



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-09-03-00046

Mr. Marty Lothes
Director, Provider Audit Department
United Government Services, LLC.
P.O. Box 9150
Oxnard, California 93031-9150

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 St. Vincent 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-09-03-00046 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

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 ST. VINCENT MEDICAL
CENTER'S ORGAN ACQUISITION
COSTS CLAIMED FOR THE
PERIOD JULY 1, 1998
THROUGH JUNE 30, 1999**



**July 2004
A-09-03-00046**

Office of Inspector General

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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

St. Vincent Medical Center (St. Vincent), a 347-bed regional acute and referral care center in Los Angeles, is 1 of 7 hospitals and medical centers in California operated by the Daughters of Charity Healthcare System. On its fiscal year (FY) 1999 Medicare cost report, St. Vincent claimed \$9,003,290 for organ acquisition costs associated with kidney and heart transplants. Medicare reimburses certified transplant programs for their proportionate share of costs associated with the acquisition of organs for transplant to Medicare beneficiaries. Medicare's share of the \$9,003,290 claimed for FY 1999 was \$6,005,332.

OBJECTIVE

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

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

SUMMARY OF FINDINGS

St. Vincent 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, St. Vincent 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:

Cost Category	Results of Audit				
	Claimed	Allowable	Unallowable	Unsupported	Unaudited ¹
Salaries	\$ 1,115,251	\$ 71,252	\$ 250,576	\$ 793,423	\$ 0
Medical Directors	110,596	0	0	110,596	0
Floor Space	52,127	2,629	46,391	3,107	0
Other Costs ²	7,725,316	0	516,935	0	7,208,381
Total	\$ 9,003,290	\$ 73,881	\$ 813,902	\$ 907,126	\$ 7,208,381

We limited our review of organ acquisition costs to \$1.8 million of the \$9 million claimed by St. Vincent on its FY 1999 Medicare cost report. We found that St. Vincent claimed \$813,902 in unallowable costs and \$907,126 in unsupported costs.

¹ 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 St. Vincent. We do not express an opinion on the \$7.2 million not audited.

² Other costs included organ purchases, recipient and donor evaluations, laboratory and other tests, organ excision fees, costs for hospital inpatient stays for donors, overhead and other direct costs of the organ transplant program, and accounting errors.

The unallowable costs of \$813,902 were associated with activities that did not comply with Medicare's definition of organ acquisition or were incurred for departments unrelated to organ transplantation. St. Vincent officials told us they did not intentionally submit unallowable claims but also agreed that they made errors in the preparation of the cost report. Based on the unallowable costs of \$813,902, Medicare overpaid St. Vincent an estimated \$570,596.³

The unsupported costs of \$907,126 did not comply with Medicare's documentation requirements for reimbursement. St. Vincent agreed that not all of the unsupported costs complied with Medicare documentation requirements. We recognize that some portion of the \$907,126 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 St. Vincent was unable to provide necessary documentation to support \$907,126 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 St. Vincent cannot provide alternative support for the \$907,126, the Medicare intermediary should recover the related Medicare overpayment of \$683,315.³

RECOMMENDATIONS

We recommend that the Medicare intermediary:

- recover the Medicare overpayment of \$570,596 for the unallowable costs claimed by St. Vincent as organ acquisition
- work with St. Vincent to determine, if possible, what portion of the \$907,126 of unsupported costs and related Medicare payment of \$683,315 is associated with allowable organ acquisition activities, and recover that portion of the \$683,315 that St. Vincent is unable to support with allowable organ acquisition costs
- review organ acquisition costs claimed by St. Vincent on its Medicare cost reports for FY 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 St. Vincent to ensure compliance with Medicare requirements
- instruct St. Vincent to develop and maintain adequate time-and-effort reporting and accounting controls, and to provide clear direction to responsible personnel as to Medicare requirements for claiming and documenting organ acquisition costs

³ The Medicare intermediary determined the estimated Medicare overpayment amounts associated with our findings by using proprietary software to adjust St. Vincent's Medicare cost report.

MEDICARE INTERMEDIARY COMMENTS

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

ST. VINCENT COMMENTS

In written response to the draft report, St. Vincent provided comments on unallowable and unsupported costs, and concluded with a statement about cost practices during periods after FY 1999. St. Vincent agreed that \$813,902 was unallowable but stated that we should have considered a credit of \$69,385 to the Medicare overpayment for a correcting adjustment St. Vincent made to its FY 2000 cost report. St. Vincent believed that it could provide documentation to support most of the \$907,126 of unsupported costs. In its conclusion, St. Vincent indicated that it did not expect that the deficiencies identified in our draft report recurred in later years because St. Vincent is under new management, and it has taken significant steps to prevent further problems. St. Vincent's response to our draft report is included in its entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

Regarding the \$69,385 credit, our analysis indicated St. Vincent's adjustments were not made to the appropriate accounts and could not be reconciled to the error in the FY 1999 cost report. To ensure proper payment by the Medicare program, St. Vincent should correct the accounting entries for the FY 1999 Medicare cost report for the unallowable costs identified and reverse the accounting entries for FY 2000.

Regarding the \$907,126 of unsupported costs, St. Vincent provided us with documentation during the audit that did not comply with Medicare's rules. These rules require that the documentation be current, accurate, and in sufficient detail to support payments made for services rendered. Rather than disallow the unsupported costs without further review, we are providing St. Vincent an opportunity to work with the Medicare intermediary to equitably allocate these costs among the organ transplant programs and between organ acquisition and other transplant activities.

Although we did not audit years after FY 1999, it came to our attention that some issues identified in our report were not resolved until 2003. Therefore, we expect that St. Vincent's cost reports for years after FY 1999 will require adjustments similar to those described in this report.

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INTRODUCTION

BACKGROUND

St. Vincent Medical Center

St. Vincent, a 347-bed regional acute and referral care center in Los Angeles, is 1 of 7 hospitals and medical centers in California operated by the Daughters of Charity Healthcare System. Before January 1, 2001, Catholic Healthcare West, the largest not-for-profit health care provider in California and the largest Catholic hospital system in the western part of the United States, operated St. Vincent.

Our audit covered FY 1999 (July 1, 1998 through June 30, 1999). At that time, St. Vincent operated kidney and heart transplant programs that Medicare certified on July 1, 1975 and March 21, 1995, respectively. In addition, St. Vincent operated a pancreas transplant program that Medicare approved on July 1, 1999 and a liver transplant program that Medicare certified on November 15, 1999. During FY 1999, St. Vincent contracted with the National Institute of Transplantation⁴ for its kidney transplant coordinators and other support staff. St. Vincent reimbursed the National Institute of Transplantation a fixed amount per transplant.

