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March 30, 2005

Report Number: A-03-04-00012

Ms. Shelly Foxworthy  
First Vice President  
Mutual of Omaha  
Medicare Audit & Reimbursement -LL2  
Mutual of Omaha Plaza  
Omaha, Nebraska 68101

Dear Ms. Foxworthy:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, report entitled "Audit of Thomas Jefferson University Hospital's Organ Acquisition Costs Claimed for the Period July 1, 1999 through June 30, 2000." A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. 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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To facilitate identification, please refer to report number A-03-04-00012 in all correspondence relating to this report.

Sincerely,



*for* Stephen Virbitsky  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Nancy B. O'Connor, Regional Administrator  
Centers for Medicare & Medicaid Services - Region III  
U.S. Department of Health and Human Services  
150 South Independence Mall West, Suite 216  
Philadelphia, Pennsylvania 19106-3499

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF THOMAS JEFFERSON  
UNIVERSITY HOSPITAL'S ORGAN  
ACQUISITION COSTS CLAIMED FOR  
THE PERIOD JULY 1, 1999 THROUGH  
JUNE 30, 2000**



**MARCH 2005  
A-03-04-00012**

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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. Authorized officials of the HHS divisions will make final determination on these matters.



## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Thomas Jefferson University Hospital (Thomas Jefferson) is a 754 bed acute care hospital<sup>1</sup> in Philadelphia, PA, and is part of the Thomas Jefferson University Hospital System. Thomas Jefferson University Hospital System is one of five health care entities that form Jefferson Health Systems Incorporated. On its fiscal year (FY) 2000 Medicare cost report, Thomas Jefferson claimed \$3,714,209 for organ acquisition costs associated with kidney and liver transplants. Medicare reimburses certified transplant programs for its proportionate share of costs associated with the acquisition of organs for transplant to Medicare beneficiaries. Of the amount claimed for FY 2000, Medicare's share was \$1,688,970.

### **OBJECTIVE**

The objective of this self-initiated audit was to determine whether organ acquisition costs claimed on the FY 2000 Medicare cost report by Thomas Jefferson for its kidney and liver transplant programs were allowable. Specifically, did Thomas Jefferson:

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

### **SUMMARY OF FINDINGS**

Thomas Jefferson did not comply with Medicare law, regulations, and guidelines in the preparation of its Medicare Part A cost report and received excess reimbursement for organ acquisition activities. Specifically, Thomas Jefferson:

- did not have systems in place to accumulate certain costs of organ acquisition separate from the costs of post-transplant and other hospital activities, and
- did not allocate costs of organ acquisition properly between kidney and liver transplant programs.

The following table summarizes the results of audit by cost category:

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<sup>1</sup>Based on FY 2003 Medicare cost report data

## Results of Audit

<u>Cost Categories</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Unallowable</u>	<u>Unsupported</u>	<u>Unaudited<sup>2</sup></u>
Salaries	\$ 523,014			\$523,014	\$ 0
Social Services	41,773			41,773	0
Medical Directors' Fees	80,470			80,470	0
Floor Space Building and Fixtures	199,179	\$ 52,209	\$ 54,645	92,325	0
Other Costs <sup>3</sup>	88,680			88,680	0
	<u>2,781,093</u>	<u>1,237,233</u>	<u>76,861</u>	<u>101,523</u>	<u>1,365,475</u>
<b>Totals</b>	<b><u>\$3,714,209</u></b>	<b><u>\$1,289,442</u></b>	<b><u>\$131,506</u></b>	<b><u>\$927,785</u></b>	<b><u>\$1,365,475</u></b>

We limited our review of organ acquisition costs to about \$2.3 million of the \$3.7 million claimed by Thomas Jefferson on its FY 2000 Medicare cost report and found that Thomas Jefferson claimed \$131,506 in unallowable costs, and \$927,785 in unsupported costs.

The unallowable costs of \$131,506 were associated with activities that did not comply with Medicare's definition of organ acquisition. Thomas Jefferson officials told us they did not intentionally submit unallowable claims, but agreed that they had made errors in the preparation of the cost report. Based on the unallowable costs of \$131,506, Medicare overpaid Thomas Jefferson an estimated \$64,447.

The unsupported costs of \$927,785 were associated with documentation that did not comply with Medicare documentation requirements or were incurred by transplant personnel performing functions unrelated to organ acquisition. Thomas Jefferson officials agreed that not all of the \$927,785 of unsupported costs complied with Medicare's documentation requirements for reimbursement. While we recognize that some portion of the \$927,785 may have related to organ acquisition activities and would have been allowable if properly documented, based on Federal regulations and the Provider Reimbursement Manual the unsupported costs are considered unallowable for Medicare reimbursement. Although Thomas Jefferson was not able to provide necessary documentation to support \$927,785 of costs it claimed for FY 2000, when settling the audit findings Medicare may elect to use an alternative methodology, such as analysis of current operations, to estimate unsupported costs related to organ acquisition. If Thomas Jefferson cannot provide adequate support for these costs, the Medicare intermediary should recover the entire Medicare overpayment of \$398,918 associated with the Medicare share of the \$927,785 of unsupported costs.

