



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

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

MAR 25 2005

Report Number: A-10-03-00010

Mr. Ron Knorr
Audit Manager
Noridian Administrative Services – WA/AK
P.O. Box 6720
Fargo, North Dakota 58108

Dear Mr. Knorr:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Audit of Virginia Mason Medical Center's Organ Acquisition Costs Claimed for the Period January 1, 1997, Through December 31, 1999." 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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Please refer to report number A-10-03-00010 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Mr. R. J. Ruff, Jr.
Regional Administrator, Region X
Centers for Medicare & Medicaid Services
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF VIRGINIA MASON
MEDICAL CENTER'S
ORGAN ACQUISITION COSTS
CLAIMED FOR THE
PERIOD JANUARY 1, 1997,
THROUGH DECEMBER 31, 1999**



**MARCH 2005
A-10-03-00010**

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

Virginia Mason Medical Center (Virginia Mason), a 336-bed acute care hospital in Seattle, WA, is a private, nonprofit organization offering a system of integrated health services. On its Medicare cost reports for calendar years 1997, 1998, and 1999, Virginia Mason claimed \$8,958,625 for organ acquisition costs associated with kidney and pancreas transplants. Medicare reimburses certified transplant programs for its proportionate share of costs associated with the acquisition of organs for transplant to Medicare beneficiaries. Medicare's share of the \$8,958,625 claimed was \$7,077,836.

OBJECTIVE

The objective of this self-initiated audit was to determine whether organ acquisition costs claimed on the 1997, 1998, and 1999 Medicare cost reports by Virginia Mason for its kidney and pancreas transplant programs were allowable. Specifically, did Virginia Mason:

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

SUMMARY OF FINDINGS

Virginia Mason did not comply with Medicare law, regulations, and guidelines for claiming organ acquisition costs in the preparation of its Medicare Part A cost reports and received excess Medicare reimbursement for organ acquisition activities. Specifically, Virginia Mason 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					
Cost Category	Claimed	Allowable	Unallowable	Unsupported	Unaudited¹
Salaries	\$690,537	\$0	\$62,596	\$627,941	\$0
Other Costs ²	8,086,426	3,250,479	206,252	530,239	4,099,456
Floor Space	181,662	0	0	181,662	0
Total	\$8,958,625	\$3,250,479	\$268,848	\$1,339,842	\$4,099,456

¹ We limited the scope of our audit based on our analysis of high-risk cost categories and our survey work at Virginia Mason. We do not express an opinion on the \$4,099,456 of costs 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, other direct costs of the transplant program, and overhead. These other costs also included unallowable costs that resulted from accounting errors.

The summary of audit adjustments and Medicare overpayments by calendar year is presented in Appendix A.

We limited our review of organ acquisition costs to \$4,859,169 of the \$8,958,625 claimed by Virginia Mason on its 1997, 1998, and 1999 Medicare cost reports. We found that Virginia Mason claimed \$268,848 in unallowable costs and \$1,339,842 in unsupported costs.

The unallowable costs of \$268,848 were associated with activities that did not comply with Medicare's definition of organ acquisition or resulted from accounting errors. Virginia Mason officials indicated that, for the most part, the unallowable costs were claimed in error. Based on the unallowable costs of \$268,848, Medicare overpaid Virginia Mason an estimated \$268,832.³

The unsupported costs of \$1,339,842 did not comply with Medicare's documentation requirements for reimbursement. We recognize that some portion of the \$1,339,842 may have related to organ acquisition activities and would have been allowable if properly documented. However, based on Federal regulations and the Centers for Medicare & Medicaid Services (CMS) Provider Reimbursement Manual, the unsupported costs were considered unallowable for Medicare reimbursement. Although Virginia Mason was unable to provide necessary documentation to support \$1,339,842 of costs it claimed for 1997, 1998, and 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 Virginia Mason cannot provide alternative support for the \$1,339,842, the Medicare intermediary should recover the related Medicare overpayment, which was estimated to be \$1,310,950.³

