



Office of Audit Services – Region III
Public Ledger Building, Room 316
150 South Independence Mall West
Philadelphia, PA 19106-3499

April 10, 2006

Report Number: A-03-04-00010

Robert Murray, Executive Director
State of Maryland Department of Health and Mental Hygiene
Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore, Maryland 21215

Dear Mr. Murray:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled “University of Maryland Medical Center’s Organ Acquisition Costs for State Fiscal Year 2003.” A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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If you have any questions or comments about this report, please do not hesitate to contact me, or your staff may contact Bernard Siegel, Audit Manager, at (215) 861-4484 or through e-mail at bernard.siegel@oig.hhs.gov. Please refer to report number A-03-04-00010 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen Virbitsky".

Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosures

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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**UNIVERSITY OF MARYLAND
MEDICAL CENTER'S
ORGAN ACQUISITION COSTS
FOR STATE FISCAL YEAR 2003**



**Daniel R. Levinson
Inspector General**

**APRIL 2006
A-03-04-00010**

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

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, and hospital in-patient costs associated with the donor. Allowable organ acquisition costs include tissue typing, recipient registration fees, recipient and donor evaluations, and organ purchases and transportation. The Health Services Cost Review Commission (the Commission), established by Maryland to control escalating hospital charges, uses organ acquisition costs identified by hospitals to establish the charge for the organ transplant. Service charges for organ acquisition activities include direct invoice costs, overhead costs, and a markup for uncompensated care.¹ Charges for transplanted organs are included on the same Medicare bill as charges for the organ transplant operation and post-operative inpatient hospital costs for the organ recipient.

Medicare Reimbursement of Organ Acquisition and Transplant Costs

Maryland hospitals are subject to all Medicare regulations, including cost identification and allocation. Unlike States that receive reimbursement using the standard Medicare prospective payment system, Maryland requires hospitals to submit annual budget information to the Commission using a uniform accounting system. The Commission reviews that information and establishes prospective rates for each hospital service that are charged to all payor types, including Medicare. Periodically, the Commission adjusts those rates for inflation, changes in volume of services, and pass-thru costs.

OBJECTIVE

The objective of this self-initiated audit was to determine whether the University of Maryland Medical Center (Medical Center) complied with Medicare and Maryland laws, regulations, and guidelines for allocating costs to organ acquisition and for maintaining adequate documentation to support those costs, and to estimate the effect on Medicare reimbursement for State Fiscal Year (SFY) 2003 when costs claimed were unallowed or unsupported.

SUMMARY OF FINDINGS

The Medical Center did not always comply with Medicare laws, regulations, and guidelines for reporting its costs, including organ acquisition costs, to the Commission. Specifically, the Medical Center did not have systems that could allocate organ acquisition costs separately from non-organ acquisition costs and other hospital activities. Because the Medical Center did not

¹Direct invoice costs include all allowable organ acquisition costs. Each year, the Commission established a fixed overhead reimbursement amount for organ acquisition and calculated a markup percent to cover uncompensated care costs based on cost data submitted by each hospital.

properly allocate costs totaling \$2,562,132 between organ acquisition and all other cost, higher organ reimbursement rates resulted. We estimated that the Medicare portion of those costs is approximately 40 percent, or \$1,024,852.

RECOMMENDATIONS

We recommend that the Commission ensure that the Medical Center adheres to Medicare laws, regulations, and guidelines by properly identifying organ acquisition costs in the cost data provided to the Commission.

Specifically, the Commission should:

- request that the Medical Center submit revised organ acquisition cost data to the Commission for SFY 2003 and all subsequent years;
- review and re-evaluate the organ acquisition service charges, including the overhead and uncompensated care rates, established for subsequent years using the resubmitted cost data; and
- ensure that cost data from the Medical Center's accounting records are adequately documented, and that salaries, fringe benefits, and overhead costs are properly allocated between organ acquisition and non-organ acquisition costs.