<sup>2</sup>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 Thomas Jefferson. We did not express an opinion on the \$1.37 million not audited.

<sup>3</sup>Other costs include: organ purchases, recipient and donor evaluations, laboratory and other tests, costs for hospital inpatient stays for donors, overhead and other direct costs of the organ transplant program.

## **RECOMMENDATIONS**

We recommend that the Medicare intermediary:

1. Recover the Medicare overpayment of \$64,447 associated with the \$131,506 of unallowable costs claimed as organ acquisition.
2. Work with Thomas Jefferson to determine, if possible, what portion of the \$927,785 of unsupported costs and related Medicare payment of \$398,918 was associated with allowable organ acquisition activities, and recover that portion of the \$398,918 that Thomas Jefferson is unable to support with allowable organ acquisition costs.
3. Review organ acquisition costs claimed by Thomas Jefferson on its Medicare cost reports for FY 1999 and any subsequent years for issues similar to those identified in FY 2000, and recover any Medicare overpayments.
4. Monitor future Medicare cost report claims for organ acquisition costs from Thomas Jefferson to ensure compliance with Medicare requirements.
5. Instruct Thomas Jefferson to develop and maintain adequate time and effort reporting, and to provide clear direction to responsible personnel as to Medicare requirements for claiming and documenting organ acquisition costs.

### **Thomas Jefferson University Hospital and Mutual of Omaha Comments**

In their responses to our draft report, Thomas Jefferson University Hospital (Appendix A) and Mutual of Omaha (Appendix B) generally agreed with our findings and recommendations.

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## INTRODUCTION

### BACKGROUND

#### **Thomas Jefferson University Hospital**

Thomas Jefferson is a 754 bed acute care hospital<sup>4</sup> in Philadelphia, PA, and is part of the Thomas Jefferson University Hospital System. Thomas Jefferson University Hospital System is one of five health care entities that form Jefferson Health Systems Incorporated. Our audit covered FY 2000 (July 1, 1999 through June 30, 2000). During that time period Thomas Jefferson operated kidney and liver transplant programs that became Medicare certified on September 1, 1977 and March 8, 1990, respectively. Thomas Jefferson claimed \$3,714,209 for organ acquisition costs associated with kidney and liver transplant programs during FY 2000. Of the amount claimed, Medicare's share was \$1,688,970 (46 percent).

#### **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 Thomas Jefferson for organ acquisition costs as pass-through 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 year. At the end of the 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 reimbursed Thomas Jefferson for the transplant surgery, inpatient, and post-transplant costs for the recipients, but through different payment systems. Medicare Part A paid for the cost of the transplant surgeries and certain follow-up care through diagnosis related group payments to the hospital. The diagnosis related group payments were set at a predetermined rate per discharge for groups of patients that demonstrate similar resource consumption and length-of-stay patterns. Medicare Part B 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 costs for activities such as tissue typing, recipient registration fees, recipient and donor evaluations, purchase and transportation of the organs, and inpatient stays for organ donors.

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<sup>4</sup>Based on FY 2003 Medicare cost report data

## **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 non-transplant), then 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 includes all ledgers, books, records, and original evidences of cost (e.g., labor time cards, payrolls, bases for apportioning costs), which 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 2000 Medicare cost report by Thomas Jefferson for its kidney and liver transplant programs were allowable. Specifically, did Thomas Jefferson:

- comply with Medicare law, regulations, and guidelines for claiming organ acquisition costs; and
- 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 liver organ acquisition costs claimed by Thomas Jefferson on its FY 2000 Medicare cost report. Based on our analysis of audits performed by the Medicare intermediary and our survey work at Thomas Jefferson, we identified higher risk cost categories and limited our scope to an audit of certain salaries, medical directors' fees, space costs and selected other costs. We audited the total number of organs transplanted. However, we did not audit 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 limited our review of internal controls to those controls that relate to the reporting of organ acquisition costs. Thomas Jefferson and Mutual of Omaha's comments to our draft are included in their entirety as appendix A and B respectively, and are summarized on page 12.

We performed our fieldwork during the period from February to May 2004, which included visits to Thomas Jefferson and Mutual of Omaha, the responsible Medicare intermediary.

## **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 Thomas Jefferson for FY 2000,
- reviewed accounting records and reports,
- reviewed payroll records, which included time and effort reporting,
- interviewed Thomas Jefferson employees and managers,
- toured the transplant center,
- obtained documentation from the Medicare intermediary,
- reviewed working papers from prior Medicare intermediary audits, and
- discussed the Office of Inspector General recommended adjustments with the Medicare intermediary.

The Medicare intermediary determined the estimated Medicare overpayment amounts associated with our findings using proprietary software to adjust Thomas Jefferson's Medicare cost report. The Medicare intermediary determined the impact on Medicare reimbursement for each adjustment by preparing a Notice of Program Reimbursement Settlement Summary (Settlement Summary). For each adjustment made to the cost report, the intermediary provided the Settlement Summary that showed the effect on the reimbursement calculation for that particular adjustment on the cost report.

