$4,025,645	\$ 0
Floor Space	382,419	0	104,535	277,884	0
Other Costs ³	19,202,256	851,270	1,046,294	357,665	16,947,027
Total	<u>\$23,610,320</u>	<u>\$851,270</u>	<u>\$1,150,829</u>	<u>\$4,661,194</u>	<u>\$16,947,027</u>

¹ Due to information that came to our attention during the audit, we reviewed \$393,293 of transplant registry costs claimed as organ acquisition costs for FYs 1997 and 1998 in addition to the \$23,217,027 claimed as organ acquisition costs in FY 1999.

² We limited the scope of our audit based on our analysis of high-risk cost categories, a review of audits performed by the Medicare intermediary, and our survey work at UCLA Medical Center. We do not express an opinion on the \$16.9 million not audited.

³ Other costs include organ purchases, recipient and donor evaluations, laboratory and other tests, organ excision fees, costs for hospital inpatient stays for donors, transplant registry costs, overhead, and other direct costs of the organ transplant programs.

We limited our review of organ acquisition costs to about \$6.3 million of the \$23.2 million claimed by the Medical Center on its FY 1999 Medicare cost report and an additional \$0.4 million of transplant registry costs for FYs 1997 and 1998.⁴ In total, we reviewed about \$6.7 million of \$23.6 million claimed and found that the Medical Center claimed \$1,150,829 in unallowable costs and \$4,661,194 in unsupported costs.

The unallowable costs of \$1,150,829 were associated with activities that did not comply with Medicare's definition of organ acquisition or were incurred for non-Medicare-certified transplant programs. The Medical Center indicated that, for the most part, the unallowable costs were claimed in error or as a practice based on its interpretation of Medicare guidance. Based on the unallowable costs of \$1,150,829, Medicare overpaid the Medical Center an estimated \$625,415.

The unsupported costs of \$4,661,194 did not comply with Medicare's documentation requirements. The Medical Center advised us that it was revising its time-and-effort reporting and accounting systems to address Medicare's documentation requirements. We recognize that some portion of the \$4,661,194 may have related to organ acquisition activities and would have been allowable if properly documented. However, based on Federal regulations and the Provider Reimbursement Manual, the unsupported costs were considered unallowable for Medicare reimbursement. Although the Medical Center did not provide the necessary documentation to support \$4,661,194 of costs it claimed for FY 1999, when settling the audit findings, the Centers for Medicare & Medicaid Services (CMS) and the Medicare intermediary may elect to use an allowable alternative methodology to estimate unsupported costs related to organ acquisition. If the Medical Center does not provide alternative support for the \$4,661,194, the Medicare intermediary should recover the related Medicare overpayment of \$1,924,376.⁵

RECOMMENDATIONS

We recommend that the Medicare intermediary:

- recover the Medicare overpayment of \$625,415 for the unallowable costs claimed by the Medical Center as organ acquisition
- work with the Medical Center to determine, if possible, what portion of the \$4,661,194 of unsupported costs and related Medicare payment of \$1,924,376 is associated with allowable organ acquisition activities, and recover that portion of the \$1,924,376 that the Medical Center is unable to support as allowable organ acquisition costs
- review organ acquisition costs claimed by the Medical Center on its Medicare cost reports for FYs 1996, 1997, 1998, and any subsequent years for issues similar to those identified in FY 1999, and recover any Medicare overpayments
- monitor future Medicare cost report claims for organ acquisition costs from the Medical Center to ensure compliance with Medicare requirements

⁴ Transplant registry includes \$393,293 claimed for FYs 1997 and 1998 and \$178,343 claimed for FY 1999.

⁵ The Medicare intermediary determined the estimated Medicare overpayment amounts associated with our findings by using proprietary software to adjust the Medical Center's cost report.

- instruct the Medical Center to ensure that the revised time-and-effort reporting and accounting systems have been properly implemented and provide clear direction to responsible personnel as to Medicare's requirements for claiming and documenting organ acquisition costs

MEDICARE INTERMEDIARY COMMENTS

In written response to the draft report, the Medicare intermediary, United Government Services, agreed with all our findings and recommendations. The Medicare intermediary's response to our draft report is included in its entirety as an appendix to this report.

MEDICAL CENTER COMMENTS

While the Medical Center agreed in its written response that our draft report included some valid points, the Medical Center stated that the alleged overpayment was overstated. Overall, the Medical Center agreed that it was overpaid by Medicare in each of the cost categories identified in our report and indicated that it would work with the Medicare intermediary to properly revise its FY 1999 Medicare cost report. However, the Medical Center disagreed as to the amount it was overpaid and requested that we restate the potential Medicare overpayment. The Medical Center's response to our draft report is included in its entirety as an appendix to this report.

OFFICE OF INSPECTOR GENERAL RESPONSE

We appreciate the Medical Center's willingness to work with its Medicare intermediary. Although the Medical Center requested that we restate the Medicare overpayment, the Medical Center did not provide any additional documentation to support a revision of our findings. Therefore, the estimated Medicare overpayment remains unchanged.

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INTRODUCTION

BACKGROUND

UCLA Medical Center

The UCLA Medical Center is one of the largest multiorgan transplantation centers in the United States. The Medical Center is part of the UCLA Center for the Health Sciences, a complex of patient care, education, and research facilities known for its health care programs and scientific advancements in Los Angeles. UCLA is 1 of 10 campuses within the University of California system.

During FY 1999 (July 1, 1998 through June 30, 1999), the Medical Center operated kidney, liver, and heart transplant programs that Medicare certified on January 1, 1989, March 8, 1990, and January 6, 1989, respectively. In addition, the Medical Center operated a pancreas transplant program that Medicare approved on July 1, 1999 and a lung transplant program that Medicare certified on August 4, 2000.

The Medical Center claimed \$23,217,027 for organ acquisition costs associated with its kidney, liver, and heart transplant programs during FY 1999. Of this amount, Medicare's share was \$6,633,881. In addition, the Medical Center claimed \$1,510,026 of nonreimbursable organ acquisition costs during FY 1999.

Medicare Reimbursement of Organ Acquisition and Transplant Costs

Medicare reimburses hospitals that are certified transplant centers for their reasonable costs associated with organ acquisition. Costs that qualify as organ acquisition costs are reimbursed outside of the Medicare prospective payment system and are in addition to the hospital's payment for the transplant itself.

Medicare reimbursed the Medical Center for organ acquisition costs as passthrough costs under Medicare Part A, based on the ratio of Medicare transplants to total transplants. Under this retrospective cost reimbursement system, Medicare makes interim payments to hospitals throughout the FY. At the end of the FY, each hospital files a cost report and its interim payments are reconciled with allowable costs, which are defined in Medicare regulations and policy.

The Medicare program also reimburses hospitals for transplant surgery, inpatient, and post-transplant costs for the recipients, but through different payment systems. Medicare Part A pays for the cost of the transplant surgeries and certain followup care through diagnosis-related group payments to the hospital. These payments were set at a predetermined rate per discharge for groups of patients that demonstrate similar resource consumption and length-of-stay patterns. Medicare Part B pays for physician services furnished to a live donor or recipient during and after the transplant.