COMMENTS

In its written comments to our draft report, the Commission concurred with our findings and recommendations. It stated that the Medical Center reported revised organ acquisition costs for FY 2003 and subsequent years and the Commission has incorporated the revised data into the rate setting process. The Medical Center did not dispute our findings and stated that it had taken corrective action in accordance with our recommendations, and CMS, Region III, stated that our adjustments and recommendations are supportable within CMS manuals.

The Commission's comments are included as Appendix A, the Medical Center's comments are included as Appendix B, and CMS, Region III, comments are included as Appendix C.

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INTRODUCTION

BACKGROUND

University of Maryland Medical Center

The University of Maryland Medical Center (Medical Center) located in Baltimore, manages the University of Maryland Division of Transplantation. The Medical Center is one of six hospitals operated by the University of Maryland Medical System, a private not-for-profit hospital system. The Medical Center operates one of the nation's largest kidney and pancreas transplant programs and is a certified transplant center for heart, kidney, liver, lung, and pancreas transplants. Medicare certified those transplant programs between February 1987 and June 2003.

During State fiscal year (SFY) 2003 (July 1, 2002, through June 30, 2003), the Medical Center performed 277 organ transplants and claimed \$22,224,000 for all payor types. Of that total, 124 organ transplants were for Medicare beneficiaries. The Medical Center billed Medicare \$8,935,000 for those transplants and was reimbursed \$8,398,900 through its former fiscal intermediary – CareFirst of Maryland, Inc. (CareFirst).¹

The Maryland Health Services Cost Review Commission

Maryland hospitals are subject to all Medicare regulations, including cost identification and allocation. However, in 1971, Maryland established the Health Services Cost Review Commission (the Commission) to control escalating hospital charges. Unlike States that receive reimbursement using the standard Medicare prospective payment system, Maryland requires hospitals to submit annual budget information to the Commission using a uniform accounting system. The Commission reviews that information and establishes prospective rates for hospital services that are charged to all payor types, including Medicare. Periodically, the Commission adjusts those rates for inflation, changes in volume of services, and pass-thru costs.

Medicare Reimbursement of Organ Acquisition and Transplant Costs

Because Maryland established prospective rates for all hospital services, including organ acquisitions, the Centers for Medicare & Medicaid Services (CMS) granted Maryland a waiver that allows the fiscal intermediary to reimburse Medicare hospitals 94 percent of submitted service charges, including organ acquisition charges, based on the prospective rates established by the Commission. Service charges for organ acquisition activities include direct invoice costs, overhead costs, and a markup for uncompensated care.² The Commission establishes those service charges annually and for SFY 2003, the Medical Center charged Medicare between \$55,000 and \$94,000 for each transplanted organ, regardless of the organ transplanted.

¹Highmark Medicare Services became the fiscal intermediary for Maryland on October 1, 2005.

²Direct invoice costs include allowable organ acquisition costs. Each year, the Commission established a fixed overhead reimbursement amount for organ acquisition and calculated a markup percent to cover uncompensated care costs based on cost data submitted by each hospital.

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, and hospital in-patient costs associated with the donor. Allowable organ acquisition costs include tissue typing, recipient registration fees, recipient and donor evaluations, and organ purchases and transportation. The Commission uses those organ acquisition costs identified by hospitals to establish the charge for the organ transplant.³ Charges for transplanted organs are included on the same Medicare bill as charges for the organ transplant operation and post-operative inpatient hospital costs for the organ recipient.

The Commission defines organ acquisition costs as “direct expenses incurred in acquiring, storing, and preserving human solid organs and allogeneic stem cells.” When the Commission sets its rates, it includes the allowable organ acquisition costs associated with organ harvesting, organ transportation, organ preservation, and all hospital and physician inpatient and outpatient services provided to live donors and recipients in anticipation of a transplant.

Supporting Documentation Rules

Medicare requires that when a hospital employee performs both organ acquisition and non-organ acquisition (post-transplant or non-transplant) services, the hospital should allocate related salary to appropriate cost centers using a reasonable basis. Only that portion of salaries that relates to time spent on allowable organ acquisition activities may be included as organ acquisition costs in the cost data submitted to the Commission. CMS Program Manuals state that “cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries.” This includes all records and supporting documentation required to determine reasonable costs.