St. Vincent claimed \$9,003,290 for organ acquisition costs associated with kidney and heart transplant programs during FY 1999. Of this amount, Medicare's share was \$6,005,332. St. Vincent classified an additional \$3,158,457 as nonreimbursable costs associated with liver and pancreas transplants, because Medicare certification for the transplantation of these organs was received after June 30, 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 are reimbursed outside of the Medicare prospective payment system and are in addition to the hospital's payment for the transplant itself.

Medicare reimbursed St. Vincent 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 reimbursed St. Vincent for transplant surgery, inpatient, and post-transplant costs for the recipients, but through different payment systems. Medicare Part A paid for the cost of 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.

⁴ The National Institute of Transplantation, located in a building adjacent to St. Vincent, participated in the transplant programs at St. Vincent, University of Southern California University Hospital, Childrens Hospital of Los Angeles, and Sharp Memorial Hospital.

Medicare Part B paid for the 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 also limits the allowable amounts of certain physician costs. The costs claimed for medical directors on the Part A cost report must be limited to Medicare's reasonable compensation equivalents as stated in 42 CFR § 415.70. Medicare's reasonable compensation equivalent calculation considers medical specialty and geographic area to determine allowable costs. The reasonable compensation equivalent rules require that these amounts be adjusted on a pro rata basis for part-time and more than full-time physicians. Amounts in excess of the reasonable compensation equivalent are considered unallowable.

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 St. Vincent for its kidney and heart transplant programs were allowable. Specifically, did St. Vincent:

- 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 and heart organ acquisition costs claimed by St. Vincent on its FY 1999 Medicare cost report. Based on our analysis of audits performed by the Medicare intermediary and our survey work at St. Vincent, we identified higher risk cost categories and limited our scope to an audit of \$1,794,909 claimed for certain salaries, contract costs, medical director fees, and space costs. We did not review the remaining \$7,208,381 and do not express an opinion on this amount. In addition, 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 did not review the internal controls at St. Vincent because such a review was not necessary to accomplish our objective. We performed our fieldwork from March 6 to September 26, 2003, which included visits to St. Vincent and the National Institute of Transplantation 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 St. Vincent for FY 1999
- reviewed accounting records and reports
- reviewed payroll records, which included time-and-effort reporting
- interviewed St. Vincent employees and managers
- interviewed employees and directors from the National Institute of Transplantation
- 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 Medicare intermediary determined the estimated Medicare overpayment amounts associated with our findings by using proprietary software to adjust St. Vincent's Medicare cost report. The Medicare 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 Report were immaterial.

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

FINDINGS AND RECOMMENDATIONS

St. Vincent did not comply with Medicare law, regulations, and guidelines for claiming organ acquisitions costs in the preparation of its Medicare Part A cost report and received excess Medicare reimbursement for organ acquisition activities. Specifically, St. Vincent 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	\$ 250,576	\$ 793,423
Medical Directors	0	110,596
Floor Space	46,391	3,107
Other Costs	<u>516,935</u>	<u>0</u>
Total	<u>\$ 813,902</u>	<u>\$ 907,126</u>

The unallowable costs of \$813,902 were associated with activities that did not comply with Medicare’s definition of organ acquisition or were incurred for departments unrelated to organ transplantation. St. Vincent officials told us they did not intentionally submit unallowable claims but also agreed that they made errors in the preparation of the cost report. Based on the unallowable costs of \$813,902, Medicare overpaid St. Vincent an estimated \$570,596.

The unsupported costs of \$907,126 did not comply with Medicare’s documentation requirements for reimbursement. St. Vincent agreed that not all of the unsupported costs complied with Medicare documentation requirements. We recognize that some portion of the \$907,126 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 St. Vincent was unable to provide necessary documentation to support \$907,126 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 St. Vincent cannot provide alternative support for the \$907,126, the Medicare intermediary should recover the related Medicare overpayment of \$683,315.

UNALLOWABLE COSTS

St. Vincent’s cost report included \$813,902 of unallowable costs that were (1) associated with activities that did not comply with Medicare’s definition of organ acquisition as contained in the

Provider Reimbursement Manual, part 1, §§ 2771.B and 2771.C, and the Intermediary Manual, part 3, §§ 3178.3 through 16, or (2) incurred for departments unrelated to organ transplantation as explained at 45 CFR, part 74, Appendix E, iv. These unallowable costs were for activities not related to organ acquisition or resulted from accounting errors. The estimated Medicare overpayment for these unallowable costs is \$570,596. The balance of this section of the report details the unallowable costs shown in the table below:

Unallowable Costs

Cost Category	Unallowable Costs	Estimated Medicare Overpayment
Salaries	\$ 250,576	\$ 169,954
Floor Space	46,391	26,888
Other Costs	516,935	373,754
Total	\$ 813,902	\$ 570,596

Salaries

St. Vincent claimed \$250,576 in unallowable salary costs for:

- heart transplant program employees
- employees of other departments
- transplant manager and administrative salaries

Medicare costs claimed must be reasonable, properly allocated, and supported by proper documentation. 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 claim for \$250,576 in unallowable costs resulted in an estimated Medicare overpayment of \$169,954. The table below summarizes the unallowable salary costs for transplant employees, other department employees, and the transplant manager and administrative staff:

Unallowable Salary Costs

Cost Category	Unallowable Costs	Estimated Medicare Overpayment
Transplant Employees	\$ 70,021	\$ 47,475
Other Departments	179,324	121,584
Manager and Staff	1,231	895
Total	\$ 250,576	\$ 169,954

St. Vincent claimed as organ acquisition all the salary costs for heart transplant employees, some salaries for employees of the cardiovascular department and an employee of the liver transplant department, and a portion of the salaries for the transplant manager and the manager's administrative assistant. However, our discussions with St. Vincent employees and officials indicated that the salary costs for these employees should have been allocated either to the departments in which they worked or between pre-transplant and post-transplant activities.

Although St. Vincent officials agreed that the heart transplant, cardiovascular, liver transplant, managerial, and administrative employees did some work in other departments or did some post-transplant work, St. Vincent did not properly allocate these salary costs. Also, St. Vincent officials told us they were not aware that the cardiovascular personnel and one liver transplant employee's salaries had been included as heart acquisition on the Medicare cost report.