Medicare Allowable Organ Acquisition Costs

Medicare allows as organ acquisition costs all costs associated with the organ donor and recipient before admission to a hospital for the transplant operation (i.e., pre-transplant services) and the hospital inpatient costs associated with the donor. Allowable organ acquisition costs include tissue typing, recipient registration fees, recipient and donor evaluations, organ purchases and transportation, and inpatient stays for organ donors.

Medicare's Supporting Documentation Rules

Medicare rules require that hospitals maintain separate cost centers for each type of organ. Only the portion of salaries that relates to time spent on allowable organ acquisition activities may be included as organ acquisition costs on the Medicare cost report. If an employee performs both pre-transplant and other activities (post-transplant or nontransplant), the related salary should be allocated to the appropriate cost centers using a reasonable basis. The documentation must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries. This documentation includes all ledgers, books, records, and original evidences of cost (e.g., labor timecards, payrolls, and bases for apportioning costs) that pertain to the determination of reasonable cost.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of this self-initiated audit was to determine whether organ acquisition costs claimed on the FY 1999 Medicare cost report by the Medical Center for its kidney, liver, and heart transplant programs were allowable. Specifically, did the Medical Center:

- comply with Medicare law, regulations, and guidelines for claiming organ acquisition costs
- receive excess Medicare reimbursement for organ acquisition activities

To the extent that the costs claimed were unallowable or unsupported, we disclosed the related estimated Medicare overpayment.

Scope

The scope of our audit included kidney, liver, and heart organ acquisition costs claimed by the Medical Center on its FY 1999 Medicare cost report. Based on our analysis of audits performed by the Medicare intermediary and our survey work at the Medical Center, we identified higher risk cost categories and limited our scope to an audit of \$6,270,000 claimed for salaries, floor space, medical directors, laboratory costs,⁶ transplant registry costs, non-Medicare-certified transplant programs (pancreas and lung), and certain other costs claimed as organ acquisition. We did not review the remaining \$16,947,027 and do not express an opinion on this amount.

⁶ The Medical Center did not claim laboratory costs for the heart transplant program even though the transplant program's protocols included lab testing for pre-transplant evaluations.

Also, due to information that came to our attention during the audit, we reviewed \$393,293 of transplant registry costs claimed as organ acquisition costs for FYs 1997 and 1998 (July 1, 1996 through June 30, 1998).

We did not address medical director costs for the kidney, liver, and heart transplant programs because the Medical Center did not claim these costs. However, the Medical Center informed us that there were one or more physicians who provided medical director services to those programs. The Medical Center did not provide us with the Medicare required allocation agreements or other supporting documentation that would support a claim for medical director services.

We did not audit the total number of organs transplanted, the Medicare eligibility of the recipients, inpatient days, or the ratio of costs to charges used on the Medicare Part A cost report to determine certain costs. We also did not review the internal controls at the Medical Center because such a review was not necessary to accomplish the objective of our audit. We performed our fieldwork from March through October 2003, which included visits to the Medical Center in Los Angeles.

Methodology

To accomplish our objective, we:

- obtained an understanding of Medicare reimbursement principles for organ acquisition costs
- reviewed the documentation supporting organ acquisition costs claimed by the Medical Center for FY 1999 and transplant registry costs claimed for FYs 1997 and 1998
- reviewed accounting records and reports for FY 1999 and additional information for FYs 1997 and 1998 related to the transplant registry
- reviewed payroll records, which included time-and-effort reporting
- interviewed Medical Center employees and managers
- interviewed UCLA School of Medicine employees
- toured the transplant center
- obtained documentation from the Medicare intermediary
- reviewed working papers from prior Medicare intermediary audits
- discussed our recommended adjustments with the Medicare intermediary

The intermediary determined the estimated Medicare overpayment amounts associated with our findings by using proprietary software to adjust the Medical Center's Medicare cost reports. The intermediary determined the impact on Medicare reimbursement for each adjustment by running an Audit Adjustment Impact Report. Since some adjustments can affect intermediate allocations within the cost report process, which in turn affect the overall amount reimbursed by Medicare, the cumulative effect on Medicare reimbursement will differ from the summation of the individual adjustments computed by the Audit Adjustment Impact Report. We found that the differences between the cumulative effect of our adjustments and the effects of our adjustments in the Audit Adjustment Impact Reports were immaterial.

We conducted our audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

The Medical Center did not comply with Medicare law, regulations, and guidelines for claiming organ acquisition costs in the preparation of its Medicare Part A cost report and received excess Medicare reimbursement for organ acquisition activities. Specifically, the Medical Center did not have systems to accumulate certain costs of organ acquisition separate from the costs of post-transplant and other hospital activities. The table below summarizes the results of audit by cost category:

Results of Audit		
<u>Cost Category</u>	<u>Unallowable</u>	<u>Unsupported</u>
Salaries	\$ 0	\$4,025,645
Floor Space	104,535	277,884
Other Costs	1,046,294	357,665
Total	<u>1,150,829</u>	<u>4,661,194</u>

The unallowable costs of \$1,150,829 were associated with activities that did not comply with Medicare's definition of organ acquisition or were incurred for non-Medicare-certified transplant programs. The Medical Center indicated that, for the most part, the unallowable costs were claimed in error or as a practice based on its interpretation of Medicare guidance. Based on the unallowable costs of \$1,150,829, Medicare overpaid the Medical Center an estimated \$625,415.

The unsupported costs of \$4,661,194 did not comply with Medicare's documentation requirements. The Medical Center advised us that it was revising its time-and-effort reporting and accounting systems to address Medicare's documentation requirements. We recognize that some portion of the \$4,661,194 may have related to organ acquisition activities and would have been allowable if properly documented. However, based on Federal regulations and the Provider Reimbursement Manual, the unsupported costs were considered unallowable for Medicare reimbursement. Although the Medical Center did not provide the necessary documentation to support \$4,661,194 of costs it claimed for FY 1999, when settling the audit findings, CMS and the Medicare intermediary may elect to use an allowable alternative methodology to estimate unsupported costs related to organ acquisition. If the Medical Center does not provide

alternative support for the \$4,661,194, the Medicare intermediary should recover the related Medicare overpayment of \$1,924,376.

UNALLOWABLE COSTS

The Medical Center’s cost reports included \$1,150,829 of unallowable costs that were (1) associated with activities that did not comply with Medicare’s definition of organ acquisition (Provider Reimbursement Manual, part 1, §§ 2771.B and C, and Intermediary Manual, part 3, §§ 3178.3 through 16), or (2) incurred for non-Medicare-certified transplant programs, such as pancreas and lung (Provider Reimbursement Manual, part 2, § 3610, line 83). For these unallowable costs, the Medical Center indicated that (1) the costs were claimed in error, (2) it had been claiming certain costs as organ acquisition as a practice based on its interpretation of Medicare guidance, or (3) it did not have a definitive answer and did not want to speculate as to why the costs were claimed as organ acquisition. The estimated Medicare overpayment for these unallowable costs is \$625,415. The balance of this section of the report details the unallowable costs shown in the table below:

<u>Cost Category</u>	<u>Unallowable Costs</u>	<u>Estimated Medicare Overpayment</u>
Floor Space	\$ 104,535 ⁷	\$ 52,918
Other Costs:		
Transplant Registry (FYs 1997–1999)	571,636	361,342
Pancreas and Lung Transplant Program Costs	364,679	146,349
Post-transplant Costs	<u>109,979</u>	<u>64,806</u>
Total	<u>\$1,150,829</u>	<u>\$ 625,415</u>

Floor Space

The Medical Center claimed \$104,535 of unallowable kidney acquisition costs because it overstated the kidney transplant program’s floor space by 1,738 square feet. The Medical Center did not have a definitive answer and did not want to speculate as to why these costs were claimed as organ acquisition. As a result of the overstatement of floor space, Medicare overpaid the Medical Center an estimated \$52,918.