Our audit was conducted in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

Thomas Jefferson did not comply with Medicare law, regulations, and guidelines in the preparation of its Medicare Part A cost report and received excess reimbursement for organ acquisition activities. Specifically, Thomas Jefferson:

- did not have systems in place to accumulate certain costs of organ acquisition separate from the costs of post-transplant and other hospital activities, and

- did not allocate costs of organ acquisition properly between kidney and liver transplant programs.

Table 1 summarizes the results of audit by cost category.

**Table 1: Results of Audit**

<u>Cost Categories</u>	<u>Unallowable</u>	<u>Unsupported</u>
Salaries		\$523,014
Social Services		41,773
Medical Directors' Fees		80,470
Floor Space	\$ 54,645	92,325
Building and Fixtures		88,680
Other Costs	76,861	101,523
<b>Totals</b>	<b>\$131,506</b>	<b>\$927,785</b>

The unallowable costs of \$131,506 were associated with activities that did not comply with Medicare's definition of organ acquisition. Thomas Jefferson officials told us they did not intentionally submit unallowable claims, but also agreed that they had made errors in the preparation of the cost report. Based on the unallowable costs of \$131,506, Medicare overpaid Thomas Jefferson an estimated \$64,447.

The unsupported costs of \$927,785 were associated with documentation that did not comply with Medicare documentation requirements or were incurred by transplant personnel performing functions for a department unrelated to organ acquisition. Thomas Jefferson officials agreed that not all of the \$927,785 of unsupported costs complied with Medicare's documentation requirements for reimbursement. While we recognize that some portion of the \$927,785 may have been related to organ acquisition activities and would have been allowable if properly documented, based on Federal regulations and the Provider Reimbursement Manual, we considered the unsupported costs to be unallowable for Medicare reimbursement. Although Thomas Jefferson was not able to provide necessary documentation to support \$927,785 of costs it claimed for FY 2000, when settling the audit findings Medicare may elect to use an alternative methodology, such as analysis of current operations, to estimate unsupported costs related to organ acquisition. If Thomas Jefferson cannot provide adequate support for these costs, the Medicare intermediary should recover the entire Medicare overpayment of \$398,918 associated with the Medicare share of the \$927,785 of unsupported costs.

## **UNALLOWABLE COSTS**

Thomas Jefferson's cost report included \$131,506 of unallowable costs that: (1) were associated with activities that did not comply with Medicare's definition of organ acquisition as contained in the Provider Reimbursement Manual, part 1, section 2771.B and 2771.C, and the Intermediary Manual, part 3, section 3178.3 through 16, (2) were incurred for departments and functions unrelated to organ transplantation as contained in 45 CFR, part 74, Appendix E, iv, or (3)

resulted from incorrect assignment of costs between organ cost centers. These unallowable costs related to either non-organ acquisition activities or improperly recorded transactions. The estimated Medicare overpayment for these unallowable costs is \$64,447. The balance of this section of the report details the unallowable costs as provided in the table 2 below.

**Table 2: Unallowable Costs**

<b>Cost Categories</b>	<b>Unallowable Costs</b>	<b>Estimated Medicare Overpayments</b>
Floor Space	\$ 54,645	\$28,666
Other Costs	76,861	35,781
<b>Totals</b>	<b>\$131,506</b>	<b>\$64,447</b>

**Floor Space**

Thomas Jefferson claimed an estimated \$54,645 of unallowable kidney acquisition costs because it overstated the kidney transplant program’s floor space by 1,061 square feet. As a result of the overstatement of floor space, Medicare overpaid Thomas Jefferson an estimated \$28,666.

The amount of transplant program floor space reported by Thomas Jefferson was the basis for allocating certain overhead costs to those programs. Thomas Jefferson used square footage as a basis for allocating maintenance and repairs, operation of plant, and housekeeping. To the extent that floor space was overstated, overhead costs allocated to a cost center would also be overstated, resulting in a Medicare overpayment for organ acquisition costs.

Thomas Jefferson claimed 3,866 square feet as kidney acquisition on its FY 2000 Medicare cost report. However, the entire transplant program occupied only 1,792 square feet of space and the liver transplant program occupied a portion of that space. The Human Leukocyte Antigen (HLA) laboratory occupied the remaining 2,074 square feet of space. The HLA laboratory provided testing in support of the kidney transplant program but it also did other testing, including liver transplant testing and testing unrelated to Thomas Jefferson’s Medicare certified transplant programs. Thomas Jefferson adjusted down 51 percent of the HLA laboratory direct salary and other costs from kidney acquisition to account for HLA testing unrelated to kidney transplant, and 3.11 percent of testing related to liver transplant. However, Thomas Jefferson did not make a similar adjustment to the floor space statistics. As a result, Thomas Jefferson received an estimated Medicare overpayment of \$28,666 related to kidney acquisition.