Floor Space

St. Vincent claimed \$46,391 in excess costs for floor space, which resulted in an estimated Medicare overpayment of \$26,888. The amount of floor space occupied by each department was the basis used in the Medicare cost report for allocating certain overhead costs. Overhead costs that must be allocated using square footage of floor space include buildings and fixtures, movable equipment, maintenance and repairs, operation of plant, and housekeeping. In the FY 1999 cost report, each square foot of space allocated to organ acquisition represented about \$21.73 of space costs, and assigning excess square footage to organ acquisition resulted in an overcharge to Medicare.

Of the 2,399 square feet that St. Vincent claimed as organ acquisition, 1,571 square feet for the kidney transplant program and 564 square feet for the heart transplant program were in excess of the occupied floor space and, therefore, were unallowable. As a result, St. Vincent received an estimated Medicare overpayment of \$21,682 related to kidney acquisition and \$5,206 related to heart acquisition. St. Vincent officials told us that they were not aware that this space had been included in organ acquisition on the cost report.

St. Vincent officials acknowledged that 1,571 square feet of the 1,714 square feet claimed as kidney acquisition should not have been claimed. They could identify only 143 square feet that may have been related to kidney transplantation and could not explain why the additional space was claimed. The remaining 143 square feet is discussed in the section "Unsupported Costs."

St. Vincent officials also acknowledged that 443 square feet of the 685 square feet claimed as heart acquisition should not have been claimed. They could identify only 242 square feet of space that was related to heart transplantation and could not explain why the additional space was claimed. Of the remaining 242 square feet claimed, half, or 121 square feet, was unallowable because it related to post-transplant activities. Because heart transplant employees divided their time equally between pre-transplant and post-transplant activities, the space should have been allocated similarly. Only half the space was allocable to pre-transplant activity and should have been included as organ acquisition.

Other Costs

St. Vincent claimed \$516,935 in excess organ acquisition costs because accounting staff incorrectly posted certain accounting entries. As a result, St. Vincent received an estimated Medicare overpayment of \$373,754. St. Vincent officials told us that they were not aware until FY 2000 that the accounting errors had been made. Although St. Vincent officials believed they had corrected the excess claim in FY 2000, the adjustments were not made to the appropriate accounts and, consequently, the Medicare overpayment was not corrected.

We identified \$516,935 of routine accounting entries used to accrue expenses at the end of an accounting period that did not have corresponding entries at the beginning of the next month or year to adjust organ acquisition accounts to actual costs. This oversight effectively duplicated those costs and resulted in an excessive claim for organ acquisition reimbursement. St. Vincent staff was unable to explain why the proper accounting entries had not been made to eliminate the duplicate costs.

St. Vincent officials told us that accounting entries were recorded during FY 2000 to correct the \$516,935 in organ acquisition costs that were overstated during FY 1999. However, the documentation St. Vincent provided did not contain sufficient detail to determine whether the adjustments were related to the accounting errors we identified in the organ acquisition accounts. Even if the FY 2000 adjustments related to the errors we identified, St. Vincent did not make adjustments to appropriate organ acquisition accounts. Because the FY 2000 entries reduced a general account instead of directly reducing the organ acquisition accounts, the entries would not have resulted in a full reduction of the excessive Medicare reimbursement made for FY 1999. St. Vincent should reduce organ acquisition accounts by \$516,935 for FY 1999 to restate its claim to actual costs.

UNSUPPORTED COSTS

St. Vincent's cost report included \$907,126 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. Only the portion of salaries that relates to time spent on allowable organ acquisition activities may be included as organ acquisition costs on the 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. Costs incurred to supervise or support organ transplant employees should be allocated on a basis consistent with the time allocation of the supervised and supported staff.

We recognize that some portion of the \$907,126 may have related to organ acquisition activities and would have been allowable if properly documented. However, based on 42 CFR §§ 413.24(a) and 413.24(c), and the Provider Reimbursement Manual, part 1, § 2304, these unsupported costs were considered unallowable for Medicare reimbursement. Although St. Vincent was unable to provide necessary documentation to support \$907,126 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 St. Vincent does not provide alternative support for the \$907,126, the Medicare intermediary should recover

the related Medicare overpayment of \$683,315. The balance of this section of the report details the unsupported costs shown in the table below:

Unsupported Costs

Cost Category	Unsupported Costs	Estimated Medicare Overpayment
Salaries	\$ 793,423	\$ 598,673
Medical Directors	110,596	82,409
Floor Space	3,107	2,233
Total	\$ 907,126	\$ 683,315

Salaries

St. Vincent claimed \$793,423 in salary costs that were unsupported for:

- contract employees
- kidney transplant program employees
- transplant manager and administrative staff

If St. Vincent does not provide alternative support for the unsupported salary costs, the Medicare intermediary should recover the estimated overpayment of \$598,673. The table below summarizes the unsupported salary costs for contract employees, transplant employees, and the transplant manager and administrative staff:

Unsupported Salary Costs

Cost Category	Unsupported Costs	Estimated Medicare Overpayment
Contract Employees	\$ 710,634	\$ 529,516
Transplant Employees	65,911	55,070
Manager and Staff	16,878	14,087
Total	\$ 793,423	\$ 598,673

Although St. Vincent claimed as organ acquisition the payments to the National Institute of Transplantation for contract employees and other costs, salaries for a portion of five social workers and an audit analyst, and some of the salaries for the transplant manager and the manager's administrative assistant, we determined some of the costs were related to other transplant departments and post-transplant activities.

St. Vincent officials told us they were aware that the payments to the National Institute of Transplantation were claimed as kidney acquisition, but thought all costs included in the calculation used to develop the fee were pre-transplant; therefore, there was no need to allocate any of these costs to post-transplant. Also, although St. Vincent officials agreed that the five

social workers, the audit analyst, and the manager and administrative assistant did work in other transplant departments and did some post-transplant work, no allocation of these salary costs was made.

Medical Director Fees

St. Vincent incorrectly claimed \$110,596⁵ in medical director fees as kidney acquisition, even though the medical director was a co-medical director of the Multi-Organ Transplant Program and was responsible for the entire program. The director fees should have been allocated to all benefiting programs. If St. Vincent does not provide alternative support for these costs, the Medicare intermediary should recover the estimated Medicare overpayment of \$82,409.