The amount of floor space reported by the Medical Center for the transplant programs was the basis for allocating certain overhead costs to those programs. Overhead costs that were allocated using square footage of floor space included buildings and fixtures, movable equipment, maintenance and repairs, plant operations, and housekeeping. If the square footage of floor space was overstated, overhead costs allocated to a cost center would also be overstated, resulting in a Medicare overpayment for organ acquisition costs.

⁷ The Medical Center claimed a total of \$382,419 in floor space costs as organ acquisition of which \$104,535 is addressed here. The remaining amount is addressed in the discussion of floor space in the “Unsupported Costs” section of this report.

The Medical Center claimed 4,034 square feet of floor space for two buildings in FY 1999 for its kidney transplant program. However, employees for the kidney transplant program occupied each building for only part of the year. Based on a ratio of months the kidney transplant program occupied each building, which included a brief transition period, the square footage calculated for the kidney transplant program was only 2,296 square feet. This remaining floor space is discussed in the section "Unsupported Costs."

Other Costs

The Medical Center claimed other costs that were unallowable as organ acquisition - transplant registry, pancreas and lung transplant program, and post-transplant costs.

Transplant Registry Costs

The Medical Center claimed \$571,636 of unallowable transplant registry costs as kidney acquisition for FYs 1997, 1998, and 1999. These costs were unallowable as kidney acquisition because the Medical Center did not incur these costs and was not entitled to claim them. The UCLA Tissue Typing Laboratory, a separate UCLA-affiliated entity, incurred these transplant registry costs. In addition, these costs were related to post-transplant services, not kidney acquisition. As a result, Medicare overpaid the Medical Center an estimated \$361,342.

The Medical Center stated that it based its claim for these transplant registry costs on a 1987 Medicare Intermediary Hearing decision pertaining to FYs 1984 and 1985. However, that decision did not apply to future years and described transplant registry costs as post-transplant. Therefore, the \$571,636 of transplant registry costs was not allowable as kidney acquisition. See Appendix A for a detailed discussion of transplant registry costs.

Pancreas and Lung Transplant Program Costs

The Medical Center claimed \$364,679 of unallowable pancreas and lung transplant costs as kidney and heart acquisition. These costs were misreported as kidney and heart acquisition and incurred for the pancreas and lung transplant programs, which were not Medicare-certified during FY 1999. As a result, Medicare overpaid the Medical Center an estimated \$146,349.

The Medical Center indicated that it apparently made a mistake by claiming the pancreas costs as kidney acquisition and the lung costs as heart acquisition. The Medical Center speculated that the reason the costs were claimed as organ acquisition was because the pancreas and lung transplant programs were in the process of being certified. The Medical Center added that it probably made sense to them at the time to group the costs together since the pancreas and lung transplant programs were outgrowths of the kidney and heart transplant programs, respectively. To be reimbursed as organ acquisition, claimed costs should be for a Medicare-certified transplant program. The pancreas and lung transplant costs should have been reported in a nonreimbursable cost center for other organ acquisition costs.

The \$364,679 consisted of \$98,902 of pancreas transplant costs and \$265,777 of lung transplant costs. The Medicare intermediary previously adjusted the Medical Center's FY 1999 Medicare cost report to remove costs for purchasing pancreas organs that were inappropriately claimed as kidney acquisition. During our audit, we identified an additional \$98,902 of pancreas organ procurement and registration costs claimed as kidney acquisition. The lung transplant costs of \$265,777 claimed as heart acquisition generally consisted of costs for procurement, harvest, and transportation of the organ and registration fees.

Although the Medical Center's kidney, liver, and heart transplant programs were Medicare-certified in FY 1999, the pancreas and the lung transplant programs were not Medicare-certified until the subsequent fiscal years. Medicare specifies that only certified transplant centers will be reimbursed directly by the Medicare program for organ acquisition costs. Costs associated with Medicare-certified transplant programs should be reported in specific organ acquisition cost centers on the Medicare cost report. However, costs associated with non-Medicare-certified transplant programs should be reported separately in a nonreimbursable cost center for other organ acquisition costs.

Post-Transplant Costs

The Medical Center claimed \$109,979 of other unallowable kidney acquisition costs that related to post-transplant activities. Supporting documentation provided by the Medical Center for our review showed that these costs were post-transplant. A Medical Center program official confirmed that these costs should not have been claimed as kidney acquisition. The Medical Center stated that these post-transplant costs were mistakenly claimed as kidney acquisition due to an error. As a result, Medicare overpaid the Medical Center an estimated \$64,806.

UNSUPPORTED COSTS

The Medical Center's cost report included \$4,661,194 of costs that were not properly supported with current, accurate documentation that differentiated between pre-transplant and post-transplant activities as required by Medicare regulations. Costs claimed must be reasonable, properly allocated, and supported by proper documentation. The Medical Center's systems and procedures did not produce or retain adequate supporting documentation. In addition, Medical Center officials did not realize that the costs of certain activities should have been allocated between organ acquisition and other transplant activities. In general, the Medical Center did not have a definitive answer and did not want to speculate as to why all these costs were claimed as organ acquisition.

We recognize that some portion of the \$4,661,194 may have related to organ acquisition activities and would have been allowable if properly documented. However, based on 42 CFR §§ 413.24(a) and (c) and the Provider Reimbursement Manual, part 1, § 2304, these unsupported costs were considered unallowable for Medicare reimbursement. Although the Medical Center did not provide the necessary supporting documentation for these costs, when settling the audit findings, Medicare may elect to use an allowable alternative methodology to estimate the portion of unsupported costs related to organ acquisition. If the Medical Center

does not provide alternative support for \$4,661,194, the Medicare intermediary should recover the related Medicare overpayment of \$1,924,376. The balance of this section of the report details the unsupported costs shown in the table below:

Unsupported Costs		
<u>Cost Category</u>	<u>Unsupported Costs</u>	<u>Estimated Medicare Overpayment</u>
Salaries	\$4,025,645	\$1,709,698
Floor Space	277,884 ⁸	124,218
Other Costs (Social Services Department)	<u>357,665</u>	<u>90,460</u>
Total	<u>\$4,661,194</u>	<u>\$1,924,376</u>

Salaries

The Medical Center claimed \$4,025,645 of unsupported salary costs for its kidney, liver, and heart transplant programs as organ acquisition. Of this amount, the Medical Center claimed \$1,664,371 for its kidney program, \$1,569,881 for its liver program, and \$791,393 for its heart program. These amounts represented the entire salary amount claimed for all three programs in FY 1999 and included salary costs for transplant program employees as well as several employees from the dietary and social services departments. These salary costs were unsupported because the time-and-effort reporting and accounting systems and documentation did not differentiate between pre-transplant and post-transplant. The Medical Center did not have a definitive answer and did not want to speculate as to why all of the salary costs for its kidney, liver, and heart transplant programs were claimed as organ acquisition. If the Medical Center does not provide alternative support for these costs, the Medicare intermediary should recover the estimated Medicare overpayment of \$1,709,698.⁹

Of particular interest, the Medical Center claimed all \$343,325 of its transplant administration salaries as part of its unsupported kidney acquisition salary costs. However, a Medical Center program official informed us that transplant administration services were provided to all transplant programs, not just the kidney transplant program. As a result, the Medical Center was reimbursed an increased amount because the kidney transplant program had the highest ratio of Medicare transplants to total transplants. Medicare guidelines instructed providers to prorate shared acquisition costs among the types of organ acquisition.

