



DEC 23 2004

REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

Report Number: A-04-04-00001

Mr. Jerry Chambers
Vice President Provider Reimbursement
Blue Cross Blue Shield of Alabama
450 Riverchase Parkway East
Birmingham, Alabama 35244

Dear Mr. Chambers:

Enclosed are two copies of the Office of Inspector General (OIG) final report entitled *Audit of University of Alabama at Birmingham Hospital's Organ Acquisition Costs Claimed for the Period October 1, 2000, through September 30, 2001*. A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the Department of Health and Human Services (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.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG reports are made available to members of the press and the general public to the extent the information is not subject to exemptions in the Act which the department chooses to exercise (see 45 CFR Part 5).

If you have any questions or comments about this report, please contact me at 404-562-7750 or have your staff contact Peter Barbera, Audit Manager at 404-562-7758. To facilitate identification, please refer to report number A-04-04-00001 in all correspondence relating to this report.

Sincerely,

A handwritten signature in cursive script that reads "Charles J. Curtis".

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosures – as stated

Page 2 – Mr. Jerry Chambers

Direct Reply to HHS Action Officials:

Mr. Dale Kendrick
Associate Regional Administrator
Centers for Medicare and Medicaid Services
U.S. Department of Health and Human Services
61 Forsyth Street, S.W., Suite 4T20
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF UNIVERSITY OF ALABAMA
AT BIRMINGHAM HOSPITAL'S
ORGAN ACQUISITION COSTS
CLAIMED FOR THE PERIOD
OCTOBER 1, 2000, THROUGH
SEPTEMBER 30, 2001**



**DECEMBER 2004
A-04-04-0001**

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

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



EXECUTIVE SUMMARY

BACKGROUND

University of Alabama at Birmingham Hospital (UAB Hospital) is a 900-bed regional acute care hospital in Birmingham, Alabama. The UAB Hospital is the centerpiece of the UAB Health System that serves approximately 35,000 patients annually. On its fiscal year (FY) 2001 Medicare cost report, UAB Hospital claimed \$17,509,708 for organ acquisition costs associated with kidney, liver, pancreas, lung, and heart transplants. Medicare reimburses certified transplant programs for its proportionate share of costs associated with the acquisition of organs for transplant to Medicare beneficiaries. Medicare's share of the \$17,509,708 claimed for FY 2001 was \$9,189,437.

OBJECTIVE

The objective of this self-initiated audit was to determine whether organ acquisition costs claimed on the FY 2001 Medicare cost report by UAB Hospital for its kidney, liver, pancreas, lung, and heart transplant programs were allowable. Specifically, did UAB Hospital:

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

SUMMARY OF FINDINGS

The UAB Hospital did not fully comply with Medicare law, regulations, and guidelines in the preparation of its Medicare cost report and received excess reimbursement for organ acquisition activities. Specifically, UAB Hospital's procedures were not adequate to separately accumulate and report certain costs and revenues associated with organ acquisition activities.

We limited our review of organ acquisition costs to \$9.3 million of the \$17.5 million claimed by UAB Hospital on its FY 2001 Medicare cost report. We also audited the unreported revenue and ancillary costs associated with the procurement of organs from UAB Hospital. We found that UAB Hospital claimed \$1,665,866 in unallowable organ acquisition costs¹ and did not offset revenue of \$272,510 or include the associated ancillary costs of \$75,574 on its FY 2001 cost report.

The unallowable costs were associated with activities that did not comply with Medicare's definition of organ acquisition, were incurred for departments unrelated to organ transplantation, or did not comply with cost report instructions for claiming organ acquisition costs. Based on

¹ The \$1,665,866 of unallowable costs included \$345,699 unallowable as kidney acquisition but allowable as pancreas acquisition.

the unallowable organ acquisition costs, Medicare overpaid UAB Hospital an estimated \$913,208 in FY 2001, including \$227,920 for unreported revenue and associated ancillary costs. The following table summarizes the results of audit by cost category:

Results of Audit

<u>Cost Category</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Unallowable</u>	<u>Unaudited²</u>
Salaries & Emp. Benefits	\$ 901,308	\$ 209,067	\$ 638,924	\$ 53,317
Heart Valve Costs	44,100	0	44,100	0
Pancreas Procurement Fees ³	345,699	0	345,699	0
Other Costs ⁴	16,218,601	7,455,610	637,143	8,125,848
Total	<u>\$17,509,708</u>	<u>\$7,664,677</u>	<u>\$1,665,866</u>	<u>\$8,179,165</u>

RECOMMENDATIONS

We recommend that the Medicare intermediary:

- recover the FY 2001 Medicare overpayment of \$913,208 for the unallowable costs claimed as organ acquisition and unreported revenue and associated ancillary costs;
- review the organ acquisition costs claimed by UAB Hospital on its Medicare cost reports for FYs prior and subsequent to FY 2001 for issues similar to those identified in FY 2001, and recover any Medicare overpayments;
- monitor future Medicare cost report claims for organ acquisition costs from UAB Hospital to ensure compliance with Medicare requirements; and
- instruct UAB Hospital to implement procedures to properly account for and report organ acquisition costs and related revenue.

In written comments to our draft report the Medicare intermediary deferred any statement of concurrence or nonconcurrence until provided the opportunity to review our methodology and workpapers supporting the work we performed during our audit.

In its written comments to our draft report UAB Hospital concurred with most of our findings and recommendations. The UAB Hospital disagreed with some issues and proposed additional amendments to the FY 2001 cost report. We were not provided documentation to support the

² We limited the scope of our audit based on our analysis of high risk cost categories and a review of audits performed by the Medicare intermediary. We do not express an opinion on the \$8,179,165 not audited.

³ The pancreas procurement fees are unallowable as kidney acquisition costs but allowable as pancreas acquisition costs.

⁴ Other costs included: organ purchases, recipient and donor evaluations, laboratory and other tests, organ excision fees, costs for hospital inpatient stays for donors, overhead, and other direct costs of the organ transplant program.

proposed amendments. Therefore, these matters will have to be resolved with the Medicare intermediary during settlement of the cost report.

The Medicare intermediary's and UAB Hospital's comments are incorporated into the body of the report and included in their entirety as an Appendix.

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INTRODUCTION

BACKGROUND

University of Alabama at Birmingham Hospital

The UAB Hospital is a 900-bed regional acute care hospital in Birmingham, Alabama. The UAB Hospital is the centerpiece of the UAB Health System that serves approximately 35,000 patients annually.

Our audit covered FY 2001 (October 1, 2000, through September 30, 2001). At that time, UAB Hospital operated the following transplant programs that were Medicare approved on the following dates: kidney (November 20, 1978), liver (May 1, 1991), pancreas (July 1, 1999), lung (February 14, 1996), and heart (October 17, 1986).

The UAB Hospital claimed \$17,509,708 for organ acquisition costs associated with kidney, liver, pancreas, lung, and heart transplant programs during FY 2001. Of the amount claimed for FY 2001, Medicare's share was \$9,189,437.

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

The Medicare program also reimburses certified transplant centers for the transplant surgery, inpatient, and post-transplant costs for the recipients, but through different payment systems. Medicare Part A pays for the cost of the transplant surgeries and certain followup care through diagnosis related group payments to the hospital. The diagnosis related group 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. Medicare regulations require that the costs be maintained in separate cost centers for each type of organ. 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.

Salaries associated with the hospital staff are also allowable. However, 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), then the related salary should be allocated to the appropriate cost centers using a reasonable basis.

Medicare requires that revenue associated with organ procurements be offset against organ acquisition costs on the cost report.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of this self-initiated audit was to determine whether organ acquisition costs claimed on the FY 2001 Medicare cost report by UAB Hospital for its kidney, liver, pancreas, lung, and heart transplant programs were allowable. Specifically, did UAB Hospital:

- 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, we disclosed the related estimated Medicare overpayment.

Scope

This audit was conducted as part of an Office of the Inspector General (OIG) nationwide review of organ acquisition costs claimed. The scope of our audit included kidney, liver, pancreas, lung, and heart organ acquisition costs claimed by UAB Hospital on its FY 2001 Medicare cost report. Based on our analysis of audits performed by the Medicare intermediary and our reconciliation of the UAB Hospital cost report, we identified higher risk cost categories and limited our scope to an audit of \$9,330,543 claimed for certain salaries, organ procurement costs, and select ancillary charges. We also audited the organ procurement revenue and the associated ancillary costs to determine if they were properly included in the cost report. Our review

focused primarily on the organ acquisition cost center lines and selective lines of the organ acquisition worksheets of UAB Hospital's Medicare cost report.