St. Vincent did not properly allocate the medical director fees to all four transplant programs and did not split the fees between pre-transplant and post-transplant activities. Although St. Vincent contracted with two medical directors to run the Multi-Organ Transplant Program, which included four programs (kidney, heart, liver, and pancreas), St. Vincent claimed \$110,596 for one medical director as kidney acquisition and claimed the other's fees as liver acquisition.⁶ St. Vincent provided invoices to support its claim for these fees that indicated both medical directors were involved in pre-transplant and post-transplant activities for each transplant program. However, the invoices did not contain sufficient detail to accurately allocate costs among the various organ types and between pre-transplant and post-transplant activities.

St. Vincent should properly allocate medical director fees to the various organ transplant programs and between pre-transplant and post-transplant activities, using a reasonable basis that is supported by auditable documentation. Although St. Vincent officials contracted with the medical directors to oversee work in each of the four transplant programs, they said that it was easier to claim the costs of one director under the kidney program and the other director under the liver program. St. Vincent should have allocated the director costs to all benefiting programs.

Floor Space

St. Vincent claimed about \$3,107 for 143 square feet of floor space for the kidney transplant program that was not properly allocated among the various organs and between pre-transplant and post-transplant activities. If St. Vincent does not provide alternative support for these costs, the Medicare intermediary should recover the estimated Medicare overpayment of \$2,233.

The amount of floor space used by each department is the basis used in the Medicare cost report for allocating certain overhead costs. Overhead costs that must be allocated using square footage of floor space include buildings and fixtures, movable equipment, maintenance and repairs, operation of plant, and housekeeping. If excess floor space is assigned to a department, overhead costs allocated to that department will also be overstated.

⁵ The medical director fees paid were \$162,500. After limiting these costs to Medicare's reasonable compensation equivalents, the net amount claimed was \$110,596.

⁶ During FY 1999 Medicare had not yet certified St. Vincent for liver transplantation. As a result, Medicare did not reimburse the medical director fees of \$487,500 claimed as liver acquisition. However, some of these fees may have been allowed as kidney or heart acquisition and reimbursed by Medicare. If the fees of \$487,500 had been allowable, they would have been limited to \$93,029 by Medicare's reasonable compensation equivalents.

We determined that 90 of the 143 square feet of floor space was for social workers and that these employees performed services related to liver, heart, kidney, and pancreas transplantation and that some services were related to post-transplant activities. St. Vincent should have allocated this space among the various organs and between pre-transplant and post-transplant activities in the same ratio as the salaries for the social workers.

The remaining 53 square feet was the portion of the office space of the transplant manager and one administrative person allocated to the kidney program. St. Vincent should have allocated this space between pre-transplant and post-transplant activities of the kidney program in the same ratio as the salaries for the transplant manager and administrative staff.

St. Vincent officials did not allocate floor space for these employees among the transplant programs or between pre-transplant and post-transplant.

SUMMARY OF ADJUSTMENTS AND MEDICARE OVERPAYMENTS

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

Summary of Adjustments and Medicare Overpayments

Cost Category	Unallowable		Unsupported	
	Costs	Estimated Medicare Overpayment	Costs	Estimated Medicare Overpayment
Salaries	\$ 250,576	\$ 169,954	\$ 793,423	\$ 598,673
Medical Directors	0	0	110,596	82,409
Floor Space	46,391	26,888	3,107	2,233
Other Costs	516,935	373,754	0	0
Total	\$ 813,902	\$ 570,596	\$ 907,126	\$ 683,315

Note: St. Vincent claimed unsupported costs of \$907,126 that did not comply with Medicare's documentation requirements. Some portion of this amount may have related to organ acquisition activities and would have been allowable if properly documented. If St. Vincent cannot provide alternative support for these costs, the Medicare intermediary should recover the entire Medicare overpayment of \$683,315.

RECOMMENDATIONS

We recommend that the Medicare intermediary:

- recover the Medicare overpayment of \$570,596 for the unallowable costs claimed by St. Vincent as organ acquisition
- work with St. Vincent to determine, if possible, what portion of the \$907,126 of unsupported costs and related Medicare payment of \$683,315 is associated with allowable organ acquisition activities, and recover that portion of the \$683,315 that St. Vincent is unable to support with allowable organ acquisition costs

- review organ acquisition costs claimed by St. Vincent on its Medicare cost reports for FY 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 St. Vincent to ensure compliance with Medicare requirements
- instruct St. Vincent to develop and maintain adequate time-and-effort reporting and accounting controls, and to provide clear direction to responsible personnel as to Medicare requirements for claiming and documenting organ acquisition costs

MEDICARE INTERMEDIARY AND ST. VINCENT COMMENTS AND OIG RESPONSE

General Summary

Medicare Intermediary Comments

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

St. Vincent Comments

In written response to the draft report, St. Vincent provided comments on unallowable and unsupported costs, and concluded with a statement about cost practices during periods after FY 1999. St. Vincent agreed that \$813,902 was unallowable but stated that we should have considered a credit of \$69,385 to the Medicare overpayment for a correcting adjustment St. Vincent made to its FY 2000 cost report. St. Vincent believed that it could provide documentation to support most of the \$907,126 of unsupported costs. In its conclusion, St. Vincent indicated that it did not expect that the deficiencies identified in our draft report recurred in later years because St. Vincent is under new management, and it has taken significant steps to prevent further problems. St. Vincent's response to our draft report is included in its entirety as Appendix B of this report.

OIG Response

Regarding the \$69,385 credit, our analysis indicated St. Vincent's adjustments were not made to the appropriate accounts and could not be reconciled to the error in the FY 1999 cost report. To ensure proper payment by the Medicare program, St. Vincent must correct the accounting entries for the FY 1999 Medicare cost report for the unallowable costs identified and reverse the accounting entries for FY 2000.

Regarding the \$907,126 of unsupported costs, St. Vincent provided us with documentation during the audit that did not comply with Medicare's rules. These rules require that the documentation be current, accurate, and in sufficient detail to support payments made for services rendered. Rather than disallow the unsupported costs without further review, we are providing St. Vincent an

opportunity to work with the Medicare intermediary to equitably allocate these costs among the organ transplant programs and between organ acquisition and other transplant activities.

Although we did not audit years after FY 1999, it came to our attention that some issues identified in our report were not resolved until 2003. Therefore, we expect that St. Vincent's cost reports for years after FY 1999 will require adjustments similar to those described in this report.