RECOMMENDATIONS

We recommend that the Medicare intermediary:

- recover the Medicare overpayment of \$268,832 for the unallowable costs claimed by Virginia Mason as organ acquisition;
- work with Virginia Mason to determine, if possible, what portion of the \$1,339,842 of unsupported costs and related Medicare payment of \$1,310,950 is associated with allowable organ acquisition activities, and recover that portion of the \$1,310,950 that Virginia Mason is unable to support;
- review organ acquisition costs claimed by Virginia Mason on its Medicare cost reports for calendar year 2000 and any subsequent years for issues similar to those identified in the 1997, 1998, and 1999 cost reports, and recover any Medicare overpayments;
- monitor future Medicare cost report claims for organ acquisition costs from Virginia Mason to ensure compliance with Medicare requirements; and

³ The Medicare intermediary determined the estimated Medicare overpayment amounts associated with our findings by using proprietary software to adjust Virginia Mason's Medicare cost reports.

- instruct Virginia Mason 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 COMMENTS

In its written comments on the draft report, Noridian Administrative Services, LLC (Noridian), the Medicare intermediary, agreed with the findings and recommendations. The full text of Noridian's comments is included as an appendix to this report.

VIRGINIA MASON COMMENTS

In its written comments on the draft report, Virginia Mason agreed with the findings and recommendations and stated that it has taken steps to address the recommendations. Virginia Mason also stated that it is working with the Medicare intermediary to make appropriate adjustments for unallowable costs and to determine what portion of the unsupported costs were associated with allowable organ acquisition activities. Finally, Virginia Mason stated that it is working with the Medicare intermediary to review cost reports for similar issues for years subsequent to the year ended December 31, 1999, and to improve its accounting controls over claiming organ acquisition costs. The full text of Virginia Mason's comments is included as an appendix to this report.

OFFICE OF INSPECTOR GENERAL RESPONSE

We appreciate the Medicare intermediary's and Virginia Mason's efforts to work together to address the deficiencies detailed in our report and improve Virginia Mason's accounting for organ acquisition costs.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Virginia Mason Medical Center.....	1
Medicare Reimbursement of Organ Acquisition and Transplant Costs	1
Medicare Allowable Organ Acquisition Costs	1
Medicare Supporting Documentation Rules	2
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective	2
Scope.....	2
Methodology	3
FINDINGS AND RECOMMENDATIONS	4
UNALLOWABLE COSTS	4
Salaries.....	5
Other Costs.....	6
UNSUPPORTED COSTS	6
Salaries.....	7
Other Costs.....	7
Floor Space	8
SUMMARY OF ADJUSTMENTS AND MEDICARE OVERPAYMENTS	9
RECOMMENDATIONS	9
COMMENTS ON DRAFT REPORT AND OFFICE OF INSPECTOR GENERAL RESPONSE	9
Medicare Intermediary Comments	10
Virginia Mason Comments	10
Office of Inspector General Response	10
APPENDIXES	
A – AUDIT RESULTS BY COST CATEGORY AND CALENDAR YEAR	
B – MEDICARE INTERMEDIARY COMMENTS	
C – VIRGINIA MASON COMMENTS	

INTRODUCTION

BACKGROUND

Virginia Mason Medical Center

Virginia Mason, a 336-bed acute care hospital in Seattle, WA, is a private, nonprofit organization offering a system of integrated health services.

Our audit covered calendar years 1997, 1998, and 1999. During this period, Virginia Mason operated kidney and pancreas transplant programs. Medicare certified the kidney transplant program on August 10, 1980, and approved the pancreas transplant program on July 1, 1999.

Virginia Mason claimed \$8,958,625 for organ acquisition costs associated with its kidney and pancreas transplant programs during 1997, 1998, and 1999. Of this amount, Medicare's share was \$7,077,836.

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.

Organ acquisition costs are reimbursed 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 each hospital's fiscal year. At the end of the fiscal year, each hospital files a cost report and its interim payments are reconciled with allowable costs, which are defined in Medicare regulations and policy.