We did not review the remaining \$8,179,165 claimed as organ acquisition cost and do not express an opinion on this amount. 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 cost report to determine certain costs.

We did not review the internal controls at UAB Hospital because a review of such controls was not necessary to accomplish the objectives of our audit.

We performed our fieldwork during the period from November 3, 2003 to May 7, 2004, which included visits to UAB Hospital in Birmingham, AL.

Methodology

To accomplish our objective, we:

- obtained an understanding of Medicare reimbursement principles for organ acquisition costs;
- reviewed working papers from prior Medicare intermediary audits;
- traced the amounts claimed as organ acquisition costs on the cost report to trial balance documentation;
- reviewed the documentation and detail accounting records supporting organ acquisition costs claimed by UAB Hospital for FY 2001;
- reviewed payroll records, which included some time-and-effort reporting;
- estimated unallowable employee benefits by applying the ratio of: (unallowable salaries to total salaries) to (total employee benefits claimed), on a departmental basis;
- interviewed UAB Hospital employees and managers;
- reviewed documentation supporting revenue received from the Organ Procurement Organization;
- reviewed documentation supporting the accumulation of select ancillary charges; and
- discussed our recommended adjustments with the Medicare intermediary and provided them with the necessary information to determine the estimated overpayment.

The Medicare intermediary determined the estimated Medicare overpayment amounts associated with our findings using proprietary software to adjust UAB Hospital's Medicare cost report. The costs we found to be unallowable, were unallowable as organ acquisition costs; however, some of the unallowable costs could be claimed as allowable costs on other sections of the cost report. To estimate the overpayment, we provided the intermediary with the necessary information to

remove the unallowable organ acquisition costs but to allow the hospital to claim them in the appropriate areas of the cost report.

The Medicare intermediary determined the impact on Medicare reimbursement for each adjustment by running the adjustments individually, preparing a Medicare cost report Settlement Summary for each adjustment, and comparing the settlement amounts to the Settlement Summary of the Medicare intermediary's previously finalized cost report. The individual impact calculations provided us with an estimated impact for each of our findings. However, to determine the overall, cumulative impact on Medicare reimbursement, the Medicare intermediary ran all adjustments together. Since some adjustments can have an effect on intermediate allocations within the cost report process, which impact the overall amount reimbursed by Medicare, the cumulative effect on Medicare reimbursement (\$913,208) differed from the summation of the individual adjustments computed by the Medicare intermediary (\$881,621).

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

FINDINGS AND RECOMMENDATIONS

The UAB Hospital did not fully comply with Medicare law, regulations, and guidelines in the preparation of its Medicare cost report and received excess reimbursement for organ acquisition activities. The UAB Hospital's FY 2001 cost report included \$1,665,866 in costs that were unallowable as organ acquisition⁵ and did not offset revenue of \$272,510 or include the associated ancillary costs of \$75,574.

Some of the unallowable costs did not comply with Medicare's definition of organ acquisition (such as salaries that were incurred for post transplant activities) 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. Other unallowable costs and unreported revenue did not comply with the Medicare cost report instructions found in the Provider Reimbursement Manual, part 2, section 3610 and 3625.

The UAB Hospital did not have adequate procedures in place to separately accumulate and report certain costs and revenues associated with organ acquisition activities.

Based on the unallowable organ acquisition costs and the unreported revenue, Medicare overpaid UAB Hospital an estimated \$913,208 on its FY 2001 cost report. This total represents the cumulative effect of our recommended cost report adjustments, as determined by the Medicare intermediary. The table below summarizes the results of our individual audit adjustments by cost category. The \$881,621 in the table differs from the \$913,208 cumulative effect because

⁵ The \$1,665,866 of unallowable costs included \$345,699 unallowable as kidney acquisition but allowable as pancreas acquisition.

taken individually the cost report adjustments do not take into consideration the effect of the other cost report adjustments on the overall Medicare reimbursement determination.