Unallowable Costs – Other Costs (Accrual Errors)

St. Vincent Comments

St. Vincent acknowledged that it duplicated \$516,935 in costs during FY 1999 due to accounting errors but disagreed with our methodology to determine the related overpayment. St. Vincent indicated that a \$69,385 credit to the Medicare overpayment is needed due to adjustments it made during FY 2000. St. Vincent said that when it became aware of the FY 1999 errors, it made a \$1,096,223 adjusting entry in its accounting records for FY 2000. According to St. Vincent, the Medicare intermediary reclassified \$1,088,402 of this adjustment as a global credit to "administrative and general" on the FY 2000 Medicare cost report.

OIG Response

Our analysis indicated that St. Vincent's adjustments to its FY 2000 records would not correct FY 1999 errors completely. The best method to ensure that the adjustments are entirely appropriate is to correct the accounting entries for FY 1999 and reverse the accounting entries for FY 2000.

Unsupported Costs – Salaries for National Institute of Transplantation Contract Employees

St. Vincent Comments

St. Vincent wrote that the Medicare intermediary allowed St. Vincent to claim only \$710,634 of the \$858,266 it paid to the National Institute of Transplantation in FY 1999 for contract employees. St. Vincent indicated that this reduction effectively removed the post-transplant portion of the fees paid to the National Institute of Transplantation from its Medicare claim that year. St. Vincent also indicated that interviews we conducted and the National Institute of Transplantation time allocation information provided during the audit adequately supported its claim for at least 69 percent of the National Institute of Transplantation work in FY 1999.

OIG Response

The Medicare intermediary's audit of St. Vincent's FY 1992 cost report concluded that St. Vincent and the National Institute of Transplantation were related organizations. The Medicare intermediary also concluded that the amounts paid to the National Institute of Transplantation were excessive when compared with the prior year, when many of the same people claimed by the National Institute of Transplantation were St. Vincent employees. As a result, the Medicare intermediary reduced the amount that St. Vincent could claim for the National Institute of Transplantation-contracted services to what the intermediary considered reasonable. St. Vincent made similar adjustments to each subsequent cost report, including the one for

FY 1999. Even though the National Institute of Transplantation fees were reduced in FY 1999 to \$710,634, the reduction did not satisfy the Medicare requirement to allocate costs properly. St. Vincent must allocate the remaining fees between pre-transplant and post-transplant activities.

The documentation that St. Vincent provided us did not meet Medicare's requirements and was not sufficient to determine the proper allocation. Rather than disallow these costs without further review, we are providing St. Vincent with an opportunity to work with the Medicare intermediary to equitably allocate these costs.

Unsupported Costs – Salaries for Social Workers and Auditors

St. Vincent Comments

For the cost category "Transplant Employees" in our report, St. Vincent believed that the amount claimed for the social workers and an audit analyst was "largely pre-transplant in nature" and, thus, believed the amount charged to Medicare for these costs was correct and reasonable.

OIG Response

Interviews of social workers and the audit analyst indicated that these employees provided services for the kidney, liver, heart, and pancreas transplant programs, and their activities were a combination of pre-transplant and post-transplant. However, our review of the accounting records showed that all these employees' salaries were claimed as kidney acquisition. The documentation that St. Vincent provided us did not meet Medicare's requirements and was not sufficient to determine the proper allocation. Rather than disallow these costs without further review, we are providing St. Vincent with an opportunity to work with the Medicare intermediary to equitably allocate these costs.

Unsupported Costs – Salaries for Transplant Manager and Assistant

St. Vincent Comments

St. Vincent believed that a majority of the amount claimed for the transplant manager and assistant was related to pre-transplant activities for Medicare-reimbursed organs, and, accordingly, the amount charged to Medicare was correct and reasonable.

OIG Response

Although St. Vincent allocated the salaries for the manager and assistant to the liver, heart, and kidney transplant programs, it did not allocate them between pre-transplant and post-transplant activities. St. Vincent agreed with our recommendation to disallow 50 percent of the manager's and assistant's salaries claimed as heart acquisition based on our allocation of the heart transplant employees' salaries. St. Vincent should also allocate the kidney portion of their salaries based on the correct allocation of the kidney transplant employee salaries. The documentation St. Vincent provided did not meet Medicare's requirements. Rather than disallow these costs without further review, we are providing St. Vincent with an opportunity to work with the Medicare intermediary to equitably allocate these costs.

Unsupported Costs – Medical Director Fees

St. Vincent Comments

St. Vincent stated that, although one medical director was involved in pre-transplant activities for Medicare-approved transplant programs, the medical director's fees of \$487,500 were allocated to a transplant program that was not reimbursed by Medicare. Another medical director's fees were allocated to a Medicare-reimbursed transplant program, and the fees were reduced from \$162,500 to \$110,596. St. Vincent wrote that it provided supporting timesheets for the fees claimed, which were reinforced with an interview with the second medical director. Also, St. Vincent claimed the \$110,596 was reasonable because it was less than 17 percent of the \$650,000 paid, while more than 80 percent of the organs transplanted were Medicare-reimbursed.

OIG Response

Of the \$650,000 that St. Vincent paid in medical director fees, \$446,375, or 69 percent, was not or would not have been allowable because it exceeded the Medicare reasonable compensation equivalent limits. Only \$110,596 of the \$162,500 claimed as kidney acquisition was allowable and the \$487,500 claimed as liver acquisition would have been limited to \$93,029. Because St. Vincent's liver transplant program was not Medicare-certified in FY 1999, all of the fees claimed as liver acquisition were not allowable. Although the documentation for the \$110,596 indicated that it should have been allocated to each of the various transplant programs and between pre-transplant and post-transplant activities, the documentation was not sufficiently detailed to accurately allocate the cost. Rather than disallow these costs without further review, we are providing St. Vincent with an opportunity to work with the Medicare intermediary to equitably allocate these costs.

We disagree that more than 80 percent of the organ transplants were reimbursed by Medicare. Of the two organs for which St. Vincent was Medicare-certified during FY 1999 (kidney and heart), 140 of 206 kidney transplants (68 percent) and 6 of 11 heart transplants (55 percent), or a total of 67 percent (146 of 217), were reimbursed by Medicare.

Unsupported Costs – Floor Space (Square Footage)

St. Vincent Comments

St. Vincent stated that the square footage amount that we classified as unsupported was a reasonable claim because it represented only 17 percent of space occupied, while at least 50 percent of the time spent by the employees in that space was related to pre-transplant activities.

OIG Response

The floor space that we classified as unsupported consisted of all the social worker space and the portion of manager and administrative assistant space allocated to kidney acquisition. It was unreasonable for St. Vincent to claim all this space as kidney acquisition when it was not used exclusively for that purpose. One reasonable method to allocate that space is to use the same allocation as the employee salaries. The documentation St. Vincent provided did not meet Medicare's requirements. Rather than disallow these costs without further review, we are

providing St. Vincent officials with an opportunity to work with the Medicare intermediary to equitably allocate these costs. The allocation of floor space could be made after the allocation of employee salaries is determined.