The Medicare program also reimburses transplant centers for transplant surgery, inpatient, and post-transplant costs for the organ recipients, but through different payment systems. Medicare Part A pays for the cost of transplant surgeries and certain followup care through diagnosis-related group payments to the hospital. These payments are set at a predetermined rate per discharge for groups of patients that demonstrate similar resource consumption and length-of-stay patterns. Medicare Part B pays for 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 prorated for part-time and more than full-time physicians. Amounts in excess of the reasonable compensation equivalent are considered unallowable.

Medicare 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 1997, 1998, and 1999 Medicare cost reports by Virginia Mason for its kidney and pancreas transplant programs were allowable. Specifically, did Virginia Mason:

- 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 pancreas organ acquisition costs claimed by Virginia Mason on its 1997, 1998, and 1999 Medicare cost reports. Based on our analysis of the Medicare intermediary's audit results and our survey work at Virginia Mason, we identified higher risk cost categories and limited our scope to an audit of \$4,859,169 claimed for certain salaries, contract costs, space costs, and other direct costs. We did not review the remaining \$4,099,456 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 reports to determine certain costs. We did not audit the costs included in the indirect cost pools, but did review the reasonableness of the statistics used to allocate the indirect costs.

We limited our review of internal controls at Virginia Mason to Virginia Mason's procedures for claiming costs as organ acquisition and allocating costs between pre-transplant and other activities. Our fieldwork included visits to Virginia Mason in Seattle.

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 Virginia Mason for calendar years 1997, 1998, and 1999;
- reviewed accounting records and reports;
- reviewed payroll records, which included time-and-effort reporting;
- interviewed Virginia Mason employees and managers;
- toured the transplant center;
- obtained documentation from the Medicare intermediary;
- reviewed cost report adjustments previously made by the Medicare intermediary; and
- discussed our recommended adjustments with the Medicare intermediary.

The Medicare intermediary determined the estimated Medicare overpayment amounts associated with our findings using proprietary software to adjust Virginia Mason's Medicare cost reports. The Medicare intermediary determined the impact on Medicare reimbursement for each adjustment by running an Audit Adjustment Report.

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

FINDINGS AND RECOMMENDATIONS

Virginia Mason did not comply with Medicare law, regulations, and guidelines for claiming organ acquisition costs in the preparation of its Medicare Part A cost reports and received excess Medicare reimbursement for organ acquisition activities. Specifically, Virginia Mason 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		
Cost Category	Unallowable	Unsupported
Salaries	\$62,596	\$627,941
Other Costs	206,252	530,239
Floor Space	0	181,662
Total	\$268,848	\$1,339,842

The unallowable costs of \$268,848 were associated with activities that did not comply with Medicare’s definition of organ acquisition or resulted from accounting errors. Virginia Mason officials indicated that, for the most part, the unallowable costs were claimed in error. Based on the unallowable costs of \$268,848, Medicare overpaid Virginia Mason an estimated \$268,832.

The unsupported costs of \$1,339,842 did not comply with Medicare’s documentation requirements for reimbursement. Virginia Mason agreed that not all of the unsupported costs complied with Medicare’s documentation requirements. We recognize that some portion of the \$1,339,842 may have related to organ acquisition activities and would have been allowable if properly documented. However, based on Federal regulations and the CMS Provider Reimbursement Manual, the unsupported costs were considered unallowable for Medicare reimbursement. Although Virginia Mason was unable to provide necessary documentation to support \$1,339,842 of costs it claimed for 1997, 1998, and 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 Virginia Mason cannot provide alternative support for the \$1,339,842, the Medicare intermediary should recover the related Medicare overpayment, which was estimated to be \$1,310,950.