Results of Audit

Cost Category	Unallowable	Estimated Medicare Overpayment
Salaries & Emp. Benefits	\$ 638,924	\$262,812
Heart Valve Costs	44,100	18,359
Pancreas Procurement Fees	345,699	(36,708)
Other Costs	637,143	409,238
Subtotal	1,665,866	653,701
Unreported Revenues and Costs ⁶	-----	227,920
Total	\$1,665,866	\$881,621

SALARIES AND EMPLOYEE BENEFITS

In the FY 2001 Medicare cost report, UAB Hospital claimed \$509,982 in salary costs and an estimated \$128,942 in related employee benefit costs (a total of \$638,924) that were unallowable as organ acquisition.

Medicare costs claimed must be reasonable and properly allocated, and supported by proper documentation. Only the portion of salaries and associated benefits that relates to time spent on allowable organ acquisition activities (pre-transplant activities) may be included as organ acquisition costs on the Medicare cost report. The salaries and benefits associated with post-transplant activities are not considered allowable organ acquisition costs. If an employee performs both pre-transplant and other activities (post-transplant or nontransplant), then the related salary and associated benefits should be allocated to the appropriate cost centers using a reasonable basis.

Based on interviews with management and employees of the kidney and liver transplant centers, we determined that the majority of UAB Hospital's kidney and liver transplant employees were considered 100 percent pre-transplant or 100 percent post-transplant. However, UAB Hospital improperly claimed the salary and benefit costs associated with the 100 percent post-transplant employees as organ acquisition costs. In addition, some of UAB Hospital's kidney and liver transplant employees performed both pre-transplant and post-transplant activities; however, UAB Hospital claimed their full salary and benefit costs as organ acquisition costs. A proper

⁶This adjustment is related to the non-reporting of revenue, rather than the identification of unallowable costs. Therefore no unallowable cost figure is included in this schedule. Further, the \$227,920 Medicare overpayment is an understated estimate because it does not include all cost report adjustments associated with the unreported revenue. This was caused by the necessary order in which the Medicare intermediary had to apply our recommended cost report adjustments.

allocation of their salary and benefit costs was not made. Therefore, UAB Hospital’s cost report included salaries and benefits that are unallowable as organ acquisition costs.

As a result of claiming unallowable organ acquisition costs, UAB Hospital received an estimated Medicare overpayment of \$262,812. The table below summarizes the unallowable salary and benefit costs for post transplant kidney and liver employees:

Unallowable Salary and Employee Benefit Costs

<u>Cost Category</u>	<u>Unallowable Salary Costs</u>	<u>Unallowable Employee Benefits</u>	<u>Estimated Medicare Overpayment</u>
Kidney Employees	\$261,139	\$ 67,074	\$224,975
Liver Employees	248,843	61,868	37,837
Total	<u>\$509,982</u>	<u>\$128,942</u>	<u>\$262,812</u>

HEART VALVE COSTS

The UAB Hospital improperly claimed a \$44,100 purchase of heart valves as an organ acquisition cost on the Medicare cost report. Medicare reimbursed certified transplant centers for the acquisition cost of whole organs such as hearts. However, heart valves are not considered whole organs for transplant and therefore cannot be claimed for reimbursement as organ acquisition. The \$44,100 was charged to the heart acquisition cost center when it should have been charged to the operating room cost center. The claim for \$44,100 in unallowable organ acquisition costs resulted in an estimated Medicare overpayment of \$18,359.

PANCREAS PROCUREMENT FEES

The UAB Hospital improperly claimed pancreas procurement fees of \$345,699 as kidney acquisition costs. When filing the Medicare cost report, UAB Hospital personnel failed to create a separate cost center and a separate worksheet to properly account for the pancreas acquisition costs.

Medicare cost report instructions at Centers for Medicare & Medicaid Services (CMS) Provider Reimbursement Manual, part 2, section 3610, state that any costs associated with pancreas acquisitions are to be recorded on a separate cost center line on the cost report. In addition, section 3625 of this publication requires the filing of a separate organ acquisition worksheet for each type of organ transplanted.

The UAB Hospital improperly claimed pancreas acquisition costs as kidney acquisition. As a result, in FY 2001 Medicare reimbursed UAB Hospital for \$345,699 in organ acquisition costs at the kidney reimbursement rate (61.3 percent) when it should have been reimbursed at the pancreas reimbursement rate (70.6 percent). The reimbursement effect is an underpayment of \$36,708.