Thomas Jefferson officials acknowledged that the HLA laboratory floor space should have been allocated similar to the HLA laboratory direct salaries and other costs.

## **Other Costs**

Thomas Jefferson claimed \$76,861 of other costs that were unallowable as organ acquisition because the costs did not meet Medicare's definition of organ acquisition costs or the costs were erroneously recorded. These unallowable costs included:

- five liver procurement transactions recorded as kidney acquisition costs,
- operating room medical and surgical supplies, prosthetics, and surgical instruments used in liver transplantation.

Even though Thomas Jefferson was Medicare certified to transplant both kidney and liver organs in FY 2000, the Medicare reimbursement rate for liver acquisition costs was lower than for kidney acquisition costs. As a result, classifying liver procurements as kidney acquisition resulted in excess Medicare reimbursement.

Thomas Jefferson's liver transplants in FY 2000 were performed with cadaveric donors. Operating room medical and surgical supplies, prosthetics, and surgical instruments were purchased for use in liver transplantation. According to the Medicare definition of organ acquisition costs, only the surgical costs of live organ donors are allowable as organ acquisition costs. As a result of the unallowable claim for other costs of \$76,861, Thomas Jefferson received an estimated Medicare overpayment of \$35,781.

## **UNSUPPORTED COSTS**

Thomas Jefferson's cost report included \$927,785 of costs that were not properly supported with current, accurate documentation that differentiated between pre-transplant and post-transplant activities as required by Medicare. Costs claimed must be reasonable, properly allocated, and supported by proper documentation. Only the portion of salaries that relate 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 non-transplant), then 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 supervised and supported staff. Finally, documentation retained to support other costs should be sufficiently detailed to verify allowability as organ acquisition.

While we recognize that some portion of the \$927,785 may have related to organ acquisition activities and would have been allowable if properly documented, based on 42 CFR §§ 413.24(a) and (c) and the Provider Reimbursement Manual, part 1, section 2304, we considered these unsupported costs unallowable for Medicare reimbursement. Although Thomas Jefferson did not provide the necessary supporting documentation for these costs, when settling the audit findings, Medicare may elect to use an alternative methodology, such as an analysis of current operations, to estimate the portion of unsupported costs related to organ acquisition.

If Thomas Jefferson cannot provide adequate support for these costs, the Medicare intermediary should recover the estimated Medicare overpayment of \$398,918.

The balance of this section of the report details the unsupported costs as provided in table 3.

**Table 3: Unsupported Costs**

<b>Cost Categories</b>	<b>Unsupported Costs</b>	<b>Estimated Medicare Overpayments</b>
Salaries	\$523,014	\$240,876
Social Services	41,773	11,724
Medical Directors' Fees	80,470	8,342
Floor Space	92,325	48,397
Building and Fixtures	88,680	31,402
Other Costs	101,523	58,177
<b>Totals</b>	<b>\$927,785</b>	<b>\$398,918</b>

### **Salaries**

Thomas Jefferson claimed \$523,014 of unsupported transplant department salary costs for its kidney and liver transplant programs as organ acquisition costs. Of that amount, Thomas Jefferson claimed \$356,521 and \$166,493 for its kidney and liver transplant programs, respectively. These salary costs were unsupported because time and effort reporting, accounting systems, and documentation did not differentiate between pre-transplant and post-transplant activities. If Thomas Jefferson does not provide adequate support for these costs, the Medicare intermediary should recover the estimated Medicare overpayment of \$240,876.<sup>5</sup>

Of particular interest, Thomas Jefferson claimed all \$88,308 of its transplant administrative program manager and financial coordinator salaries as part of its kidney acquisition salary costs. However, the transplant administrator informed us that transplant administration services were provided to all certified transplant programs, not just the kidney transplant program. As a result, Thomas Jefferson was reimbursed an excessive amount because the kidney transplant program had the highest ratio of Medicare transplants to total transplants. Medicare guidelines instructed providers to prorate shared acquisition costs between the various organs.

Thomas Jefferson officials also indicated that the transplant program administrative manager devoted about 10 percent (or about \$5,140 salary) of her time managing the hospital's Electro Encephalography Lab and performing other hospital related functions not related to transplant programs. Medicare guidelines state that only the portion of salaries that relates to time spent on allowable organ acquisition activities may be included as organ acquisition costs on the

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<sup>5</sup>The estimated overpayment includes associated benefits of \$46,466 calculated by the Medicare intermediary based on the unsupported salary costs.

Medicare cost report. The non-transplant program-related work performed by the transplant program administrative manager should not be claimed as organ acquisition.

Thomas Jefferson did not provide documentation sufficient in detail to support the salary costs claimed as organ acquisition. Thomas Jefferson's time reporting and accounting systems did not differentiate between pre-transplant and post-transplant activities.