UNALLOWABLE COSTS

Virginia Mason’s cost reports included \$268,848 of unallowable costs that were associated with activities that did not comply with Medicare’s definition of organ acquisition as contained in the CMS Provider Reimbursement Manual, part 1, §§ 2771.B and 2771.C, and the Intermediary Manual, part 3, §§ 3178.3 through 3178.16. 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 \$268,832. 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	\$62,596	\$62,175
Other Costs	206,252	206,657
Total	\$268,848	\$268,832

Salaries

Virginia Mason claimed \$62,596 in unallowable salary costs for:

- transplant employees,
- transplant managers, and
- medical directors.

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 nontransplant activities, the related salary should be allocated to the appropriate cost centers using a reasonable basis.

The claim for \$62,596 in unallowable costs resulted in an estimated Medicare overpayment of \$62,175. The table below summarizes the unallowable salary costs for transplant employees, transplant managers, and medical directors:

UNALLOWABLE SALARY COSTS		
Cost Category	Unallowable Costs	Estimated Medicare Overpayment
Transplant Employees	\$61,707	\$61,010
Transplant Managers	222	273
Medical Directors	667	892
Total	\$62,596	\$62,175

Of the \$61,707 that was unallowable for transplant employees, \$57,942 related to a social services employee whose salary cost was claimed twice. The remaining costs of \$3,765 for transplant employees, \$222 for transplant managers, and \$667 for medical directors were

unallowable because Virginia Mason did not properly distribute salary costs between the kidney acquisition and pancreas acquisition cost centers.

Other Costs

Virginia Mason claimed \$206,252 for pancreas costs that were not allowable for Medicare reimbursement, resulting in an estimated Medicare overpayment of \$206,657.

The costs that were claimed were not reimbursable by Medicare as organ acquisition because Medicare did not reimburse the costs of pancreas transplants until July 1, 1999. Virginia Mason incurred these pancreas costs before July 1, 1999.

UNSUPPORTED COSTS

Virginia Mason’s cost reports included \$1,339,842 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.

We recognize that some portion of the \$1,339,842 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 CMS Provider Reimbursement Manual, part 1, § 2304, these unsupported costs are considered unallowable for Medicare reimbursement. Although Virginia Mason was unable to provide necessary supporting documentation to support \$1,339,842 of costs it claimed for 1997, 1998, and 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 Virginia Mason does not provide alternative support for the \$1,339,842, the Medicare intermediary should recover the related Medicare overpayment that was estimated to be \$1,310,950. 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	\$627,941	\$712,533
Other Costs	530,239	442,090
Floor Space	181,662	156,327
Total	\$1,339,842	\$1,310,950

Salaries

Virginia Mason claimed \$627,941 in unsupported salary costs for:

- transplant employees,
- transplant managers, and
- medical directors.

If Virginia Mason does not provide alternative support for the unsupported salary costs, the Medicare intermediary should recover the estimated overpayment of \$712,533. The table below summarizes the unsupported salary costs for transplant employees, transplant managers, and medical directors:

UNSUPPORTED SALARY COSTS		
Cost Category	Unsupported Costs	Estimated Medicare Overpayment
Transplant Employees	\$502,115	\$560,012
Transplant Managers	34,726	38,599
Medical Directors	91,100	113,922
Total	\$627,941	\$712,533

Virginia Mason did not provide documentation sufficient in detail to support salary costs of \$627,941 claimed for its kidney and pancreas transplant programs. These salary costs were unsupported because the time-and-effort reporting and accounting systems were not set up to differentiate between pre-transplant and post-transplant activities. During the audit exit conference, Virginia Mason advised us that it was revising its time-and-effort and accounting systems to properly identify pre-transplant and post-transplant activities.

Each transplant employee and medical director that we interviewed stated that they provided both pre-transplant and post-transplant services during the audit period. Virginia Mason officials attempted to estimate the share of each individual's time that should have been claimed as organ acquisition. However, information provided by Virginia Mason to retroactively determine what portion of the salary costs claimed might have related to organ acquisition could not be used as support for these costs because there was no documentary evidence to corroborate the information and, in some cases, the information provided was conflicting.