OTHER COSTS

The UAB Hospital improperly claimed \$637,143 of other costs on the cost report, resulting in an estimated Medicare overpayment of \$409,238.

Unallowable Other Costs

<u>Cost Category</u>	<u>Unallowable Costs</u>	<u>Estimated Medicare Overpayment</u>
Kidney Ancillary Charges	\$ 23,415	\$ 14,361
Tissue Typing Offset	613,728	394,877
Total	<u>\$637,143</u>	<u>\$409,238</u>

Kidney Ancillary Charges

The UAB Hospital overstated the total ancillary charges for living related kidneys by \$123,200 on the kidney acquisition worksheet. As a result, UAB Hospital claimed \$23,415 in excess organ acquisition costs and received an estimated Medicare overpayment of \$14,361.

The overstatement occurred because UAB Hospital used an improper method for querying its patient account system when identifying the ancillary charges related to living kidney acquisitions. The methodology did not properly account for recurring records in the system. Consequently, UAB Hospital's methodology resulted in the inclusion of some charges that were outside of the cost reporting period and excluded some charges that were within the cost reporting period.

The improper method for querying the patient account system resulted in an estimated overpayment of \$14,361.

Tissue Typing Offset

The UAB Hospital improperly offset revenue of \$895,813 against the administration and general cost center instead of the tissue typing cost center. As a result the hospital claimed \$613,728 in excess costs and received an estimated Medicare overpayment of \$394,877.

The Medicare regulations and general accounting principles require the matching of costs with the related revenues. As explained below, this was not done.

The \$895,813 represented revenue UAB Hospital received for tissue typing services provided by its lab to outside parties. Revenue associated with tissue typing costs should have been offset against the tissue typing cost center.

This improper offset resulted in an inflated tissue typing cost-to-charge ratio. The ratio flowed to the organ acquisition worksheets of the cost report and was applied to the kidney tissue typing charges claimed on the kidney acquisition worksheet. This resulted in a \$613,728 overstatement of kidney tissue typing costs claimed as organ acquisition. As a result, Medicare overpaid UAB Hospital an estimated \$394,877.

UNREPORTED REVENUE AND ASSOCIATED ANCILLARY COSTS

The UAB Hospital did not properly include on its cost report \$272,510 in revenue received from its organ procurement organization (OPO) or the associated \$75,574 in ancillary costs, related to the procurement of organs from cadaver donors at UAB Hospital. As a result, the UAB Hospital received an estimated Medicare overpayment of \$227,920.

The UAB Hospital received \$272,510 in revenue because it has, as required by law, a cooperative agreement with its OPO to work together to assure proper procurement and disposition of cadaver organs. However, UAB Hospital did not report the revenue, or the related costs, on the organ acquisition worksheets of the cost report.

The revenue received should have been reported on the organ acquisition worksheets of the cost report. The CMS Provider Reimbursement Manual, part 2, section 3625.3 instructs providers to report on the organ acquisition worksheets of the cost report, the total revenue applicable to:

- *Organs ... furnished to other providers and organs sent to procurement organizations and others;*
- *Organs sent to OPOs, military hospitals with a reciprocal sharing agreement with the OPO in effect prior to March 3, 1988, and approved by the intermediary, and organs sent to transplant centers; and ...*

This method of reporting assures that any Medicare organ acquisition costs claimed for reimbursement will be offset by any related revenue.

The UAB Hospital should have reported \$272,510 in revenue received from the OPO for organ procurement. The UAB Hospital also did not report \$75,574 in related ancillary costs on the organ acquisition worksheets. For consistency, the costs associated with the revenue should be included on the organ acquisition worksheets. As a result of not reporting the revenue or associated costs, UAB Hospital received an estimated Medicare overpayment of \$227,920.

RECOMMENDATIONS

We recommend that the Medicare intermediary:

- recover the FY 2001 Medicare overpayment of \$913,208 for the unallowable costs claimed as organ acquisition and unreported revenue and associated ancillary costs;
- review the organ acquisition costs claimed by UAB Hospital on its Medicare cost reports for FYs prior and subsequent to FY 2001 for issues similar to those identified in FY 2001, and recover any Medicare overpayments;

- monitor future Medicare cost report claims for organ acquisition costs from UAB Hospital to ensure compliance with Medicare requirements; and
- instruct UAB Hospital to implement procedures to properly account for and report organ acquisition costs and related revenue.