Conclusion

St. Vincent Comments

St. Vincent believed it provided sufficient documentation to support all costs. St. Vincent also indicated that it did not believe the deficiencies identified in our draft report recurred in later years because St. Vincent is under new management since the FY 1999 claim was made, and it has taken significant steps to prevent further problems.

OIG Response

Although we did not audit years after FY 1999, some issues identified in the draft report were not resolved until 2003, which will necessitate adjusting the cost reports after FY 1999. For example, the salaries for two post-transplant kidney employees were incorrectly charged 100 percent to a kidney acquisition account. Although St. Vincent quickly resolved this issue by transferring the salary costs to the post-transplant account, we expect that St. Vincent's Medicare cost reports for years after FY 1999 will require adjustments similar to those described in our report.

APPENDICES

UNITED GOVERNMENT SERVICES COMMENTS



PART A INTERMEDIARY

NATIONAL FQHC INTERMEDIARY

MEDICARE

REGIONAL HOME HEALTH INTERMEDIARY

PHONE 510-633-4200

April 2, 2004

Ms. Lori A. Ahlstrand, Regional Inspector General
 Office of Inspector General, Region IX
 Office of Audit Services
 50 United Nations Plaza, Room 171
 San Francisco, CA 94102-4912

SUBJECT: RESPONSE TO OIG FINDINGS ON THE AUDIT OF ORGAN ACQUISITION COSTS

Reference Number: A-09-03-00046
Provider Name: St. Vincent Medical Center
Provider No.: 05-0502
FYE: 06/30/99

Dear Ms. Ahlstrand:

This is our response to your findings on the special audit of the organ acquisition costs for kidney and heart of the above subject facility. This job was assigned to Oakland Provider Audit Department for FYE 6/30/99 only. Prior to and after this audit engagement, Camarillo Provider Audit Department has since handled this provider.

Intermediary Review of Organ Acquisition Costs

The combined cost of organ acquisition costs for Kidney and Heart (Medicare certified transplant) is tabulated hereunder:

	<u>Worksheet A Expense Trial Balance</u>		
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>
Kidney Acquisition	\$ 82,793	\$7,009,303	\$7,092,096
Heart Acquisition	321,827	366,780	688,607
Total Direct Costs	<u>\$404,620</u>	<u>\$7,376,083</u>	<u>\$7,780,703</u>
	5.2%	94.8%	100%

Liver & Pancreas (not certified) \$2,214,7810 \$1,878,374 \$4,093,154

Because this was the first year our Oakland office was assigned under our rotation of audit program, their attention was focused on "Other Expense" because of the large amount in this column.

We did not scope to review the salary portion of the acquisition costs because there were no findings from the prior year audit. It was also considered that the salary amount only represent 5.2% of the total acquisition costs.

UNITED GOVERNMENT SERVICES, LLC.

333 Hegenberger Road, Suite 825, Oakland, CA 94621 • Corporate Headquarters located in Milwaukee, WI
 A CMS CONTRACTED INTERMEDIARY

Ms. Lori A. Ahlstrand, Regional Inspector General
 Office of Inspector General, Region IX
 Office of Audit Services
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Of the \$7,376,083 representing 94.8% of the total acquisition costs, we have vouched at least \$4.9 million of vendor's invoices that were charged to the accounts of the organ acquisition departments. We did not find any exception from these invoices. Also, our test did not disclose improper account posting of acquisition costs from non-certified organs to certified organs.

Summary of OIG Findings

The following organ acquisition costs were determined to be unallowable or unsupported:

		<u>Reimbursement Impact</u>
a) Salaries of Transplant employees	\$ 70,021	\$ 47,475
b) Salaries of Other Departments	179,324	121,584
c) Salaries of Manager & Staff	1,231	895
d) Salaries of Contract employees	710,634	529,516
e) Salaries of Transplant employees	65,911	55,070
f) Salaries of Manager & Staff	16,878	14,087
g) Salaries of Medical Directors	110,596	82,409
h) Floor space	46,391	26,888
i) Floor space	3,107	2,233
j) Accrued Expense Organ acquisition	<u>516,935</u>	<u>373,754</u>
Total	<u>\$1,721,028</u>	<u>\$1,253,911</u>

Intermediary Comments

a) Salaries of Heart Transplant employees - \$70,021:

Findings disclosed that approximately 50% of \$140,042 salaries or \$70,021 was related to organ post-transplant activities and should be reclassified to routine cost center(s). Should that be the case, then we are in agreement with your finding.

b) Salaries of Other Departments - \$179,324:

These salaries belong to some cardiovascular personnel that were not involved in organ transplantation and did not participate in organ acquisition activities. Should that be the case, then the same should be disallowed and we concur with your finding.

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c) Salaries of Manager & Staff - \$1,231:

There were no proper allocation of these salaries between pre-transplant and post-transplant. If the provider fails to provide adequate documentation, these cost should be disallowed. We concur with your finding.

d) Salaries of Contract employees - \$710,634:

This amount represents payments made to the National Institute of Transplantation (NIT) for 23 contract employees and other costs. OIG has determined that the costs were related to both pre-transplant and post-transplant activities. While St. Vincent claimed that all of the costs included in the calculation used to develop the NIT fee were pre-transplant, St. Vincent provided no supporting documentation to its assertion.

Based on OIG's report, should provider fail to give adequate supporting documents, these costs should be disallowed.

e) Salaries of Transplant employees - \$65,911:

Until such time St. Vincent provides support of these costs, we should disallow them.

f) Salaries of Manager & Staff - \$16,878:

The transplant manager and administrative support salaries were claimed as acquisition costs despite that portion of their efforts were related to post-transplant activities. Per OIG's findings, provider failed to support its allocation of costs. Should that be the case, these costs should be disallowed.

We agree.

g) Salaries of Medical Directors - \$110,596:

St. Vincent has to provide adequate support for the apportionment of these costs. Failing to do so should result in disallowance of these costs.

We agree.