The Commission further requires that hospital accounting information “must be maintained in an ongoing recordkeeping system which allows for the data to be readily verified by qualified auditors.” Support for transactions should include such documents as charge slips, purchase orders, supplier invoices, and cancelled checks.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of this self-initiated audit was to determine whether the Medical Center complied with Medicare and Maryland laws, regulations, and guidelines for allocating costs to organ acquisition and for maintaining adequate documentation to support those costs, and to estimate the effect on Medicare reimbursement for SFY 2003 when costs claimed were unallowed or unsupported.

³Some costs improperly identified as organ acquisition costs may be reimbursable as allowable non-organ acquisition costs.

Scope

The scope of the audit included organ acquisition costs claimed by the Medical Center and allocated to and reimbursed through the Medicare program for SFY 2003. Based on our survey work at the Commission and at CareFirst, we limited our scope to those organ acquisition costs reported by the Medical Center to the Commission. We estimated the costs associated with the total number of organs transplanted for Medicare beneficiaries but we did not audit the Medicare eligibility of the beneficiaries, medical necessity, or quality of patient care.

Our review of internal controls at the Medical Center was limited to the Medical Center's procedures for claiming organ acquisition costs and allocating those costs between organ acquisition and non-organ acquisition activities. We also reviewed the "Independent Auditor's Report on the University of Maryland Medical System Corporation's Obligated Group: Combined Financial Statements and Schedules for the Years Ended June 30, 2003 and 2002," dated September 12, 2003.

We performed the audit at the University of Maryland Medical System, the Medical Center, the Commission offices in Baltimore, MD, and the CareFirst offices in Timonium, MD.

Methodology

To accomplish our objective, we:

- obtained an understanding of Medicare and Commission reimbursement principles for organ acquisition costs, including the CMS waiver for Maryland;
- interviewed officials from the University of Maryland Medical System, the Medical Center, the Commission, and CareFirst;
- reviewed organ acquisition cost data submitted by the Medical Center and annual rate orders, established by the Commission, effective for SFY 2003;
- reviewed the documentation supporting organ acquisition costs claimed by the Medical Center for SFY 2003, including accounting and payroll records and reports, and job descriptions for organ transplantation employees;
- determined the portion of organ transplants for Medicare beneficiaries and estimated the portion of questioned organ acquisition costs related to Medicare;
- obtained documentation from the Medicare fiscal intermediary; and
- discussed our recommended adjustments with the Commission, the University of Maryland Medical System, and the Medical Center.

We performed the audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

The Medical Center did not always comply with Medicare laws, regulations, and guidelines for reporting its costs, including organ acquisition costs, to the Commission. Specifically, the Medical Center did not have systems that could allocate organ acquisition costs separately from non-organ acquisition costs and other hospital activities. Because the Medical Center did not properly allocate costs totaling \$2,562,132 between organ acquisition and all other cost, higher organ reimbursement rates resulted. We estimated that the Medicare portion of those costs is approximately 40 percent, or \$1,024,852. We did not determine what portion of that amount would be allowable and reimbursable as non-organ acquisition costs. Table 1 summarizes the total questioned costs and allocates the Medicare portion by cost category.

Table 1: Questioned Costs by Category

Cost Category	Total	Medicare Share
Salaries and Fringe Benefits	\$2,435,576	\$974,230
Direct Costs	126,556	50,622
Total	\$2,562,132	\$1,024,852

THE MEDICAL CENTER DID NOT PROPERLY REPORT COSTS

Medicare Cost Information Requirements

Section 1886(c) of the Social Security Act permits Medicare to waive its traditional reimbursement method in favor of a State's cost control system provided the State follows all Medicare laws and regulations, other than those relating to the amount of reimbursement. Hospitals are required to provide the State with appropriate reports so that the State can properly monitor costs for compliance with the waiver.