Thomas Jefferson's administrative transplant manager stated that both pre-transplant and post-transplant services were rendered during the audit period. Because records were not maintained to identify which portion of those services were pre-transplant or post-transplant, we could not quantify the amount of post-transplant work that should not have been claimed as organ acquisition. We interviewed some current transplant center employees and confirmed that they performed both pre-transplant and post-transplant services. However we could not use the information from those interviews to quantify the amount of post-transplant work that occurred during FY 2000.

### **Social Services**

Thomas Jefferson claimed organ acquisition costs of \$41,773 for social workers' salaries based on outdated time studies. Social work was claimed as organ acquisition costs by allocating overhead costs to the transplant program from general cost centers. Thomas Jefferson measured social work costs as "time spent" as required by Medicare regulations on its FY 2000 Medicare cost report. However, Thomas Jefferson used a FY 1996 time study containing FY 1994 data to quantify social work time spent for organ acquisition. Thomas Jefferson used the same time study to support social work costs for each Medicare cost report between FYs 1998 and 2003.

Medicare regulations required time studies to be contemporaneous with the costs to be allocated.

The auditing firm who performed the FY 1996 time study documented in its report that Medicare regulations required the time studies to be updated annually. Thomas Jefferson officials acknowledged that the time study needed to be updated.

If Thomas Jefferson does not provide adequate support for these costs, the Medicare intermediary should recover the estimated Medicare overpayment of \$11,724.

### **Medical Directors' Fees**

Thomas Jefferson claimed \$80,470 in medical directors' fees<sup>6</sup> as organ acquisition for the liver transplant program that were not properly supported with documentation that differentiated between pre-transplant and post-transplant activities.

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<sup>6</sup>Thomas Jefferson referred to medical directors' fees as tertiary care fees. Thomas Jefferson did not claim any medical director's fees as organ acquisition costs for the kidney transplant program.

Thomas Jefferson contracted for a medical director and another physician for the liver transplant program in FY 2000. Approximately one half of their contracted time was devoted to performing oversight functions of the liver transplant program and was claimed as organ acquisition. The liver transplant program medical director in FY 2000 was not under contract during our audit, so we spoke with the current liver transplant program medical director to determine if a portion of his time as medical director was spent performing post-transplant activities. He stated that he performed oversight of both pre-transplant and post-transplant activities. Although we cannot verify the duties of the liver transplant medical director in FY 2000, based on those duties in FY 2004, the position of medical director would inherently include some oversight of post-transplant activities. Therefore, some portion of the medical directors' fees should be classified as post-transplant costs and not be reimbursed as organ acquisition.

If Thomas Jefferson does not provide adequate support to differentiate between pre-transplant and post-transplant activities for the liver transplant program medical directors, the Medicare intermediary should recover the estimated Medicare overpayment of \$8,342.

### **Floor Space**

Thomas Jefferson claimed \$92,325 of organ acquisition costs based on 1,792 square feet of floor space for the kidney transplant program that was not properly allocated between the kidney and liver transplant programs, and between pre-transplant and post-transplant activities. If Thomas Jefferson does not provide adequate support for floor space allocation, the Medicare intermediary should recover the estimated Medicare overpayment of \$48,397.

The amount of transplant program floor space reported by Thomas Jefferson was the basis for allocating certain overhead costs to programs. As discussed in the Unallowable Costs section of this report, Thomas Jefferson used square footage to allocate overhead costs for maintenance and repairs, operation of plant, and housekeeping.<sup>7</sup> If excess floor space was assigned to a program, then overhead costs allocated to that program would also have been overstated.

Thomas Jefferson claimed all of the organ acquisition floor space as kidney acquisition. However, the liver transplant program occupied about one third of that space, based on the number of employees in the transplant program office. Also, discussions with transplant center employees indicated that a portion of both the kidney and liver transplant program work was related to post-transplant activities. Therefore, some portion of that space should have been allocated to post-transplant. Thomas Jefferson officials acknowledged that the liver transplant program's floor space was incorrectly recorded as kidney transplant program floor space in FY 2000.

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<sup>7</sup>Medicare regulations also require square footage as a statistic to allocate buildings and fixtures and movable equipment. However, Thomas Jefferson elected to use an alternative method of allocating these costs. We discuss buildings and fixtures in the following section of the report. We did not review movable equipment because costs were assigned to both kidney and liver programs and the amount assigned was not material.

## **Building and Fixtures Depreciation**

Thomas Jefferson claimed \$88,680 in buildings and fixtures depreciation that was not properly supported as organ acquisition. Medicare guidance required building and fixtures overhead costs to be allocated based on square feet. However, Thomas Jefferson allocated these costs using a statistic of \$87,802, which Thomas Jefferson officials identified as depreciation expense. Also, Thomas Jefferson did not allocate these costs between kidney and liver transplant programs or between pre-transplant and post-transplant activities. Thomas Jefferson officials stated that they selected depreciation expense as a statistic for building and fixtures depreciation because it represented a more accurate allocation of overhead attributable to the transplant program office.