Other Costs

Virginia Mason claimed \$530,239 for other costs that were unsupported because the costs were not properly allocated between pre-transplant and post-transplant activities. These costs included \$352,865 for the other direct costs of the kidney and pancreas transplant programs and \$177,374 for costs from other departments for social services and nursing administration.

The documentation provided by Virginia Mason did not contain sufficient detail to support the amounts claimed. If Virginia Mason does not provide alternative support for these costs, the Medicare intermediary should recover the estimated Medicare overpayment of \$442,090. The table below summarizes the unsupported other costs:

UNSUPPORTED OTHER COSTS		
Cost Category	Unsupported Costs	Estimated Medicare Overpayment
Other Direct Costs	\$352,865	\$300,076
Other Department Costs	177,374	142,014
Total	\$530,239	\$442,090

Virginia Mason claimed \$352,865 for all the other direct costs of the kidney and pancreas transplant programs, even though the transplant programs shared operations with other cost centers. Virginia Mason officials agreed that the other cost centers contained costs related to both pre-transplant and post-transplant activities.

The other department costs of \$177,374 for social services and nursing administration were based on salary costs that were not properly supported. Therefore, the other department costs that were allocated to organ acquisition based on salary costs were unsupported.

Floor Space

Virginia Mason claimed \$181,662 in organ acquisition costs for 3,474 square feet of floor space. The costs were unsupported because they were not properly allocated between pre-transplant and post-transplant activities or between the kidney and pancreas acquisition cost centers. If Virginia Mason does not provide alternative support for these costs, the Medicare intermediary should recover the estimated Medicare overpayment of \$156,327. The table below summarizes the unsupported square feet claimed by Virginia Mason, and the associated unsupported costs and estimated Medicare overpayment:

UNSUPPORTED FLOOR SPACE			
Calendar Year	Square Feet Claimed	Unsupported Costs	Estimated Medicare Overpayment
1997	1,033	\$46,010	\$40,982
1998	1,102	61,158	54,836
1999	1,339	74,494	60,509
Total	3,474	\$181,662	\$156,327

The amount of floor space that is occupied for transplant activities is the basis used in the Medicare cost reports for allocating certain overhead costs. Overhead costs that must be

allocated using square footage of floor space included buildings and fixtures, operation of plant, and housekeeping. If floor space that is used for both pre-transplant and post-transplant activities, and for different transplant programs, is not properly allocated among the activities and programs, associated overhead costs will not be appropriately charged to those activities and programs.

SUMMARY OF ADJUSTMENTS AND MEDICARE OVERPAYMENTS

The following table summarizes the unallowable and unsupported costs:

SUMMARY OF ADJUSTMENTS AND MEDICARE OVERPAYMENTS				
<u>Cost Category</u>	<u>Unallowable</u>		<u>Unsupported</u>	
	<u>Costs</u>	<u>Estimated Medicare Overpayment</u>	<u>Costs</u>	<u>Estimated Medicare Overpayment</u>
Salaries	\$62,596	\$62,175	\$627,941	\$712,533
Other Costs	206,252	206,657	530,239	442,090
Floor Space	0	0	181,662	156,327
Total	\$268,848	\$268,832	\$1,339,842	\$1,310,950

Note: Virginia Mason claimed unsupported costs of \$1,339,842 that did not comply with Medicare's documentation requirements. Some portion of this amount may have related to organ acquisition activities that would have been allowable if properly documented. If Virginia Mason cannot provide alternative support for these costs, the Medicare intermediary should recover the related Medicare overpayment of \$1,310,950.

The summary of audit adjustments and estimated Medicare overpayments by calendar year is presented in Appendix A.

RECOMMENDATIONS

We recommend that the Medicare intermediary:

- recover the Medicare overpayment of \$268,832 for the unallowable costs claimed by Virginia Mason as organ acquisition;
- work with Virginia Mason to determine, if possible, what portion of the \$1,339,842 of unsupported costs and related Medicare payment of \$1,310,950 is associated with allowable organ acquisition activities, and recover that portion of the \$1,310,950 that Virginia Mason is unable to support;
- review organ acquisition costs claimed by Virginia Mason on its Medicare cost reports for calendar year 2000 and any subsequent years for issues similar to those identified in the 1997, 1998, and 1999 cost reports, and recover any Medicare overpayments;
- monitor future Medicare cost report claims for organ acquisition costs from Virginia Mason to ensure compliance with Medicare requirements; and

- instruct Virginia Mason 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.