OTHER MATTERS

The following matters relate to the organ acquisition costs and statistics claimed on the FY 2001 Medicare cost report; however, they were not specifically selected as an area for review. We did not fully address the issues nor did we quantify a dollar impact. However, we have determined that they are matters that should be reviewed by the Medicare intermediary, to determine if corrective action is necessary.

Organ Count

The UAB Hospital may not be accurately reporting the number of organs on Worksheet D-6 of the Medicare cost report.

The UAB Hospital used the diagnosis related group listings for determining the number of usable hearts and lungs reported on the cost report. The diagnosis related group listings are based on discharge dates instead of transplant dates. Therefore, the organ count does not necessarily represent the number of organs purchased and transplanted during the cost report period of interest. Additionally, UAB Hospital does not report any organs as “excised in the provider,” which appeared to be inconsistent with actual practices.

The usable and Medicare usable organ counts are utilized in calculating the Medicare rate of reimbursement. Therefore it is important that these counts be accurate.

Accrual Issue

It appeared that UAB Hospital might not have utilized proper accrual accounting regarding OPO invoices claimed as organ acquisition. The CMS Provider Reimbursement Manual, section 2302.1 states that:

Under the accrual basis of accounting, revenue is recorded in the period when it is earned, regardless of when it is collected, and expenditures for expense and asset items are recorded in the period in which they are incurred, regardless of when they are paid.

The UAB Hospital did not accrue and include on the cost report, expenses incurred for organs purchased and transplanted in the last month of the cost reporting period. The UAB Hospital also appeared to have made payments during the first month of the cost reporting period that were applicable to organs received and transplanted in the last month of the prior year’s cost reporting period. Since the Medicare reimbursement rate is usually different each year, it is important that costs are reported and claimed for reimbursement in the proper period.

MEDICARE INTERMEDIARY AND UAB HOSPITAL COMMENTS TO REPORT FINDINGS AND OIG RESPONSE

General Summary

Medicare Intermediary Comments

In written response to the draft report, Blue Cross Blue Shield of Alabama, the Medicare intermediary, stated they prefer to reserve any statement of concurrence or nonconcurrence with our findings and recommendations until they are provided the opportunity to review our methodologies and supporting documentation accumulated and used to develop the dollar value of the findings. They have requested this information be provided prior to their staff beginning a review of UAB Hospital's organ acquisition costs. Currently, they have made tentative plans to conduct a review of the cost report periods and have initiated cost report reopening procedures.

UAB Hospital Comments

In written response to the draft report, UAB Hospital concurred with most of the findings and recommendations. However, UAB Hospital also commented on additional amendments it plans to make to the FY 2001 cost report that will increase its reimbursement. The UAB Hospital estimates that it was underpaid by \$304,000 based on its planned response to our draft report.

OIG Response

We will provide the Medicare intermediary with the methodologies and documentation necessary for them to resolve the issues in our report and to conduct their reviews of UAB Hospital's organ acquisition costs.

We are unable to comment on UAB Hospital's proposed amendments since we were not provided documentation supporting the amendments. Any cost report amendments that UAB Hospital plans to make, that differs from our report findings, should be reviewed by the Medicare intermediary to determine whether the amendments comply with Medicare law, regulations and guidelines for claiming organ acquisition costs and whether the calculations are accurate and supported. Until UAB Hospital provides adequate supporting documentation to the Medicare intermediary, we have no basis to revise the recommended adjustments in our report.

The UAB Hospital and OIG comments to specific findings are detailed below.

Salaries and Employee Benefits

UAB Hospital Comments

The UAB Hospital concurred with our finding and agreed to amend the FY 2001 cost report accordingly.

Heart Valve Costs

UAB Hospital Comments

The UAB Hospital concurred with our finding to reclassify \$44,100 in heart valve costs out of the kidney organ acquisition cost center. In addition, UAB Hospital identified \$105,000 in kidney organ acquisition costs that were erroneously included in the heart acquisitions cost center. The UAB Hospital will also reclassify \$105,000 from the heart acquisition cost center to the kidney acquisition cost center.