Medicare regulations stated that a more sophisticated method of allocating cost more accurately could be used by a provider with approval of the intermediary. However the request to use an alternative method must be made to the intermediary in writing 90 days prior to the end of the cost reporting period. Both Thomas Jefferson and the Medicare intermediary for Thomas Jefferson stated there was no written request to change Thomas Jefferson's method of reporting building and fixtures depreciation.

If Thomas Jefferson does not provide adequate support for these costs, the Medicare intermediary should recover the estimated Medicare overpayment of \$31,402.

## **Other Costs**

Thomas Jefferson claimed \$101,523 of other costs that were unsupported as organ acquisition costs. These costs were unsupported because they did not meet Medicare's definition of organ acquisition or Medicare's requirements for sufficient documentary evidence. These unsupported costs included:

- cadaveric organ purchases;
- operating room medical, surgical and prosthetic supplies;
- miscellaneous office equipment services and supplies; and
- physician services.

The costs claimed for two cadaveric kidneys and one cadaveric liver were not supported with adequate documentation as required by Medicare guidelines.

Operating room medical, surgical, and prosthetic supplies were claimed as organ acquisition costs. However, only live-donor operating room costs were allowable as organ acquisition. The documentation provided to support the purchase of these items did not identify whether the items were used for live donor excisions or for transplant surgery.

Transplant program office equipment and supplies were claimed as organ acquisition costs but Thomas Jefferson did not allocate these costs between pre-transplant and post-transplant.

Physician services such as donor or recipient pre-transplant evaluations and donor post-transplant services were not always sufficiently documented to verify allowability as organ acquisition. Three physician visits for donor post-transplant follow-up services occurred in excess of the 6-month limit imposed by Medicare regulations. Two physician evaluations could not be located. One donor physician evaluation could not be linked to a recipient. A memo listing only the names and amounts of several evaluations did not provide adequate support for one transaction, and one physician evaluation’s support amount did not match the claimed amount.

If Thomas Jefferson does not provide adequate support for these costs, the Medicare intermediary should recover the estimated Medicare overpayment of \$58,177.

### **SUMMARY OF ADJUSTMENTS AND MEDICARE OVERPAYMENTS**

Table 4 summarizes the unallowable and unsupported costs and the related estimated Medicare overpayments.

**Table 4: Summary of Adjustments and Medicare Overpayments**

<b>Cost Categories</b>	<b>Unallowable</b>		<b>Unsupported (Note 1)</b>	
	<b>Costs</b>	<b>Estimated Medicare Overpayments</b>	<b>Costs</b>	<b>Estimated Medicare Overpayments</b>
Salaries			\$523,014	\$240,876
Social Services			41,773	11,724
Medical Director Fees			80,470	8,342
Floor Space	\$ 54,645	\$28,666	92,325	48,397
Building and Fixtures			88,680	31,402
Other Costs	76,861	35,781	101,523	58,177
<b>Totals</b>	<b>\$131,506</b>	<b>\$64,447</b>	<b>\$927,785</b>	<b>\$398,918</b>

Note 1: Thomas Jefferson claimed unsupported costs of \$927,785 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 Thomas Jefferson cannot provide adequate support for these costs, the Medicare intermediary should recover the entire Medicare overpayment of \$398,918 associated with the \$927,785 of unsupported costs.

## **RECOMMENDATIONS**

We recommend that the Medicare intermediary:

1. Recover the Medicare overpayment of \$64,447 associated with the \$131,506 of unallowable costs claimed as organ acquisition.
2. Work with Thomas Jefferson to determine, if possible, what portion of the \$927,785 of unsupported costs and related Medicare payment of \$398,918 is associated with allowable organ acquisition activities, and recover that portion of the \$398,918 that Thomas Jefferson is unable to support with allowable organ acquisition costs.
3. Review organ acquisition costs claimed by Thomas Jefferson on its Medicare cost reports for FY 1999 and any subsequent years for issues similar to those identified in FY 2000, and recover any Medicare overpayments.
4. Monitor future Medicare cost report claims for organ acquisition costs from Thomas Jefferson to ensure compliance with Medicare requirements.
5. Instruct Thomas Jefferson to develop and maintain adequate time and effort reporting and to provide clear direction to responsible personnel as to Medicare requirements for claiming and documenting organ acquisition costs.

### **Thomas Jefferson University Hospital Response**

In response to our draft report, Thomas Jefferson generally agreed with our findings and recommendations and agreed to work with the fiscal intermediary, Mutual of Omaha, to determine: (1) the amount of salaries claimed as organ acquisition costs but relating to post-transplant services on the FY 2000 cost report, all other opened and reopened cost reports, and make adjustments accordingly; and (2) the amount of non-salary costs claimed as organ acquisition costs but relating to non-covered services, post-transplant services or erroneously recorded transactions on the FY 2000 cost report and, if applicable, on all other open and reopened cost reports.

Thomas Jefferson agreed that the social services time study was outdated but did not believe it materially affected the Medicare reimbursement. Also, Thomas Jefferson did not agree that it needed to notify the fiscal intermediary of its use of an alternative approach to claiming building and fixture depreciation because it had used its approach for several years prior to FY 2000.