CMS Program Manuals (Provider Reimbursement Manual Part I, sections 2771.B. and 2771.C. and Medicare Intermediary Manual Part III, section 3178.3) define organ acquisition as the costs associated with the organ donor and recipient before admission to a hospital for the transplant operation, and the hospital in-patient costs associated with the donor. Appendix E, 45 CFR 74, defines direct costs as "those that can be identified specifically with a particular cost center," with an identifiable benefit to the work of the program.

Provider Reimbursement Manual Part I, section 2304 states that "cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries. This includes all ledgers, books, records, and original evidences of cost (purchase requisitions, purchase orders, vouchers, requisitions for materials, inventories, labor time cards, payrolls, bases for apportioning costs, etc.), which pertain to the determination of reasonable cost, capable of being audited." According to section 2313.2.E, hospitals may choose to allocate direct salary and wage costs using ongoing time reports or periodic time studies that meet specific requirements of frequency and timeliness. Hospitals should also allocate costs incurred to supervise or support organ transplant employees on a basis consistent with the time allocation of the supervised and supported staff.

The Commission requires that all Maryland hospitals follow Medicare guidance for identifying and allocating costs and for maintaining sufficient documentation to support those cost allocations, including organ acquisition costs. Sub-section 7730 of the Commission’s Accounting and Budget Manual for Fiscal Operating Management defines organ acquisition as the direct costs associated with the organ donor and recipient before admission to a hospital for the transplant operation, and the hospital in-patient costs associated with the donor.

Improperly Allocated Salary and Fringe Benefit Costs

The Medical Center reported to the Commission \$2,435,576 in salaries and related fringe benefits improperly allocated to organ acquisition costs. This amount included \$2,084,070 for which the Medical Center provided insufficient documentation and \$351,506 in salaries and fringe benefits for services not related to organ acquisition and therefore unallowable in that cost category. We estimated that the Medicare portion of those costs is approximately \$974,230 (see Table 2).

Table 2: Salaries and Fringe Benefit Costs

Salary Cost Category	Total	Medicare Share
Related to Organ and Non-Organ Acquisition	\$2,084,070	\$833,628
Not Related to Organ Acquisition	351,506	140,602
Total	\$2,435,576	\$974,230

We recognize that allowable costs for organ acquisition activities may account for some portion of the \$2,084,070. Based on Federal regulations and the Provider Reimbursement Manual, however, the Medical Center may report as organ acquisition costs for Medicare reimbursement only those costs that are clearly identified in the supporting documentation as relating to organ acquisition services.

Salaries and Fringe Benefits Related to Organ and Non-Organ Acquisition

The Medical Center organ acquisition cost data included salaries and fringe benefits for 46 transplant department employees who performed both organ acquisition and non-organ acquisition activities. Only the portion of salaries and wages that relates to time spent on allowable organ acquisition activities may be claimed and reimbursed as organ acquisition costs. Section 2313.2.E of the Provider Reimbursement Manual allows hospitals to allocate these costs by using methods such as ongoing time reports and periodic time studies which meet specific criteria for frequency and timeliness.

The Medical Center should have allocated \$2,084,070 in salary and fringe benefit costs between organ acquisition and non-organ acquisition activities using an allowable allocation method. If the hospital properly documented its costs, some of those costs would be allocated to organ acquisition activities. However, the Medical Center did not have adequate procedures or sufficient accounting records to allocate employee salaries to either organ acquisition or non-organ acquisition activities.

Salaries and Fringe Benefits Not Related to Organ Acquisition

The Medical Center cost data included \$351,506 in salary and fringe benefits that did not meet the Medicare definition of organ acquisition costs. Provider Reimbursement Manual Part I, sections 2771.B. and 2771.C. and Medicare Intermediary Manual Part III, section 3178.3 define organ acquisition costs as those costs associated with the organ donor and recipient before admission to a hospital for the transplant operation, and the hospital in-patients costs associated with the donor. The Medical Center incorrectly interpreted those guidelines to include all costs for services provided to the organ donor and the recipient up until the recipient's discharge from the hospital and improperly allocated salaries and fringe benefits as organ acquisition costs:

- \$262,046 for 16 administrative and clerical personnel and
- \$89,460 for 2 post-organ acquisition activity personnel.