OIG Response

We question the basis for reclassifying the \$105,000, now representing the costs to be kidney related. We were provided accounting documentation while on-site which indicated that the \$105,000 represented heart acquisition costs. However, the costs were recorded in the kidney acquisition account. Further, the FY 2001 cost report documentation we were provided showed that UAB Hospital reclassified the \$105,000 from the kidney cost center line to the heart cost center line of the cost report, as though the costs were associated with heart acquisition. The UAB Hospital now wants to claim the costs as kidney acquisition costs. The UAB Hospital needs to demonstrate to the Medicare intermediary that the \$105,000 is related to kidney acquisition and not heart. Our recommended adjustment stands until UAB Hospital proves to the intermediary that its original treatment of the \$105,000 was incorrect.

Pancreas Procurement Fees

UAB Hospital Comments

The UAB Hospital concurred that \$345,699 in pancreas procurement fees were erroneously included in the kidney acquisition cost center and should be reclassified to the pancreas acquisition cost center. In addition, since the subject transplants were combination kidney/pancreas transplants, UAB Hospital plans to amend the FY 2001 cost report to reclassify some of the kidney acquisition cost center expenses to the pancreas acquisitions cost center, based on the number of organs.

OIG Response

We agree that costs associated with the acquisition of pancreas organs should be recorded in the pancreas acquisition cost center. However, the additional costs that UAB Hospital plans to add to the pancreas acquisition cost center should be reviewed by the Medicare intermediary to verify that the costs represent allowable organ acquisition costs as discussed in the Provider Reimbursement Manual I, section 2771.1 B "Multiple Organ Retrieval." Also, the Medicare intermediary needs to review the accuracy of the organ count used for the cost reclassification.

Kidney Ancillary Charges

UAB Hospital Comments

The UAB Hospital did not concur with our finding that ancillary charges for living related kidneys were overstated by \$123,000. Based on additional analysis performed by UAB Hospital after the OIG completed its fieldwork, UAB Hospital finds that operating room charges were not understated, but were properly reported in the cost report. Using the correct operating room charges in the cost report produces an understatement of ancillary charges for living related kidneys of \$186,783. Therefore, UAB Hospital will amend its FY 2001 cost report accordingly.

OIG Response

While on-site we were provided documentation indicating that operating room charges as well as all other ancillary charges reported as kidney organ acquisition costs were improperly stated on the cost report. Contrary to the documentation we were provided, UAB Hospital now believes that the operating room charges were properly stated. However, we were not provided any documentation to support this statement. The UAB Hospital should provide the Medicare intermediary with the necessary support for this statement, as part of the cost report settlement.

Other Costs - Tissue Typing Offset

UAB Hospital Comments

The UAB Hospital concurred that the reduction related to tissue typing services provided to outside parties should have reduced the tissue typing cost center rather than the administrative and general cost center. However, UAB Hospital did not agree with the offset of revenue. Instead, UAB Hospital notes that costs for these services can be determined and costs of these services should be removed from the cost report. The UAB Hospital will amend the FY 2001 cost report to remove the cost of tissue typing services provided to outside parties.

OIG Response

We recommended removal of the revenue (versus the cost) from the cost report because UAB Hospital had not determined the cost for tissue typing services provided to outside parties. For the same reason, UAB Hospital removed the revenue (versus the cost) from the cost report.

The UAB Hospital should provide the Medicare intermediary with support for the costs determined to be associated with the tissue typing services provided to outside parties. Moreover, cost reporting guidelines state that a provider may not file an amended cost report to avail itself of an option it did not originally elect. The Medicare intermediary will need to determine if the proposed change from revenue to cost is allowed.

Unreported Revenue and Associated Ancillary Costs

UAB Hospital Comments

The UAB Hospital concurred that it did not record revenue received from its organ procurement organization or the costs associated with the procurement of organs on the organ acquisition worksheets. However, UAB Hospital believes that the unrecorded costs are greater than the \$75,574 indicated in the draft report. The UAB Hospital notes that not all costs from the time the patient was declared brain dead were included in the cost report. The UAB Hospital will calculate all these costs and will include them in the amended cost report.