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h) Floor space - \$46,391 – Unallowable

The following kidney and heart square feet were reviewed by OIG to ascertain that only square feet related to pre-transplant should have been claimed in the cost report:

	<u>Kidney</u>	<u>Heart</u>	<u>Total</u>
Claimed in cost report	1,714	685	2,399
Excess floor space claimed	<u>1,571</u>	<u>564</u>	<u>2,135</u>
Actual floor space verified	<u>143</u>	<u>121</u>	<u>264</u>

Since the provider has agreed that the 2,135 square feet was unallowable and should not have been claimed in the cost report, as a result, the provider was overpaid by an estimated amount of \$26,888.

We agree.

The 143 square feet for kidney acquisition is further discussed in the section of the unsupported costs - see (i.) below.

i) Floor space - \$3,107 – Unsupported:

The 143 kidney square feet that the provider has identified, as noted above, must be apportioned further between pre-transplant and post-transplant. St. Vincent was unable to provide adequate support for this floor space. Accordingly, the estimated program overpayment of \$2,233 should be recovered.

j) Accrued Expense Organ acquisition - \$516,935:

Per OIG's report, there were incorrect monthly accounting entries booked to organ acquisition cost during the cost reporting period July 1, 1998 through June 30, 1999 that totaled to \$516,935 that were discovered by OIG. These accruals were not adjusted to actual cost at the fiscal year end and were not correctly reversed to the appropriate organ departments. The provider was not aware of these accounting errors until FYE 2000, according to OIG. If above facts are correct, then provider should reduce the acquisition costs to restate its reported costs to actual. We concur.

Final Comments

In spite of the facts that we did not have the chance to see the documentary and testimonial evidences gathered by OIG, we agree with OIG findings as explained in their audit report.

UGS is currently doing similar audit procedures and auditing techniques applied by OIG. Our audit reimbursement operating manual (AROM) is now in place, specifically the audit program for organ acquisition cost.

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We have issued a notice of reopening on August 27, 2003, and we are waiting for final instructions from OIG to implement its findings.

Should you have any questions, please call Roberto Goretti at 510-633-4204 or Bejan Malbari at 510-633-4201.

Sincerely,

for 

Martin Lothes, Director
Provider Audit Department

ML/BM/AB/0329-1

cc: Cheryl Leissring, Director – Internal Audit & Compliance
Bejan Malbari, Manager – Provider Audit & Reim. Dept.
Roberto Goretti, Supervisor – Provider Audit & Reim. Dept.

ST. VINCENT COMMENTS



2131 W. THIRD STREET
 LOS ANGELES, CA 90057-0992
 (213) 484-7111 TELEPHONE

March 26, 2004

By Telecopy

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

Re: St. Vincent Medical Center, FY99 Audit of Organ Acquisition
 Costs, Report No. A-09-03-00046

Dear Ms. Ahlstrand:

On behalf of St. Vincent Medical Center ("St. Vincent"), I submit this formal response to the draft report dated February 26, 2004 and entitled Audit of St. Vincent Medical Center's Organ Acquisition Costs Claimed for the Period July 1 1998 through June 30, 1999 (the "Report"). The draft Report relates to an audit by the Office of Inspector General, Office of Audit Services ("OIG") to determine if the organ acquisition costs claimed by St. Vincent in its FY 1999 Medicare cost report were properly stated in accordance with Medicare reimbursement criteria.

According to the draft Report, St. Vincent's FY 1999 cost report included \$813,902 in "unallowable" costs and \$907,126 in "unsupported" costs. The draft Report attributes these excess costs to the following factors:

Cost Categories	Unallowable	Unsupported
Salaries	\$250,576	\$793,423
Medical Directors	0	110,596
Floor Space	46,391	3,107
Other Costs	516,935	0



ResponseOIG

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necessary. In FY1999, St. Vincent inadvertently failed to reverse \$516,935 of accrued monthly expense entries for the organ acquisition program, so those expenses were duplicated in the cost report submitted to Medicare.

As the draft Report acknowledges, St. Vincent first became aware of these errors in 2000. At that time, the hospital recorded a global adjusting credit of \$1,096,223, labeled as "inventory adjustment", to correct for this and certain other inadvertent accounting errors. \$1,088,402 of this entry was reclassified by the fiscal intermediary ("FI") in the FY2000 cost report as a global credit to "administrative and general."

The draft Report indicates that because this reversal was assigned by the FI to a general account in FY2000 rather than applied to the organ acquisition account in FY1999, the reversal had no effect on the reimbursement paid by Medicare for the unreversed accruals. St. Vincent disagrees with this conclusion.

The unreversed accruals for the organ acquisition account in FY1999 were included in the FY2000 global credit, though the documentation does not precisely tie the credit to all of the unreversed accruals. Nevertheless, based on the interviews and documents provided to OIG during the audit process, St. Vincent specifically established that at least \$105,000 of the FY2000 global credit was connected to unreversed accruals in the organ acquisition program in FY1999. Accordingly, St. Vincent contends that its FY1999 cost report should be adjusted to reflect this \$105,000 as an additional cost to organ acquisition, and that same amount should be subtracted from the "general and administrative" total in the FY2000 cost report.

The draft Report should recognize a further adjustment to its treatment of this situation. Since the hospital's acquisition costs for kidney and heart in FY1999 were \$7,581,167, or approximately seven percent of the total adjusted costs (about \$108 million) reported in St. Vincent's FY1999 cost report, an equal proportion of the FY2000 global credit (minus the \$105,000 discussed above) should be allocated to the organ acquisition account. Based on that allocation, the FY2000 cost report

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should be adjusted to reflect a corresponding additional cost to organ acquisition of \$69,385.

Therefore, although the draft Report correctly states that the erroneous expense accruals were not specifically reversed in the organ acquisition account, the actual effect on organ acquisition reimbursement made by the FY2000 global credit should be reflected by the adjustments to the FY1999 and FY2000 cost reports that are described in the two preceding paragraphs.

II. Costs Designated As "Unsupported" In The Draft Report

A. Documentation for "Unsupported" Items

The draft Report lists several cost items as not adequately supported by the documentation provided by St. Vincent during the audit process, although the draft Report does not characterize those costs as unallowable. These "unsupported" costs include the following:

Salary costs for National Institute of Transplantation contract employees	\$710,634
Salary costs of Social Workers and Auditors	\$ 65,911
Transplant manager and administrative salaries	\$ 16,878
Total Salaries	\$793,423
Floor space	\$ 3,107
Medical Director Fees	\$110,596

St. Vincent believes that the available documentation adequately supports most of these costs.

1. Salaries for NIT Contract Employees

The draft Report suggests that \$710,634 in salaries for contract employees affiliated with the National Institute of Transplantation ("NIT") was "unsupported." All of these employees were involved with kidney transplant services, but the

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draft Report states that the documentation did not establish an allocation between pre- and post-transplant work.