None of those salary and fringe benefits costs was associated with organ acquisition activities as defined by Medicare.

Other Unsupported or Improperly Allocated Costs

The Medical Center also reported to the Commission other costs totaling \$126,556 that were either unsupported or not properly allocated to organ acquisition costs. We estimated that the Medicare portion of those costs is approximately \$50,622 (see Table 3).

Table 3: Unsupported or Improperly Allocated Other Costs

Cost Category	Total	Medicare Share
Unsupported	\$70,700	\$28,280
Not Related to Organ Acquisition	55,856	22,342
Total	\$126,556	\$50,622

The Medical Center organ acquisition cost data included \$70,700 in direct costs for allocated data processing charges that were not properly documented or directly identifiable to organ acquisition costs. The Provider Reimbursement Manual Part I, section 2304 states that “cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries.” This includes all records and supporting documentation required to determine reasonable costs. Appendix E, 45 CFR 74, defines direct costs as the costs that can be identified specifically with a particular costs center with a direct benefit to the work of the program, and indirect (overhead) costs as the costs that have been incurred for common or joint objectives. Without the required documentation, it was impossible to determine if this amount met the criteria for direct costs.

The Medical Center also improperly allocated to organ acquisition costs \$55,856 for items and activities not directly related to organ acquisition, including data processing charges, basic office supplies, facsimile machines, pagers, memberships for directors in professional associations,

staff recognition activities, office space repairs, and office equipment repair. These costs, associated with administrative, clerical and non-organ acquisition activities, included direct costs and indirect overhead costs. According to the definition of direct costs in CMS Program Manuals and the Code of Federal Regulations, those costs included undocumented charges, and equipment and supply purchases for the transplant division. This amount also included indirect overhead cost items. Consequently, those costs were not allowable organ acquisition costs for Medicare reimbursement.

Net Effect of Improperly Allocated and Unsupported Costs

Under the Maryland cost control system, hospitals charge for services using rates established by the Commission. Hospitals received reimbursement for services based on 94 percent of those submitted charges. The annual total allowable revenue for organ acquisitions (approved revenue for compliance) consists of the following:

- an invoice cost rate based on allowable organ acquisition costs as defined by Medicare,
- a markup percentage of the invoice cost rate for uncompensated care, and
- a fixed overhead amount determined by the Commission.

Because it incorrectly included unallowable and unsupported costs totaling \$2,562,132 in salaries, fringe benefits, and other direct costs in its cost data submitted to the Commission, the Medical Center received revenues in excess of the “approved revenue for compliance” amount as determined by the audit. Table 4 shows the excess payment amount for the Medical Center.

Table 4: Calculation of Overcharged/(Undercharged) Revenue

	Reported by Medical Center	Determined by Audit	Difference
Invoice Cost Rate	\$14,618,900	\$12,056,768	\$2,562,132
+ Markup (15.27% of Invoice Cost Rate)	2,232,306	1,841,068	391,238
+ Overhead	4,780,206	4,780,206	0
Approved Revenue for Compliance	21,631,412	18,678,042	2,953,370
- Revenue Received from Billed Charges	20,641,251	20,641,251	0
Over/(Under) Received Revenue	(\$990,161)	\$1,963,209	\$2,953,370

The Commission establishes organ acquisition service charges using historical financial information, adjusted each quarter in accordance with actual workload. The difference between the approved revenue for compliance and the actual revenue received from billed charges is the over- or under-charged revenue. The Commission expresses that difference as a percentage of the fixed overhead amount to measure how accurately a hospital estimated its costs and revenues.