COMMENTS ON DRAFT REPORT AND OFFICE OF INSPECTOR GENERAL RESPONSE

We obtained written comments on our draft report from Noridian, which was the Medicare intermediary, and from Virginia Mason.

Medicare Intermediary Comments

In its written comments on the draft report, Noridian agreed with the findings and recommendations. Noridian stated that it would reopen the cost reports for the 5 years ended December 31, 2001, to recover that portion of the organ acquisition costs determined to be unallowable or unsupported. Noridian also stated that it would review the current fiscal year (2002) and monitor subsequent fiscal years (2003 and 2004) for organ acquisition activities. The full text of Noridian's comments is included as Appendix B.

Virginia Mason Comments

In its written comments on the draft report, Virginia Mason agreed with the findings and recommendations and stated that it has taken steps to address the recommendations. Virginia Mason also stated that it is working with the Medicare intermediary to make appropriate adjustments for unallowable costs and to determine what portion of the unsupported costs were associated with allowable organ acquisition activities. Finally, Virginia Mason stated that it is working with the Medicare intermediary to review cost reports for similar issues for years subsequent to the year ended December 31, 1999, and to improve its accounting controls over claiming organ acquisition costs. The full text of Virginia Mason's comments is included as Appendix C.

Office of Inspector General Response

We appreciate the Medicare intermediary's and Virginia Mason's efforts to work together to address the deficiencies detailed in our report and improve Virginia Mason's accounting for organ acquisition costs.

APPENDIXES

AUDIT RESULTS BY COST CATEGORY AND CALENDAR YEAR

Table 1: Results of Audit by Cost Category

Cost Category	Claimed	Allowable	Unallowable	Unsupported	Unaudited	Medicare Overpayments	
						Unallowable	Unsupported
Salaries (see table 3)	\$690,537	\$0	\$62,596	\$627,941	\$0	\$62,175	\$712,533
Other Costs (see table 4)	8,086,426	3,250,479	206,252	530,239	4,099,456	206,657	442,090
Floor Space (see table 5)	181,662	0	0	181,662	0	0	156,327
Total	\$8,958,625	\$3,250,479	\$268,848	\$1,339,842	\$4,099,456	\$268,832	\$1,310,950

Table 2: Results of Audit by Calendar Year

Calendar Year	Claimed	Allowable	Unallowable	Unsupported	Unaudited	Medicare Overpayments	
						Unallowable	Unsupported
1997	\$2,357,457	\$1,077,500	\$32,746	\$216,906	\$1,030,305	\$29,812	\$203,892
1998	3,619,767	1,410,000	122,630	484,504	1,602,633	121,182	500,871
1999	2,981,401	762,979	113,472	638,432	1,466,518	117,838	606,187
Total	\$8,958,625	\$3,250,479	\$268,848	\$1,339,842	\$4,099,456	\$268,832	\$1,310,950