As an initial matter, St. Vincent notes that the \$710,634 that it claimed in the FY1999 is only part of the total cost of the NIT salaries paid in connection with 206 kidney transplants. Beginning in FY1992, the FI refused to allow St. Vincent to record as reimbursable costs the full amount of St. Vincent's payments to NIT for each transplant. As a result, in FY1999, St. Vincent actually paid to NIT \$858,266 for the transplant services that were listed as \$710,634 in the FY1999 cost report. That seventeen percent reduction should be deemed to have effectively removed from the cost report most of the limited post-transplant services provided by NIT under this arrangement. This conclusion is reinforced by the statements of NIT employees, during OIG interviews, concerning the division of their activity between pre-transplant and post-transplant.

In any event, based on the OIG interviews and on NIT time allocations provided to OIG during the audit process, St. Vincent has adequately supported its reimbursement claim for at least sixty-nine percent of NIT work in FY1999, or about \$590,315, and should be entitled to no less than that portion of the \$710,634 listed on its FY99 cost report.

2. Salaries for Social Workers and Auditors

The draft Report indicates that a \$65,911 cost for social workers and auditors is "unsupported" because no allocation had been made between pre- and post-transplant work performed by these individuals. St. Vincent believes that the work performed by these individuals was largely pre-transplant in nature, as supported by the interviews conducted by OIG with the social workers. Accordingly, St. Vincent believes that the amount charged to Medicare for reimbursement of these costs was correct and reasonable.

3. Salaries for Transplant Manager and Assistant

The draft Report further indicates that \$16,878 of costs for the transplant manager and assistant are "unsupported" because no allocation had been made between pre- and post-acquisition work

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performed by these individuals. The contested amount represented only about twelve percent of the amounts paid by St. Vincent for those individuals in a period when a majority of their efforts were devoted to pre-transplant activities for Medicare-reimbursed organs (kidney and heart). Accordingly, the amount charged to Medicare for reimbursement of these costs should be deemed correct and reasonable.

4. Square Footage

The draft Report indicates that the overhead cost of \$3,107, representing 143 square feet of floor space allocated to the transplant manager and assistant and to the social workers and auditors, was "unsupported" because it failed to reflect an allocation between pre- and post-acquisition. These square footage amounts represent only seventeen percent of the total floor space occupied by the offices of these individuals. With over one-half of their efforts devoted to pre-transplant services for kidney and heart patients, these square footage amounts were correct and reasonable, and the \$3,107 cost in the FY1999 cost report was correct.

5. Medical Director Fees

The draft Report also indicates that \$110,596 in fees for one of St. Vincent's two medical directors was "unsupported" because it did not allocate that amount between pre- and post-transplant activities.

We note at the outset that St. Vincent paid a total of \$650,000 to the two medical directors of the transplant program as medical director fees in FY1999. As a practical matter, the responsibilities of the two physicians overlapped, though their titles were different. *OIG Note : was Medical Director of the Multi-Organ Transplantation Program. St. Vincent elected to allocate all of his fees to liver acquisition, for which St. Vincent was not then approved for Medicare purposes. Thus, even though he was involved in pre-transplant activities for Medicare-reimbursed organ transplants, St. Vincent recorded on its cost report none of his medical director fees of \$487,500.

ResponseOIG

*OIG Note: It is OIG policy to exclude administratively confidential information, including names of individuals, from reports.

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The second medical director, *OIG Note, held the title of Medical Director of the Kidney and Pancreas Organ Transplant Services Department. (St. Vincent performed only 14 pancreas transplant operations in FY1999.) In FY1999, St. Vincent paid \$162,500 in medical director fees to *OIG Note in FY1999, but charged only \$110,596 of that amount on the FY1999 Medicare cost report. It is this last amount that the draft Report contends is unsupported.

St. Vincent believes the amount submitted for reimbursement for *OIG Note is an entirely reasonable cost level for a medical director for the pre-transplant activities of a program that transplanted 206 kidneys, 11 hearts, 19 pancreases, and about 16 livers in FY1999. Indeed, the \$110,596 represented less than seventeen percent of the medical director fees paid by St. Vincent in FY1999 for the transplant program, while over eighty percent of the organs transplanted were Medicare-reimbursed.

As support for this allocation, St. Vincent produced to OIG timesheets of both Doctors*OIG Note. Although these timesheets contained minor errors, the documentation is fully adequate to support the claim for reimbursement of \$110,596 of *OIG Note *OIG Note medical director fees. The reasonableness of this cost report entry was reinforced by *OIG Note statements during OIG interviews that his work was heavily weighted toward kidney pre-transplant activity, as was true for the St. Vincent transplant program generally.

B. "Alternative Methodology" Substantiates St. Vincent's Cost Report

St. Vincent notes that the draft Report invites the FI to apply an "alternative methodology, such as analysis of current operations, to estimate unsupported costs" that are listed in the draft Report. As discussed above, St. Vincent believes it has provided sufficient documentation to support all of these costs. Nevertheless, St. Vincent looks forward to the opportunity to apply those alternative methodologies with the FI. St. Vincent notes that the allocation of work by the relevant employees performing pre-transplant kidney functions in current operations is comparable to the allocation reflected

ResponseOIG

*OIG Note: It is OIG policy to exclude administratively confidential information, including names of individuals, from reports.

Lori Ahlstrand

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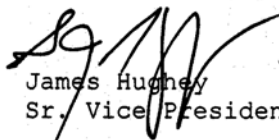
March 26, 2004

above. Consequently, any alternative methodology would further substantiate its cost report claims, as we have described.

III. Conclusion

St. Vincent notes that the deficiencies highlighted in the draft Report are not expected to have recurred in later years. St. Vincent is now under new management, and has taken significant steps (both before and after the audit) to improve its documentation and allocations of costs for the organ acquisition program. Specifically, St. Vincent notes that the erroneous accrual entries in FY1999 represent a one-time error that was caught and reversed the next year. Further, St. Vincent has corrected the assignment of employees from different departments. In addition, St. Vincent has taken steps to improve medical director recordkeeping. In short, St. Vincent has made and will continue to make efforts to enhance its compliance with the Medicare reimbursement regulations and prevent the sort of errors identified in the draft Report.

Sincerely,



James Hughey
Sr. Vice President/CFO

Cc (by telecopy): G Valdespino
D. Lugo
A. Aghajani
D. Stewart