The Medical Center did not provide documentation sufficient in detail to support the salary costs claimed as organ acquisition. Our audit revealed that the job descriptions and time reporting and accounting documentation did not meet Medicare's supporting documentation requirements (noted above in "Medicare's Supporting Documentation Rules") for the amount claimed as organ acquisition. Although most of the job descriptions we reviewed identified both pre-transplant

⁸ The Medical Center claimed a total of \$382,419 in floor space costs as organ acquisition, of which \$277,884 is addressed here. The remaining amount is addressed in the discussion of floor space in the "Unallowable Costs" section of this report.

⁹ The estimated overpayment includes associated benefits of \$152,795 calculated by the Medicare intermediary based on the unsupported salary costs.

and post-transplant services, none specified what portion of the employee's job was to be spent on either. In addition, the Medical Center's time reporting and accounting systems did not differentiate between pre-transplant and post-transplant activities and costs. However, the Medical Center advised us, during the audit exit conference, that it was revising its time-and-effort and accounting systems to properly identify pre-transplant and post-transplant salaries effective for FY 2004.

During interviews we conducted, Medical Center program officials and employees stated that both pre-transplant and post-transplant services were rendered during the audit period. Several employees stated that they rendered only pre-transplant services while others stated that they rendered only post-transplant services. Most employees stated that they rendered some portion of each. We did not use information obtained from the interviews to determine what portion of the salary costs may have been related to organ acquisition because there was no documentary evidence to corroborate the information from the interviews and, in some cases, the information we received was conflicting.

Floor Space

The Medical Center claimed \$277,884 of unsupported floor space costs for its kidney, liver, and heart transplant programs. These costs related to 4,597 square feet of the 6,335 total floor space claimed and do not include the 1,738 square feet of unallowable floor space discussed in the section "Unallowable Costs." The Medical Center provided documentation for the 4,597 square feet that did not contain sufficient detail to differentiate between pre-transplant and post-transplant activities related to the floor space. If the Medical Center does not provide alternative support for these costs, the Medicare intermediary should recover the estimated Medicare overpayment of \$124,218.

The Medical Center allocated all of the floor space for its kidney, liver, and heart transplant programs, including transplant administration,¹⁰ as organ acquisition. According to a Medical Center transplant program official, this allocation occurred because the Medical Center did not realize that floor space should have been allocated between pre-transplant and post-transplant activities.

Other Costs (Social Services Department)

The Medical Center claimed \$357,665 of unsupported social services department costs for its kidney, liver, and heart transplant programs. The documentation provided by the Medical Center did not contain sufficient detail to support the amounts claimed. Although the Medical Center did not provide the necessary supporting documentation for these costs, when settling the audit findings, CMS and the Medicare intermediary may elect to use an alternative methodology to estimate the portion of unsupported social services department costs related to organ acquisition. If the Medical Center does not provide alternative support for these costs, the Medicare intermediary should recover the estimated Medicare overpayment of \$90,460.

¹⁰ The Medical Center allocated all transplant administration floor space (735 square feet) to the kidney transplant program instead of allocating its floor space among all transplant programs as required by Medicare regulations.

Social services was one of the departments that allocated costs¹¹ to benefiting cost centers. Specifically, the Medical Center allocated social services department costs of \$86,730, \$266,637, and \$4,298 to the kidney, liver, and heart transplant programs, respectively. According to a Medical Center official, detailed documentation to support the allocated costs was destroyed 1 year following the close of the FY as a matter of procedure. Also, available documentation provided by the Medical Center during the course of our audit did not contain sufficient detail to support the amount claimed.

SUMMARY OF ADJUSTMENTS AND MEDICARE OVERPAYMENTS

The following table summarizes the unallowable and unsupported costs claimed and the related estimated overpayments:

Cost Category	Unallowable		Unsupported	
	Costs	Estimated Medicare Overpayment	Costs	Estimated Medicare Overpayment
FY 1999				
Salaries	\$ 0	\$ 0	\$4,025,645	\$1,709,698
Floor Space	104,535	52,918	277,884	124,218
Other Costs:				
Transplant Registry (FY 1999)	178,343	103,973	0	0
Pancreas & Lung Transplant Programs	364,679	146,349	0	0
Post-transplant Costs	109,979	64,806	0	0
Social Services Department	<u>0</u>	<u>0</u>	<u>357,665</u>	<u>90,460</u>
Subtotal for FY 1999	\$ 757,536	\$368,046	\$4,661,194	\$1,924,376
FYs 1997 and 1998				
Transplant Registry (FY 1997)	143,967	99,357	0	0
Transplant Registry (FY 1998)	<u>249,326</u>	<u>158,012</u>	<u>0</u>	<u>0</u>
Subtotal for additional years	\$ 393,293	\$257,369	0	0
Total	<u>\$1,150,829</u>	<u>\$625,415</u>	<u>\$4,661,194</u>	<u>\$1,924,376</u>

Note: The Medical Center claimed unsupported costs of \$4,661,194 that did not comply with Medicare's documentation requirements. Some portion of this amount may have related to organ acquisition activities that would have been allowable if properly documented. If the Medical Center does not provide alternative support for these costs, the Medicare intermediary should recover the estimated overpayment of \$1,924,376.

¹¹ In addition to allocating social services department costs, the Medical Center directly transferred or charged, as a separate procedure, several social workers' salary costs from the social services department to the kidney, liver, and heart transplant programs for the same reporting period. (See the discussion of salaries in the "Unsupported Costs" section of this report.)

RECOMMENDATIONS

We recommend that the Medicare intermediary:

- recover the Medicare overpayment of \$625,415 for the unallowable costs claimed by the Medical Center as organ acquisition
- work with the Medical Center to determine, if possible, what portion of the \$4,661,194 of unsupported costs and related Medicare payment of \$1,924,376 is associated with allowable organ acquisition activities, and recover that portion of the \$1,924,376 that the Medical Center is unable to support as allowable organ acquisition costs
- review organ acquisition costs claimed by the Medical Center on its Medicare cost reports for FYs 1996, 1997, and 1998, and any subsequent years for issues similar to those identified in FY 1999, and recover any Medicare overpayments
- monitor future Medicare cost report claims for organ acquisition costs from the Medical Center to ensure compliance with Medicare requirements
- instruct the Medical Center to ensure that the revised time-and-effort reporting and accounting systems have been properly implemented and provide clear direction to responsible personnel as to Medicare's requirements for claiming and documenting organ acquisition costs

COMMENTS ON DRAFT REPORT AND OFFICE OF INSPECTOR GENERAL RESPONSE

We obtained written comments on our draft report from the Medicare intermediary and the Medical Center. The comments and Office of Inspector General (OIG) response to those comments are summarized below and are contained in their entirety in Appendices B and C, respectively.

Summary of Medicare Intermediary Comments

The Medicare intermediary, United Government Services, agreed with all our findings and recommendations.