AUDIT RESULTS BY COST CATEGORY AND CALENDAR YEAR

Table 3: Salaries Detail

Categories and Calendar Years	Claimed	Allowable	Unallowable	Unsupported	Unaudited	Medicare Overpayments	
						Unallowable	Unsupported
Transplant Employees:							
1997	\$56,162	\$0	\$77	\$56,085	\$0	\$80	\$58,513
1998	230,730	0	26,409	204,321	0	27,083	238,498
1999	276,930	0	35,221	241,709	0	33,847	263,001
Subtotal	\$563,822	\$0	\$61,707	\$502,115	\$0	\$61,010	\$560,012
Transplant Managers:							
1997	\$3,527	\$0	\$5	\$3,522	\$0	\$5	\$3,675
1998	11,653	0	112	11,541	0	132	13,495
1999	19,768	0	105	19,663	0	136	21,429
Subtotal	\$34,948	\$0	\$222	\$34,726	\$0	\$273	\$38,599
Medical Directors:							
1997	\$958	\$0	\$0	\$958	\$0	\$0	\$870
1998	42,917	0	412	42,505	0	516	53,278
1999	47,892	0	255	47,637	0	376	59,774
Subtotal	\$91,767	\$0	\$667	\$91,100	\$0	\$892	\$113,922
Total	\$690,537	\$0	\$62,596	\$627,941	\$0	\$62,175	\$712,533

AUDIT RESULTS BY COST CATEGORY AND CALENDAR YEAR

Table 4: Other Costs Detail

Categories and Calendar Years	Claimed	Allowable	Unallowable	Unsupported	Unaudited	Medicare Overpayments	
						Unallowable	Unsupported
Other Direct Costs:							
1997	\$1,217,170	\$1,077,500	\$32,664	\$107,006	\$0	\$29,727	\$97,149
1998	1,606,954	1,410,000	93,867	103,087	0	91,976	89,148
1999	983,642	762,979	77,891	142,772	0	83,479	113,779
Subtotal	\$3,807,766	\$3,250,479	\$204,422	\$352,865	\$0	\$205,182	\$300,076
Other Department Costs:							
1997	\$3,325	\$0	\$0	\$3,325	\$0	\$0	\$2,703
1998	63,722	0	1,830	61,892	0	1,475	51,616
1999	112,157	0	0	112,157	0	0	87,695
Subtotal	\$179,204	\$0	\$1,830	\$177,374	\$0	\$1,475	\$142,014
Unaudited:							
1997	\$1,030,305	\$0	\$0	\$0	\$1,030,305	\$0	\$0
1998	1,602,633	0	0	0	1,602,633	0	0
1999	1,466,518	0	0	0	1,466,518	0	0
Subtotal	\$4,099,459	\$0	\$0	\$0	\$4,099,456	\$0	\$0
Total	\$8,086,426	\$3,250,479	\$206,252	\$530,239	\$4,099,456	\$206,657	\$442,090

AUDIT RESULTS BY COST CATEGORY AND CALENDAR YEAR

Table 5: Floor Space Detail

Calendar Year	Claimed	Allowable	Unallowable	Unsupported	Unaudited	Medicare Overpayments	
						Unallowable	Unsupported
1997	\$46,010	\$0	\$0	\$46,010	\$0	\$0	\$40,982
1998	61,158	0	0	61,158	0	0	54,836
1999	74,494	0	0	74,494	0	0	60,509
Total	\$181,662	\$0	\$0	\$181,662	\$0	\$0	\$156,327

MEDICARE INTERMEDIARY COMMENTS



P.O. Box 6720
Fargo, ND 58108-6720

Medicare

January 28, 2005

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

Re: Virginia Mason Medical Center (VMMC)
Audit of Organ Acquisition Costs for the period 1/1/97 through 12/31/99
Draft OIG Report Number: A-10-03-00010

Dear Ms. Ahlstrand:

We are in receipt of your draft audit report dated December 2004, for VMMC organ acquisition costs claimed for the period January 1, 1997 through December 31, 1999. Thank you for providing us with the draft report and the opportunity for comment prior to its publication.

Noridian Administrative Services (NAS) is the current fiscal intermediary for VMMC and we have served in that capacity since October 1, 2004. We understand and support the mission of the Office of Inspector General (OIG) to protect the integrity of Department of Health and Human Services programs as well as the health and welfare of beneficiaries served by those programs. To this end, NAS is committed to determining and ensuring that reimbursement for VMMC's costs pertaining to the acquisition of organs for transplant to Medicare beneficiaries complies with applicable Medicare law, regulation, and Program instructions.