Because the Medical Center did not have adequate controls to ensure the accuracy of cost information submitted to the Commission, organ acquisition costs included unallowable and unsupported costs that directly affected the approved revenue for compliance and the revenue received from billed charges. We estimated that the Medical Center received \$1,963,209 in revenues that exceeded the approved revenue for compliance amount, or approximately 41.1 percent of the fixed overhead amount.

Potential Penalties

To ensure that hospitals estimate costs accurately, the Commission may impose a penalty when the difference between the revenue from billed charges and the approved revenue for compliance exceeds 30 percent of the established overhead.

If the difference falls within +/- 30 percent of the established overhead, organ acquisition service charges are prospectively adjusted (up or down) during the year. If the difference exceeds 30 percent of the established overhead, the hospital pays back the amount over the 30 percent plus a penalty charge established by the Commission. The excess revenue, the penalty, and any applicable interest amounts are removed from future revenues by prospectively adjusting the organ acquisition service charge during the year.

If most or all of the unallocated salaries and fringe benefits identified above are found to represent non-organ acquisition costs, the Medical Center received revenues for billed charges that exceeded 30 percent of the fixed overhead. The Commission may then require a refund of excess revenues and the payment of a penalty.

IMPACT ON MEDICARE REIMBURSEMENTS

Because Maryland operates under a CMS waiver, Medicare reimburses claims, including organ acquisitions, at 94 percent of submitted charges. The Commission develops those charges using cost data submitted by the hospitals. We discussed our findings with the Commission to determine how the unallocated and unsupported costs identified would affect the service charge for organ acquisitions. The Commission agreed with our findings but could not determine the specific impact on the total Medicare reimbursements to the Medical Center.

Only two hospitals in Maryland are certified to perform organ transplants. The Commission stated that any improperly identified organ acquisition costs would probably be allowable as non-organ acquisition costs. Consequently, organ acquisition service charges would decrease but non-organ acquisition service charges would probably increase resulting in little or no effect in the total reimbursement to the Medical Center. The Commission also reiterated CMS policy that hospital "cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries." Commission personnel indicated that they would review organ acquisition costs submitted by the two certified transplant hospitals to determine whether non-organ acquisition salaries, fringe benefits, and other allocated costs were included.

RECOMMENDATIONS

We recommend that the Commission ensure that the Medical Center adheres to Medicare laws, regulations, and guidelines by properly identifying organ acquisition costs in the cost data provided to the Commission.

Specifically, the Commission should:

- request that the Medical Center submit revised organ acquisition cost data to the Commission for SFY 2003 and all subsequent years;
- review and re-evaluate the organ acquisition service charges, including the overhead and uncompensated care rates, established for subsequent years using the resubmitted cost data; and
- ensure that cost data from the Medical Center's accounting records are adequately documented, and that salaries, fringe benefits, and overhead costs are properly allocated between organ acquisition and non-organ acquisition costs.

COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In its written comments to our draft report, the Commission concurred with our findings and recommendations. It stated that the Medical Center reported revised organ acquisition costs for FY 2003 and subsequent years and the Commission has incorporated the revised data into the rate setting process. The Medical Center did not dispute our findings and stated that it had taken corrective action in accordance with our recommendations, and CMS, Region III, stated that our adjustments and recommendations are supportable within CMS manuals.

The Commission's comments are included as Appendix A, the Medical Center's comments are included as Appendix B, and CMS, Region III, comments are included as Appendix C.

APPENDIXES

STATE OF MARYLAND
DEPARTMENT OF HEALTH AND MENTAL HYGIENE

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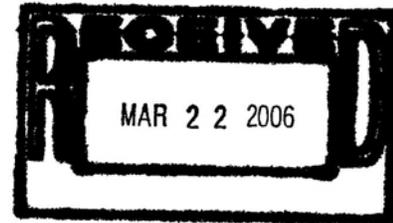
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March 15, 2006

Mr. Stephen Virbitsky
Regional Inspector General for Audit Services
Office of Audit Services – Region III
Public Ledger Building, Room 316
150 South Independence Mall West
Philadelphia, PA 19106-3499



RE: Report #: A-03-04-00010

Dear Mr. Virbitsky;

I am writing to respond to your recommendations regarding University of Maryland Medical Center's Organ Acquisition Costs for State Fiscal Year 2003.