### **Additional OIG Comments**

We concluded that social services and depreciation costs were unsupported because of the inadequacy of the documentation. We did not include in our report that there were also post-transplant and non-covered services included in depreciation, and social services claimed costs. If the fiscal intermediary allows these costs as adequately documented, then that portion of those

costs related to post-transplant and non-covered organ acquisition costs should be adjusted out of the FY 2000 cost report.

### **Mutual of Omaha Response**

Mutual of Omaha agreed with our findings in principle and will reopen the FY 1999 and FY 2000 cost reports to make appropriate adjustments. Mutual of Omaha indicated that it would also address organ acquisition issues in a management letter, providing clear instructions for claiming and documenting organ acquisition costs. Subsequent reviews of organ acquisition will be addressed as necessary within the desk review and audit scope processes of Mutual of Omaha.

# **APPENDIXES**



Office of the Senior Vice  
President for Finance

September 1, 2004

**Thomas Jefferson  
University Hospitals**

Thomas Jefferson  
University Hospital

Methodist Hospital  
Division

Jefferson Hospital for  
Neuroscience

Ford Road Campus

Methodist Hospital  
Nursing Center

Mr. Stephen Virbitsky  
Regional Inspector General for Audit Services  
Department of Health & Human Services  
Office of Inspector General, Office of Audit Services  
150 S. Independence Mall West, Suite 316  
Philadelphia, PA 19106-3499

RE: OIG Report Number: A-03-04-00012

Dear Mr. Virbitsky:

At your request, we are submitting our response to the findings and recommendations of your draft report dated July 22, 2004 entitled "Audit of Thomas Jefferson University Hospital's Organ Acquisition Costs Claimed For The Period July 1, 1999 Through June 30, 2000".

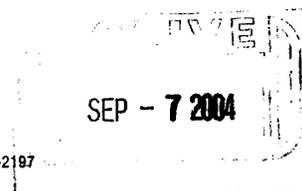
As more fully described in the draft report, Thomas Jefferson University Hospital (TJUH) did not have systems in place to distinguish certain organ acquisition costs from post-transplant costs and other hospital activities. Additionally, TJUH did not properly allocate the costs of organ acquisition between its kidney and liver transplant programs. The results of the audit indicated there were \$131,506 of unallowable costs, which resulted in an estimated Medicare overpayment of \$64,447. Further, we were advised to consult with our fiscal intermediary to determine what portion of \$927,785 of currently unsupported costs could be allowed if the costs were adequately documented.

Our responses to the findings and recommendations are set forth below and on the pages that follow.

**UNALLOWABLE COSTS:**

**Floor Space**

We agree that the B-1 statistic for square footage should be adjusted in proportion to the reclassification made for salaries and other expenses of the Human Leukocyte Antigen (HLA) laboratory. The HLA laboratory performs testing for transplant and other programs. TJUH appropriately reclassified the percentage of costs not directly related to the transplant programs to their appropriate cost centers. We overlooked the need for a similar reclassification to our floor space statistic, which would affect the allocation of overhead costs to the transplant programs.



Mr. Stephen Virbitsky  
Regional Inspector General for Audit Services  
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**Other Costs**

The draft report described that TJUH claimed \$76,861 of other costs that were unallowable as organ acquisition costs because the costs did not meet Medicare's definition of organ acquisition costs or the costs were erroneously recorded. According to our records, \$66,400 of these costs related to five liver procurement transactions that were misclassified as kidney acquisition costs. While we agree that the liver program costs should not have been classified as kidney acquisition costs, we do not agree that they were otherwise unallowable costs. The liver program costs should have been reclassified to the appropriate cost center and not offset as unallowable costs. This would still result in reduced reimbursement since our Medicare utilization is lower for liver transplant cases than it is for kidney transplant cases.

**UNSUPPORTED COSTS:****Salaries**

The draft report described that TJUH claimed \$523,014 of unsupported salaries. This represents the entire salaries of all employees in both the kidney and liver transplant programs. Based on further review, we agree that a portion of this cost should be deemed unallowable since a portion of our transplant coordinators' time was spent performing non-allowable post-transplant activities. We would like to note that not all post-transplant activities are unallowable. As such, we will provide all necessary documentation, including a current analysis of time and effort reporting, to support the allowable transplant activities. We will work with our fiscal intermediary and incorporate the results of this analysis into the adjustments of all open and re-opened cost reports, as well as to all subsequently filed cost reports. Our analysis will also include the appropriate apportionment of transplant program staff time between allowable and non-allowable areas.

**Social Services**

We agree that an outdated time study was used for the social service B-1 statistic and will provide our fiscal intermediary with an updated study. However, we believe the consistent use of our externally prepared study did not materially affect our Medicare reimbursement.