NAS concurs with the OIG's findings as indicated in the draft report. Specifically, NAS agrees:

- VMMC claimed \$268,848 in unallowable costs which resulted in overpayments of \$268,832; and,
- VMMC did not provide adequate documentation to support \$1,339,842 in costs claimed.

Furthermore, NAS agrees with the recommendations provided in the draft report. In that regard NAS will:

- Reopen all affected cost reports and recover \$268,832 in overpayments;
- Determine the portion of \$1,339,842 of unsupported costs and related Medicare payment of \$1,310,950 that is associated with allowable organ acquisition activities and recover the portion determined to be non-allowable and/or unallowable.



A CMS Contracted Carrier/Intermediary

MEDICARE INTERMEDIARY COMMENTS

Ms. Lori A. Ahlstrand
January 28, 2005
page 2

- Initiate reopening reviews of organ acquisition costs claimed on VMMC's cost reports for the cost reporting periods ended December 31, 2000 and December to 31, 2001;
- Review in the current federal fiscal year costs claimed by VMMC relating to organ acquisition activities for cost reporting period ended December 31, 2002;
- Monitor future VMMC cost report claims for organ acquisition costs pertaining to the cost report periods ended December 31, 2003 and December 31, 2004 subject to CMS approval and funding of this activity for federal fiscal years 2006 and 2007; and,
- Advise VMMC management to develop and maintain adequate time and other records and accounting controls as necessary to ensure an accurate allocation and apportionment of organ acquisition costs to the Medicare program.

Thank you for the valuable information contained in the report and the opportunity to comment on the findings and recommendations contained therein.

Sincerely,



Ron Knorr
Audit Manager-WA/AK
Noridian Administrative Services, LLC

VIRGINIA MASON COMMENTS

VIRGINIA
MASON

Medical Center

January 14, 2005

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

Re: Virginia Mason Medical Center
OIG Report Number: A-10-03-00010

Dear Ms. Ahlstrand:

We are in receipt of your draft audit report dated December 2004, for the Virginia Mason Medical Center Organ Acquisition Costs claimed for the period January 1, 1997 through December 31, 1999. In general, we agree with most of the findings discussed in the draft report. Further, we agree with each recommendation made in the draft report, and we have already taken steps to address them. More specifically:

- We are working with our Medicare Intermediary to make appropriate adjustments for costs determined to be unallowable costs claimed for organ acquisition. We acknowledge that there were certain accounting errors and that certain unallowable costs were claimed in error.
- We are currently working with our Medicare Intermediary to determine what portion of the \$1,339,842 identified in the draft report as unsupported cost is associated with allowable organ acquisition costs. We have been unable to reconcile our records to the "unsupported other costs" amount of \$530,239. We are also unable to confirm the Intermediary's software computation of the alleged resulting Medicare overpayment amount of \$1,579,782; therefore we have contacted our Medicare Intermediary to provide us with the supporting documentation and we are working with them to verify the correct amounts. We are working with the Medicare Intermediary to determine a methodology to use to properly and equitably allocate certain costs and floor space between allowable pre-transplant costs, nonallowable post-transplant costs, and other cost centers related to organ acquisition. We will be working with the Intermediary to reclassify costs where appropriate.
- We are also currently working with our Medicare Intermediary as they review cost report years subsequent to those covered by your report for issues similar to those covered by the draft audit report.
- We will work with our Medicare Intermediary on future Medicare cost report claims for organ acquisition costs.
- We have developed and initiated accounting controls and systems (such as time studies) for documenting and claiming organ acquisition costs, and have presented them to our Medicare Intermediary for review and approval. We will continue to closely monitor these systems and provide appropriate and continuing staff education.

1100 Ninth Avenue
P.O. Box 900
Seattle, WA 98111
Telephone (206) 223-6600

VIRGINIA MASON COMMENTS

Virginia Mason would like to acknowledge the assistance and cooperation by your staff. They were professional and courteous to all involved and very helpful in providing suggestions to enhance our systems.

Sincerely,



Cathie Furman
Vice President, Quality & Compliance
Virginia Mason Medical Center