Your report recommends that the Commission ensure that the Medical Center adheres to Medicare laws, regulation, and guidelines by properly identifying organ acquisition costs in the cost data provided to the Commission. Specifically you ask us to:

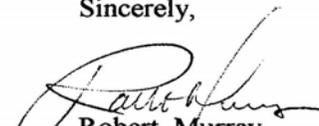
- Request that the Medical Center submit revised acquisition cost data to the Commission for SFY 2003 and all subsequent years;
- Review and re-evaluation the organ acquisition service charges, including the overhead and uncompensated care rates, established for subsequent years using the resubmitted costs data; and
- Ensure that cost data from the Medical Center's accounting records are adequately documented, and that salaries, fringe benefits, and overhead costs are properly allocated between organ acquisition and non-organ acquisition costs.

Mr. Stephen Virbitsky
March 15, 2006
Page 2

The Commission has been aware of this issue and has worked with the Medical Center to address the findings of your report. The Medical Center has reported revised organ acquisition cost data to the Commission pursuant to your recommendations for Fiscal Year 2003 and subsequent years. The Commission subsequently evaluated those data and has incorporated the revised data into the rate setting process. We believe that the Medical Center has reconciled the costs and are charging in accordance with state and federal laws. The Commission will continue to work with the Medical Center to ensure that the organ acquisition costs are properly allocated and documented.

Thank you for bringing these issues to us. I trust that this letter responds to the issues that you have identified as a result of your review. If you require further information, please do not hesitate to contact me.

Sincerely,

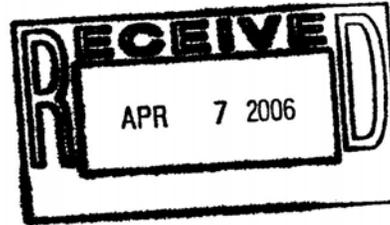


Robert Murray
Executive Director

cc: Ms. Alicia Cunningham, University of Maryland Medical System



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April 5, 2006

Mr. Stephen Virbitsky
Regional Inspector General for Audit Services
Office of Audit Services – Region III
Public Ledger Building, Room 316
150 South Independence Mall West
Philadelphia, PA 19106-3499

Dear Mr. Virbitsky:

University of Maryland Medical Center (UMMC) is writing to respond to the Office of Inspector General (OIG) Draft Report (the “Report”) for the ‘University of Maryland Medical Center’s Organ Acquisition Costs for State Fiscal Year 2003.’

UMMC does not dispute the OIG Report findings as it relates to recognizing organ acquisition cost according to Medicare regulations, and to ensure compliance with Medicare rules. UMMC has implemented procedural changes for reporting these costs to the Health Services Cost Review Commission (HSCRC). UMMC contends, however, that we have followed the HSCRC mandated reporting guidelines for organ acquisition cost, and that our total reimbursement for transplant services was not in excess of that allowed.

UMMC acted quickly on the feedback and information provided by the OIG Review Team and implemented new procedures and guidelines for reporting organ acquisition costs effective for the twelve month reporting period starting July 1, 2004. Additionally, UMMC has worked with the HSCRC to provide revised data for rate setting purposes. Below is a summary of the actions UMMC has taken in response to the OIG findings.

Summary of OIG Findings

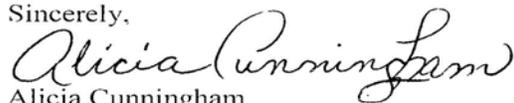
The OIG states in the Report that UMMC did not properly report organ acquisition costs to the HSCRC as defined by Medicare laws, regulations and guidelines. The Report indicates the Medical Center did not have systems that could allocate organ acquisition costs separately from non-organ acquisition costs. The Report identified non-allowable organ acquisition costs UMMC reported to the HSCRC in the following categories: 1) post transplant staff salary and fringe benefit expense; 2) other administrative staff salary and fringe benefit expense; and 3) items not directly related to organ acquisition including, data processing costs, basic office supplies, pagers, etc.