**Medical Directors' Fees**

The draft report described that TJUH claimed \$80,470 of medical director fees without differentiating between pre-transplant and post-transplant activities. TJUH contracts with Jefferson Medical College and Jefferson University Physicians (JUP) to provide the hospital with Medical Directors, Department Chairmen, and Administration, Supervision, and Teaching services for the residency programs, which are all hospital Part A costs. TJUH does not provide nor pay for physician services to hospital patients; the JUP physicians perform and bill for these Part B services directly. However, we will review the contracts and job descriptions with the Medical Directors and offset any non-allowable costs, accordingly.

Mr. Stephen Virbitsky  
Regional Inspector General for Audit Services  
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**Floor Space**

We agree that TJUH needs to revise the floor space allocation. During FY 2000, the liver transplant coordinators occupied space in the kidney transplant office; they subsequently moved to their own office space in FY 2001. We will adjust the square footage assignment based on a current time and effort analysis to differentiate between pre and post-transplant time as well as other hospital activities.

**Building and Fixtures Depreciation**

The draft report indicated that TJUH claimed \$88,680 in unsupported building depreciation due to using a more sophisticated approach other than square footage and did not communicate this change to the fiscal intermediary within 90 days of the end of the fiscal year. We did not feel such notification was required. We have always used this more sophisticated approach; consequently, there was not a change in reporting from one cost report year to the next. TJUH has over 600 cost centers spread across 1.3 million square feet among 14 buildings. Each building has a different cost structure. As such, we determine the depreciation and interest associated with each building and allocate the depreciation and interest among the cost centers in each building based on their relative square footage. We then use the cumulative depreciation of all buildings as the B-1 statistic. We believe this a reasonable basis for allocation of depreciation cost.

**Other Costs**

The draft report described that TJUH claimed \$101,523 of other costs that were unsupported at time of audit. While we understand that a portion of these costs may be unallowable, we will consult with the fiscal intermediary to determine the portion of these costs that are supportable and will offset the remainder as unallowable costs.

\* \* \* \* \*

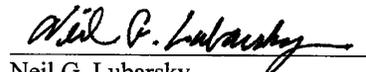
Mr. Stephen Virbitsky  
Regional Inspector General for Audit Services  
Page 4

We appreciate the opportunity to respond to your draft report. As directed by the Office of Inspector General, we will consult with our fiscal intermediary and use an alternative methodology, such as an analysis of current operations, to estimate unsupported costs related to organ acquisition. We will document the time and effort of our transplant coordinators between pre and post-transplant activities, adjust all open and re-opened cost reports and subsequently filed cost reports, and correct any reporting errors made.

If you have any questions or require additional information please contact us at the telephone numbers listed below.

Sincerely,

  
Joseph P. Cunningham  
Director of Hospital Reimbursement  
215/503-8440

  
Neil G. Lubarsky  
Senior Vice President for Finance  
215/955-9993



MUTUAL of OMAHA INSURANCE COMPANY  
Medicare Area  
P.O. Box 1602 • Omaha, NE 68101  
mutualmedicare.com  
A CMS Contracted Intermediary

September 3, 2004

Mr. Stephen Virbitsky  
Regional Inspector General  
For Audit Services  
DHHS/OIG/OAS  
150 S. Independence Mall West, Suite 316  
Philadelphia, Pennsylvania 19106-3499

Re: CIN A-03-04-00012  
Thomas Jefferson University Hospital, 39-0174  
Fiscal Year Ended June 30, 2000

Dear Mr. Virbitsky:

This is a response to your letter to Shelly Foxworthy, dated July 22, 2004, regarding the draft report entitled, "Audit of Thomas Jefferson University Hospital's Organ Acquisition Costs Claimed for the Period July 1, 1999 through June 30, 2000." We have reviewed the draft report and agree in principle with the findings therein. We, however, cannot express concurrence with the facts and recommendations because we did not participate in the audit and have not had an opportunity to review the work papers. Based on your report, we will contact Thomas Jefferson University Hospital, request documentation and adjust according to our findings.

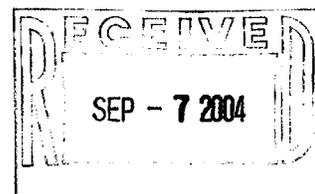
Specifically, we will reopen the Thomas Jefferson University Hospital cost reports for the fiscal years ended June 30, 1999 and June 30, 2000. The appropriate adjustments shall be implemented in revised cost report settlements and the overpayments shall be recovered. We will address the organ acquisition issues in a management letter, providing clear instructions for claiming and documenting the costs. We will review subsequent Thomas Jefferson University Hospital cost reports, using our desk review and audit scope processes. Organ acquisition costs will be addressed as necessary.

Please contact Shelly Foxworthy, 1<sup>st</sup> Vice President, Medicare Audit and Reimbursement, at 402-351-5377, if you have questions or comments related to this audit.

Sincerely,

Richard W. Reeves  
Vice President and Director, Medicare  
Mutual of Omaha

Cc: Phillip Chiarelli, ARA, CMS, Kansas City Regional Office



## 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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Hilda Mercado, *Auditor*

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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.