Summary of Medical Center Comments

While the Medical Center agreed that our draft report included some valid points, the Medical Center stated that the alleged overpayment is overstated and the documentation issues are oversimplified. Overall, the Medical Center agreed that it was overpaid by Medicare in each of the cost categories identified in our report and indicated that it would work with the Medicare intermediary to properly revise its FY 1999 Medicare cost report. However, the Medical Center disagreed as to the amount it was overpaid and requested that we restate the potential Medicare overpayment.

Summary of OIG Response

We appreciate the Medical Center's willingness to work with its Medicare intermediary. Although the Medical Center requested that we restate the Medicare overpayment, the Medical Center did not provide any additional documentation to support a revision of our findings. Therefore, the estimated Medicare overpayment remains unchanged.

Unallowable Costs

Medical Center Comments

The Medical Center agreed with our findings related to unallowable floor space¹² and pancreas and lung transplant program costs and agreed that it was overpaid by the amount identified in our report, \$52,918 and \$146,349, respectively.

Also, the Medical Center generally agreed with our findings related to unallowable transplant registry and post-transplant costs incorrectly claimed as kidney acquisition. However, it disagreed with how we treated these costs to calculate the estimated Medicare overpayment. Specifically, the Medical Center stated that the unallowable transplant registry and post-transplant costs should be reclassified as outpatient clinic costs on its Medicare cost report.

OIG Response

We limited our audit to costs in the scope of our review, and we classified costs based on Medicare intermediary guidance.

We did not audit costs incurred by entities other than the Medical Center (such as UCLA Tissue Typing Laboratory's transplant registry costs). Since the transplant registry costs were not incurred by the Medical Center, the Medicare intermediary removed these costs to calculate allowable organ acquisition costs and estimated the Medicare overpayment at \$361,342.

For post-transplant costs incorrectly claimed as kidney acquisition, the Medicare intermediary, following past practice, reclassified these costs to the adults/pediatrics cost center and estimated the Medicare overpayment at \$64,806.

Unsupported Costs

Medical Center Comments

The Medical Center agreed with the findings that it did not allocate nor did its supporting documentation distinguish between pre-transplant and post-transplant costs for the unsupported salaries, floor space, and other costs (social services department). Nevertheless, the Medical Center stated that its documentation supported some of the costs claimed as organ acquisition and it calculated a lower estimated Medicare overpayment for these unsupported costs.

¹² The Medical Center agreed that the floor space was overstated and that the Medical Center was overpaid by the amount identified in our audit report. At the same time, it suggested an alternative method of allocating the overstated square footage.

OIG Response

As noted in our report, some portion of the unsupported costs claimed by the Medical Center may have related to organ acquisition activities and would have been allowable if properly documented. However, the documentation the Medical Center provided to support the costs claimed as organ acquisition did not meet Medicare documentation requirements and was not sufficient to properly allocate the costs. Rather than disallow these costs without further review, we are providing the Medical Center with an opportunity to work with the Medicare intermediary to equitably allocate these costs.

Contrary to the Medical Center's claim, the Medicare intermediary accurately estimated the Medicare overpayment. The intermediary, following past practice, reclassified all of the unsupported costs to the Medical Center's adults/pediatrics cost center and estimated the Medicare overpayment at \$1,924,376.

Costs Not Claimed as Organ Acquisition

Medical Center Comments

The Medical Center stated that the UCLA Alhmanson Cardiomyopathy Department is a pre-transplant department that should be included in the heart acquisition cost center.

OIG Response

The costs associated with the UCLA Alhmanson Cardiomyopathy Department were not claimed by the Medical Center as organ acquisition on its Medicare cost report. Since our audit was limited to costs claimed as organ acquisition, the cardiomyopathy costs fell outside the scope of our audit.

APPENDICES

APPENDIX A

TRANSPLANT REGISTRY COSTS

The \$571,636 of transplant registry costs claimed by the Medical Center as kidney acquisition in FYs 1997, 1998, and 1999 were costs incurred by the UCLA Tissue Typing Laboratory, a separate UCLA-affiliated entity. Historically, the UCLA Tissue Typing Laboratory operated a transplant registry department, which generated two reports - a transfusion report and a transplant report. The transfusion report provided information on patients waiting for kidney transplants. The transplant report provided information on patients who received transplants and were potential candidates for subsequent transplants.

A 1987 Medicare Intermediary Hearing decision on transplant registry costs claimed in FYs 1984 and 1985 concluded that the cost associated with the transfusion report was allowable for the UCLA Tissue Typing Laboratory and should have been claimed under its laboratory cost center; however, the cost associated with the transplant report was unallowable and should have been allocated to a nonreimbursable cost center. Specifically, the hearing officer said that the cost associated with the transplant report should have been a cost of the Medical Center's kidney transplant program because it was a "cost incurred relating to the recipients who in fact received a transplant" and "not a cost incurred for procuring organs." Furthermore, the hearing officer stated that the hearing decision was "not meant to be precedent setting for any future years."

The nonreimbursable transplant report costs from the UCLA Tissue Typing Laboratory were included by the Medical Center on its Medicare cost reports for FYs 1997, 1998, and 1999 as adjustments that increased its kidney acquisition costs. Based on the 1987 Medicare Intermediary Hearing decision, these costs were not allowable as kidney acquisition because the decision did not apply to future years and described transplant registry costs as post-transplant.

The following table summarizes the associated costs and estimated Medicare overpayments:

<u>Transplant Registry</u>	<u>Costs</u>	<u>Estimated Medicare Overpayment</u>
1997	\$ 143,967	\$ 99,357
1998	249,326	158,012
1999	<u>178,343</u>	<u>103,973</u>
Total	<u>\$571,636</u>	<u>\$361,342</u>

MEDICARE INTERMEDIARY COMMENTS



PART A INTERMEDIARY

NATIONAL FQHC INTERMEDIARY

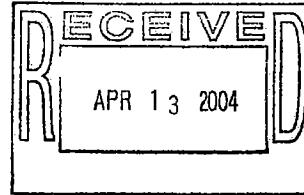
MEDICARE

REGIONAL HOME HEALTH INTERMEDIARY

PHONE 805-367-0800

April 9, 2004

Ms. Lori A. Ahlstrand
 Regional Inspector General for Audit Services
 Department of Health & Human Services
 Office of Inspector General
 50 United Nations Plaza, Room 171
 San Francisco, CA 94102-4912



Subject: Audit of UCLA Organ Acquisition Costs
Provider No.: 05-0262
FYE: 06/30/99
Report No.: A-09-03-00048

Dear Ms. Ahlstrand:

This is in response to your letter to Marty Lothes, dated March 4, 2004, regarding the above referenced report.