UMMC Actions Implemented

1. Using Medicare guidelines we have established a clear and accurate definition of allowable organ acquisition costs and are using this definition to correctly report allowable organ acquisition costs to the HSCRC.
2. As suggested in section 2313.2.E of the Provider Reimbursement Manual (PRM), we implemented a periodic time study to identify direct salary and wage costs associated with post transplant staff that should not be reported in the organ acquisition cost center. The following Medicare guidelines were used:
 - 1). At least one full work week per month of the cost reporting period is used.
 - 2). Weeks selected are equally distributed among the months in the cost reporting period.
 - 3). No two consecutive months may use the same week for the study.
 - 4). Time studies must be contemporaneous with the costs to be allocated. Thus, a time study conducted in the current cost reporting year may not be used to allocate the costs of prior or subsequent cost reporting years.
3. A new general ledger cost center was established to allocate unallowable salary costs and a process was implemented to reclassify the unallowable portion of salary expense from the surgical transplant cost center to the new post-transplant cost center through a monthly journal entry.
4. A system was established within accounts payable to identify allowable and non-allowable organ acquisition cost on vendor invoices in order to expense cost to the appropriate organ acquisition cost center.
5. Adequate documentation and records supporting general ledger costs for organ acquisition will be maintained in Financial Reporting. The support is maintained as journal entries, canceled checks and vendor invoices and can be accessed easily on-site and/or from an off-site storage company.
6. Revised organ acquisition cost data was submitted to the HSCRC.

UMMC feels these actions in addition to our coordination with the HSCRC, meet all recommendations provided in the OIG Draft Report. Thank you for the opportunity to comment on the report.

Sincerely,



Alicia Cunningham
Senior Director of Reimbursement & Clinical Economics

Cc Robert Murray, Health Services Cost Review Commission
Rodney Spangler, Health Services Cost Review Commission
Adam Weber, Highmark Medicare Services
Steve Simms, CareFirst of Maryland, Inc.



Memorandum

Centers for Medicare & Medicaid Services

Region III

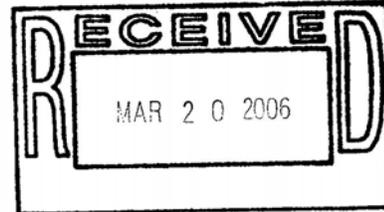
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Philadelphia, PA 19106-3499

Date: MAR 17 2006

To: Regional Inspector General for Audit Services
Philadelphia Regional Office

From: Regional Administrator

Subject: Draft Audit Report – Review of Organ Acquisition Costs at the University of Maryland Medical Center



Thank you for the opportunity to provide comments to your recent audit of the 2003 organ acquisition costs at the University of Maryland (UM). CMS and Highmark Medicare Services (HMS) find that the basis for your adjustments and recommendations are supportable within both the Provider Reimbursement Manual and the Medicare Intermediary Manual. From the information furnished within your audit report, we could not comment on the accuracy of the 40% Medicare portion that was calculated. Claimed provider Medicare organ acquisition costs should only include salaries, fringes and other costs that relate specifically to organ acquisition activities. These costs should always be fully supportable with verifiable allocation methods or specific audit source documentation. We will ask HMS to work with the UM and the Maryland Health Services Cost Review Commission to ensure that organ acquisition costs are properly accumulated and fully supportable. These costs should subsequently lead to appropriate UM charges within both the organ acquisition activity and other service areas.

If you have any questions regarding these comments, please contact Dennis O'Hara at 215-861-4222.

Roseanne Egan for Nancy B. O'Connor
Nancy B. O'Connor

CC: Adam Weber, HMS
James Palovich, HMS

ACKNOWLEDGMENTS

This report was prepared under the direction of Stephen Virbitsky, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

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For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.