We have reviewed the draft audit of UCLA's Organ Acquisition costs for the period ending 06/30/99, as well as the OIG auditor's workpapers relating to this report, and have the following comments:

Unallowable Costs:

1. *Floor Space:* We agree with the auditor's findings that floor space was overstated by 1,768 square feet. We will be proposing an adjustment to remove this floor space from the Kidney Acquisition cost center on W/S B-1 of the Medicare cost report for FYE 06/30/99. In addition we will review the square footage for the prior year cost reports that have been reopened, and will review square footage for all subsequent audits that may be affected. However, since this overstatement was due to the kidney acquisition department moving from one building to another, prior and future years were in all probability not affected.
2. *Transplant Registry Costs:* We agree with the OIG findings that costs associated with the UCLA Tissue Typing lab should not be included on the UCLA Medical Center cost report since they are not truly transplant registry costs, they are costs associated with maintaining a database for patients who have already received transplants. An adjustment will be made to eliminate \$178,343, \$249,326, and \$143,967 from the UCLA Cost Reports for FYE's ending 06/30/99, 06/30/98, and 06/30/97 respectively. A note to future auditors will be prepared instructing them to remove any transplant registry costs allocated from the UCLA Tissue Typing Lab.
3. *Pancreas Transplant Program Costs:* We agree with the findings of the OIG auditors, and we will propose an adjustment to eliminate \$98,902 of additional non-allowable pancreas transplant costs. We will request UCLA to provide us with the number of pancreas transplants performed during the periods 06/30/96, 06/30/97, and 06/30/98 and the costs associated with those transplants in order for us to propose the appropriate adjustments in those years as well. A note to future auditors will be prepared informing them to remove any costs associated with pancreas transplants. However, effective 7/1/99, if the pancreas transplant is done in conjunction with a kidney transplant the costs would be allowable.

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Ms. Lori A. Ahlstrand
April 9, 2004
Page 2

4. *Lung Transplant Costs:* We agree with the OIG findings in part. One of the patients listed on the OIG workpaper as a non-allowable lung transplant in fact received a heart transplant based on the documentation that was provided to the Medicare auditors during the 06/30/99 audit. The costs associated with this patient were \$30,608. Therefore, we will propose an adjustment to eliminate lung transplant costs for the difference between the OIG findings of \$265,777, and the allowable heart transplant of \$30,608 with a net result of \$235,169. We will request UCLA to provide us with the number of lung transplants performed during the periods 06/30/96, 06/30/97, and 06/30/98 and the costs associated with those transplants. A note to future auditors will be prepared informing them to remove any costs associated with lung transplants.
5. *Post Transplant Costs:* We agree with the findings of OIG. An adjustment will be proposed to eliminate the costs for the following general ledger accounts: TRX Health Net, Care America Transplant, Blue Cross Transplant, Blue Shield Transplant, and Gen Post Trans Claims for a total elimination of \$109,979. The general ledgers for 06/30/96, 06/30/97 and 06/30/98 will be reviewed to determine if these accounts or others that may be similar have been claimed as allowable expenses, and adjustments will be proposed if necessary. A note to future auditors will be prepared instructing them to review these accounts or others that may be similar and remove the expenses as necessary.

Unsupported Costs

1. *Salaries:* OIG has determined that there are \$4,024,645 of unsupported salaries related to the kidney, heart, and liver acquisition cost centers. The salaries are supported by payroll registers, and therefore are allowable in terms of reportable salaries. The unsupported issue is that the salaries cannot be split between pre-transplant, and post-transplant activities. The post-transplant activities are described in the job descriptions of the nurse coordinators, and are not allowable organ acquisition expenses. Based on the job descriptions they appear to be related to outpatient clinic costs. During the year under investigation, UCLA did not have a method to separate the costs between the pre-transplant and post-transplant activities. Subsequently UCLA informed the OIG auditors that they have now set up a system to capture these salaries separately. We will review the method that UCLA has currently established to determine if we can develop an equitable split of salaries for pre-transplant and post-transplant activities. We will also review their current records to determine where the post-transplant costs are being recorded, and that the overhead is also being recorded properly. If an equitable method is developed we will use this for the 06/30/96, 06/30/97, and 06/30/98 cost reports. If a method cannot be developed these costs will either be eliminated or transferred to the clinic cost center if we deem this to be appropriate. In addition we will work with UCLA to determine the allocation of the transplant registration salaries between the kidney, heart and liver acquisition cost centers. A note will be prepared for future auditors to review these costs, and either use the method developed for the 06/30/99 reopening, or remove or reclassify the costs.
2. *Floor Space:* As with the salaries, we will review the current year records to determine if there is adequate documentation to allocate the floor space between pre-transplant, and post-transplant activities. If an equitable method is developed we will use this for the 06/30/96, 06/30/97, and 06/30/98 cost reports. If a method cannot be developed this square footage will either be eliminated or reclassified to the clinic cost center if we deem this to be appropriate. A note will be prepared for future auditors instructing them to follow the method used in the 06/30/99 reopening, or remove or reclassify the square footage.

Ms. Lori A. Ahlstrand
April 9, 2004
Page 3

3. *Other Costs (Social Service Department):* The direct and indirect allocation of costs to the organ acquisition department were considered unsupported since UCLA was unable to differentiate between pre-transplant, and post-transplant activities. We will work with the UCLA reimbursement team to determine if a feasible method can be established to split the direct social service costs, as well as the statistics for the social service department between pre-transplant and post-transplant activities. If an equitable method is developed we will use this for the 06/30/96, 06/30/97, and 06/30/98 cost reports. If a method cannot be developed the direct social service costs and the statistics related to the overhead allocation of social service will be eliminated. A note will be prepared for future auditors informing them to follow the results of the 06/30/99 reopening.

We will be contacting UCLA Medical Center immediately, requesting the documentation that will be necessary to review the unsupported costs. Once this documentation is received, and reviewed, adjustments will be proposed accordingly. We will then discuss the adjustments with UCLA and give them an opportunity to review our proposal, and prepare any additional documentation that would support their position. The 06/30/96, 06/30/97, 06/30/98 and 06/30/99 cost reports will be revised based upon the adjustments proposed including the OIG auditors findings for non-allowable costs, as well as the UGS auditors findings for the unsupported costs, and the monies due Medicare will be collected.

We will be reviewing the documentation provided by UCLA Medical Center, meeting with their representatives, making determinations regarding the unsupported costs and revising the cost reports. We anticipate that we will be able to accomplish these tasks on or before December 31, 2004.

If you have any questions, please call me at (805) 367-0608, or Stacey Maher at (805) 367-0618.

Sincerely,



Michael S. Foxx, Manager
Provider Audit Department

MSF/sm

Cc: Marty Lothes, Director of Provider Audit
Brenda Merriweather, Manger of Provider Audit
Lorralli Herrera, OIG Auditor-In-Charge



PART A INTERMEDIARY

NATIONAL FQHC INTERMEDIARY

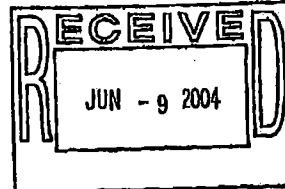
MEDICARE

REGIONAL HOME HEALTH INTERMEDIARY

PHONE 805-367-0800

June 4, 2004

Ms. Lori A. Ahlstrand
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of Inspector General
50 United Nations Plaza, Room 171
San Francisco, CA 94102-4912



**Subject: Revised Comments for Lung/Heart Transplant Patient
Audit of UCLA Organ Acquisition Costs**
Provider No.: 05-0262
FYE: 06/30/99
Report No.: A-09-03-00048

Dear Ms. Ahlstrand:

In our original response to you dated April 9, 2004, we had stated the following:

Lung Transplant Costs: We agree with the OIG findings in part. One of the patients listed on the OIG workpaper as a non-allowable lung transplant in fact received a heart transplant based on the documentation that was provided to the Medicare auditors during the 06/30/99 audit. The costs associated with this patient were \$30,608. Therefore, we will propose an adjustment to eliminate lung transplant costs for the difference between the OIG findings of \$265,777, and the allowable heart transplant of \$30,608 with a net result of \$235,169.

We have obtained further documentation from the OIG audit team that was provided to them by UCLA, and we now agree that the \$30,608 was in fact related to the lung portion of a lung/heart transplant. Therefore, we agree in full with OIG's findings for lung transplant costs, and will propose an adjustment for \$265,777.

If you have any questions, please call me at (805) 367-0608, or Stacey Maher at (805) 367-0618.

Sincerely,

Michael S. Foxx, Manager
Provider Audit Department

MSF/sm

Cc: Lorrall Herrera, OIG Auditor-In-Charge

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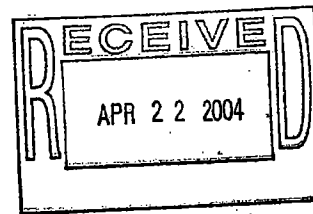
MEDICAL CENTER COMMENTS

UCLA Healthcare

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April 21, 2004

Ms. Lori A. Ahlstrand
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of the Inspector General
Region IX
Office of Audit Services
50 United Nations Plaza, RM 171
San Francisco, CA 94102-4912



Re: UCLA Medical Center
OIG Report Number: A-09-03-00048

Dear Ms. Ahlstrand:

By this letter, the University of California at Los Angeles Medical Center (Medical Center) responds to the U.S. Department of Health and Human Services, Office of Inspector General's (OIG) draft report entitled "Audit of University of California at Los Angeles Medical Center's Organ Acquisition Costs Claimed for the Period July 1, 1998 through June 30, 1999". While the OIG's draft report includes some valid points, the alleged overpayment is overstated and the documentation issues are over simplified.

INTRODUCTORY COMMENTS

The Medical Center has read the objective of the audit, analyzed the OIG's treatment, and reviewed the OIG's calculations. To summarize, the OIG scoped \$6.7 million of organ acquisition costs: \$6.3 million related to the cost report for fiscal year (FY)1999 and \$0.4 million related specifically to tissue typing costs for FYs 1997 and 1998.¹ Based on the OIG's findings, \$5.8 million of costs were either unallowable (\$1,150,829) or unsupported (\$4,661,194). Significantly, the Medical Center incurred \$5,812,023 in pre and post-transplant costs. The OIG's main concern is that the Medical Center did not split these organ costs on the cost report between pre and post transplant activity. Nevertheless, nearly all of the audited costs were reimbursable either as organ acquisition costs or clinic costs.

¹ It is not at all clear why the OIG would include other fiscal years solely for one subset of the organ costs at issue in the OIG's FY 1999 audit. Each fiscal year stands on its own, and the OIG's unexplained addition of FYs 1997 and 1998 just for transplant registry costs was unnecessary and artificially inflates the alleged overpayment.

Specifically, of the alleged \$1,150,829 in unallowable costs, the Medical Center acknowledges that approximately \$469,214 of previously claimed organ acquisition costs are likely unallowable as organ acquisition costs. Still, even if the costs are not allowable as organ acquisition costs, a portion of the costs are still reimbursable as transplant costs or adults and pediatrics costs. Thus, the OIG has overstated the true impact of the alleged overpayment.

Further, of the \$4,661,194 in alleged unsupported costs, a significant portion should be allowable as organ acquisition costs. The Medical Center takes exception to the OIG's presumption that these organ acquisition and transplant costs are potentially completely unallowable and seemingly off the Medicare cost report. Rather, at worst, all the costs at issue would be reclassified to the clinics cost center or the adults and pediatrics cost center. Such a reclassification would still result in substantial Medicare reimbursement thereby dramatically reducing the OIG's alleged overpayment.

Also, as a result of the OIG's audit, the Medical Center and the OIG discovered that the cardiomyopathy department is a pre-transplant department and as such should be incorporated into the Heart Acquisition Cost Center (HACC). This fact was not included in the OIG report of findings, and the appropriate addition of these costs will offset/reduce the OIG's alleged overpayment.

Consequently, after properly classifying the costs, the Medical Center has determined the Medicare program overpaid the Medical Center, at most, \$54,934 in FY1997, \$111,891 in FY 1998 (these amounts relate to tissue typing costs), and \$858,462 in FY 1999 as outlined in the table below:

	<u>Costs</u>	<u>OIG Estimated Medicare Overpayment</u>	<u>UCLA Estimated Medicare Overpayment (Underpayment)</u>	<u>Difference</u>
<u>Unallowable Cost</u>				
Floor Space	104,535	52,918	52,918	-
Pancreas & Lung Cost	364,679	146,349	146,349	-
<u>Allowable Costs</u>				
Post Transplant Cost	109,979	64,806	44,949	(19,857)
Transplant Registry (FY 1999)	178,343	103,973	72,892	(31,081)
Salaries	4,025,645	1,709,698	503,238	(1,206,460)
Floor Space	277,884	124,218	38,116	(86,102)
Social Service	357,665	90,460	-	(90,460)
Transplant registry (FY 1997)	143,967	99,357	54,934	(44,423)
Transplant registry (FY 1998)	249,326	158,012	111,891	(46,121)
Subtotal	\$ 5,812,023	\$ 2,549,791	\$1,025,287	\$(1,524,504)
<u>Other Findings</u>				
Cardiomyopathy	295,123		(105,003)	(105,003)
Total²	\$6,107,146	\$2,549,791	\$ 920,284	\$(1,629,507)

² The \$105,003 underpayment results from adding the cardiomyopathy salary costs and square footage to the HACC. The \$920,284 overpayment assumes that the Medical Center and its fiscal intermediary agree upon reasonably conservative reclasses to pre and post transplant areas. However, the overpayment would be, at most, \$1,534,113 and not the \$2,549,791 alleged by the OIG. This is because even if all of the unsupported costs are deemed post transplant (which they are not), they would still be included in the cost report.

UCLA's SELECTED, SPECIFIC RESPONSES TO CERTAIN FINDINGS OR COMMENTS IN THE OIG'S DRAFT REPORT

- Page 2 (OIG footnote 5)

Lab tests related to pre-transplant evaluations for heart patients were performed by a UCLA affiliated reference lab. The associated costs of the lab tests performed were passed through to the Medical Center's Clinical Labs department for billing. The Medicare program did reimburse the Medical Center for the lab tests performed on pre-transplant heart patients. The Medical Center was reimbursed based on the 1999 lab fee schedule.

- Page 3 (Medical Director Expense)

The Medical Center incurred Medical Director costs for its various organ programs, and it was reported as such on the cost report. All Medical Director costs were self-disallowed in the cost report. No portion of the Medical Director expense was claimed as allowable Part A costs because supporting documentation (timesheets differentiating Part A Physician activities from Part B Physician activities) was not available. This cost treatment is proper and in accordance with the Provider Reimbursement Manual (PRM).

ALLEGED UNALLOWABLE COSTS

- Page 5 (Floor Space)

The Medical Center agrees with the OIG findings related to 1,738 square feet of unallowable Kidney Acquisition Cost Center (KACC) floor space. The Medical Center inaccurately attributed 4,034 square feet of floor space to the Kidney Acquisition Cost Center (KACC). It was discovered during the OIG audit that the kidney department moved during FY1999. Consequently, the allowable square footage should have been prorated between the two areas. While the Medical Center agrees that the square footage is overstated in the KACC, the 1,738 square feet must be reclassified to the appropriate department and not eliminated from B-1 statistics.

Further, as a result of the OIG's audit, it was determined that the UCLA Alhmanson Cardiomyopathy department is a pre-transplant department that needs to be included in the HACC. In the past, this department was grouped in Electrocardiology (EKG). Thus, 1633 square feet must be reclassified from EKG and added to the HACC. This information was omitted in the OIG report of findings and will reduce the amount of the alleged overpayment.

• Pages 6 and 7 (Other Costs)

Transplant Registry

The Medical Center disagrees with the OIG's treatment of transplant registry costs as a non-allowable cost. While these costs may not be pre-transplant costs to the KACC, they are allowable post transplant kidney costs. Consequently, the costs should be reclassified out of the KACC and into the outpatient clinic. The Medical Center believes a 1987 Intermediary Hearing decision supports its position. Essentially, since there has been no pertinent change in operations after the 1987 Intermediary Hearing decision, it is still correct to include the transplant registry costs in FY 1999. After properly classifying the transplant registry costs, the alleged overpayment is reduced as follows:

<u>Cost Report Year</u>	<u>Costs Claimed</u>	<u>OIG Overpayment</u>	<u>Estimated Overpayment</u>
1997	\$143,967	\$99,357	\$54,934
1998	\$249,326	\$158,012	\$111,891
1999	<u>\$178,343</u>	<u>\$103,973</u>	<u>\$72,892</u>
Total	\$571,636	\$361,342	\$239,717

Pancreas and Lung Transplant Program Costs

The Medical Center agrees with the OIG findings and treatment related to pancreas and lung transplant program costs of \$364,679. The pancreas and lung programs were not certified during the FY 1999 cost report year.

Post Transplant Costs

The Medical Center agrees with the findings that \$109,979 is not related to pre-transplant organ acquisition. However, this cost is allowable as post transplant costs and should be reclassified to outpatient clinic. Such a reclassification will reduce the amount of the OIG's alleged overpayment, as follows:

<u>Costs</u>	<u>OIG Overpayment</u>	<u>UCLA Overpayment</u>
\$109,979	\$64,806	\$44,949

ALLEGED UNSUPPORTED COSTS

• Page 8 (Salaries)

The Medical Center disagrees with the OIG's findings that the salary costs are unsupportable. The Medical Center provided job descriptions, time sheets, and payroll reports that support the salary costs claimed. The Medical Center reasonably did not know that salary costs should be allocated between pre and post transplant costs. Had the Medical Center known of this requirement, it would have attempted to somehow allocate the costs between pre and post transplant activities. Such an allocation, however, is particularly difficult when employees fluidly engage in pre and post activities throughout each day. Further, the Medical Center's transplant programs have been operating for more than 10 years, and the cost report the OIG reviewed was already **audited** by the Medicare program's fiscal intermediary. Apparently, not even the fiscal intermediary knew that these costs should have been bifurcated between pre and post transplant activities. Moreover, the regulations and manual provisions provided by the OIG representatives offered no specific guidance on allocating organ costs.

Notwithstanding the above, the Medical Center takes the position that all of the salary costs (\$4,025,645) are reasonable and allowable, and should be reflected somewhere in the cost report, as follows:

- Pre-transplant salary costs, reimbursable as pass-through costs under Medicare Part A, should remain in the Organ Acquisition Cost Center (OACC).
- In-house³ transplant salary costs, reimbursable by diagnosis related group (DRG) payments, should be reclassified to the Adults/Pediatrics cost center.
- Post-transplant salary costs, reimbursable as clinic services through Medicare Part B, should be reclassified to the Clinic cost center.

The Medical Center now understands that the OACCs should only include pre-transplant costs. Clearly, the Medical Center had significant pre-transplant salary costs in FY 1999, which are reimbursable by the Medicare program as organ acquisition costs. Thus, the Medical Center wholeheartedly agrees with the OIG's suggestion that it should work with the Intermediary to agree upon a methodology to determine pre and post transplant salary costs.

In light of the need to allocate pre-transplant salary costs from all other types of transplant salary costs, the Medical Center has presently developed an on-line, daily time study for use by all staff in the transplant departments. The time study allocates time among pre, post and in-house activities, by employee. At month-end, a percent of time spent in these categories is calculated and applied to total salary costs which is then used to reclassify salary cost to the respective cost centers.

The Medical Center believes its current daily time study approach to this issue is extremely thorough, time consuming, and is more involved than necessary. Given the extraordinarily accurate pre and post transplant allocation that will result from using daily time studies, the

³ In-house costs are services performed by the transplant coordinators, case nurses, etc. for inpatients that have received their transplant but are not yet discharged.

Medical Center expects to use the results of the current time study to allocate the transplant salary costs in the FY 1999 cost report. This is especially appropriate given that there has been no significant change in transplant operations since FY1999.

Further, the Medical Center discovered during the OIG audit that the UCLA Alhmanson Cardiomyopathy department's costs are 100% pre-transplant. Consequently, all of the salary costs in this department (\$295,123) should be grouped with the HACC. This fact was not included in the OIG report of findings and will result in a reduction to the OIG's alleged overpayment.

Finally, the Medical Center agrees that all of the Transplant Administrative Salaries were claimed in the KACC. The Medical Center agrees to work with its intermediary to allocate this salary expense to all the appropriate OACCs.

- Page 9 (Floor Space)

The Medical Center disagrees with the OIG's findings related to unsupported floor space. The floor space occupied by the transplant department is supported by floor plans.

Moreover, the OIG auditors took a physical tour of these areas and could see this space was used for pre and post transplant activities. The comment in the OIG report that "documentation for the 4,597 square feet did not contain sufficient detail to differentiate between pre-transplant and post-transplant activities" suggests that such differentiation is even possible. The areas at issue simultaneously serve both pre and post transplant functions. Logically, the floor space will need to be allocated based on the results of the employee time study. The floor plans themselves would obviously not provide any basis to differentiate a space that is simultaneously used for both pre and post transplant purposes.

- Pages 9, 10-Other Costs (Social Services Department)

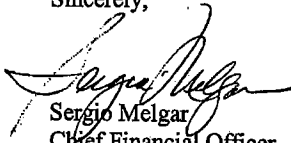
The Medical Center disagrees with the findings of the OIG related to social service costs. The Medical Center lacked detailed support for the social service workload statistic related to the FY 1999 cost. However, the type of statistic (workload) and the amount of the workload statistic is consistent for prior years and subsequent years. The social service department serves the transplant department by providing, among other things, pre-transplant psycho-social evaluations of the patient and their family members, and this fact is supported in patients' medical records. Clearly, the social service department supports the organ acquisition cost center. If the fiscal intermediary does not want to use the workload statistic already on the audited FY 1999 cost report, then the Medical Center suggests using the current year statistics. Either way, a significant portion of the social service costs is properly allocated to pre-transplant, organ acquisition cost centers.

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The Medical Center looks forward to working with its Medicare intermediary to properly revise the FY 1999 Medicare cost report. The Medical Center requests that the OIG, based on the above discussion, restate more accurately the true potential Medicare overpayment that is at issue.

If you have any questions regarding this matter, please call me at 310-825-3234.

Sincerely,



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UCLA Hospital System

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