OIG Response

We were only able to identify \$75,574 in costs. In lieu of any documentation to support the additional costs UAB Hospital intends to claim, we have no basis to revise our recommended adjustments to the cost report.

The Medicare intermediary should review the ancillary costs that the hospital intends to claim as organ acquisition costs to confirm that they are reasonable, supportable and allowable as organ acquisition costs in accordance with the Intermediary Manual, Part III (CMS Pub 13) section 3178.

Other Matters - Organ Count

UAB Hospital Comments

The UAB Hospital agreed with our observations and will amend the cost report regarding the number of heart and lung transplants reported. The UAB Hospital also provided the revised number of usable organs it plans to report.

OIG Response

As stated in our report, we did not fully address the issue of organ count. The Medicare intermediary will need to review UAB Hospital's method and supporting documentation used for calculating the new organ counts. In addition, the statistics portion of the organ acquisition worksheets should be reviewed for proper organ count and classification.

The titles "Total Usable Organs" and "Medicare Usable Organs" on the organ count chart included in UAB Hospital's written response are reversed. The "Total Usable Organs" should be the larger number.

Other Matters - Accrual Issue

UAB Hospital Comments

The UAB Hospital concurred that they recorded various organ procurement fees on a cash rather than accrual basis. The UAB Hospital believes the difference is not material, but will amend the FY 2001 cost report to record these costs on the accrual basis.

OIG Response

The UAB Hospital's response will provide for more accurate reporting. For complete accuracy, we note that revenues as well as expenses should be accrued and reviewed by the Medicare intermediary.

APPENDIX



**Medicare
Part A Intermediary**
866 539-5598

November 10, 2004

Report Number: A-04-04-00001

Federal Express 791384147576

Mr. Charles J. Curtis
Regional Inspector General
Region IV
Office of Inspector General
61 Forsyth Street, S.W. – Suite 3T41
Atlanta, Georgia 30303

RECEIVED
NOV 12 2004
Office of Audit Svcs.

RE: University of Alabama at Birmingham
Provider Number 01-0033
For Year Ended September 30, 2001

Dear Mr. Curtis:

This is in response to the letter of October 7, 2004 regarding the draft report entitled *Audit of University of Alabama at Birmingham Hospital's Organ Acquisition Costs Claimed for the Period October 1, 2000 through September 30, 2001* and your request for comments.

On October 26, 2004 a telephone conversation was held between members of my staff and Terry Frix and Peter Barbera of your staff. During that conversation a discussion of the work performed during the OIG review and preparation of the draft report was held, as well as a discussion of the expectations for our staff as a follow-up to the receipt of an official report of findings.

As was expressed during the conversation, we are reticent to include a statement of concurrence or nonconcurrence without an opportunity to review the methodologies and supporting documentation accumulated and used to develop the dollar value of the deficiencies noted. During the discussion we requested copies of pertinent working papers to support the work performed during your review, however, we understand there are restrictions placed on access to the working papers associated with the draft report. We would hope to have such documentation prior to beginning an engagement involving our staff, and would prefer to reserve comment as to our concurrence or nonconcurrence until we have had adequate opportunity to review those papers.

As was discussed during our conversation, we have made tentative plans to conduct a review of the organ acquisition, both for the periods subject to reopening (dating back to FY 9/30/1997) prior to the period reviewed within your report, and all periods subsequent to the period reviewed with your report, over the coming months and have already initiated

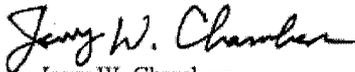
Blue Cross and Blue Shield of Alabama,
An Independent Licensee of the Blue Cross and Blue Shield Association.
450 Riverchase Parkway East, Birmingham, Alabama 35244-2858
A CMS Contracted Intermediary.

Mr. Charles J. Curtis
November 10, 2004
Page Two

reopening procedures for the necessary reports as required by CMS instructions. At this time we await further instruction from your office as regards to expansion of our audit scope beyond the CMS directed Audit Program.

If you have any further questions or instructions as regards the specifics of our review, please contact Bill Henry, Audit Director, at 205-220-4140 or Rick Bottsford, Audit Manager, at 205-220-4130.

Sincerely,



Jerry W. Chambers
Vice President
Provider Reimbursement



November 9, 2004

Mr. Charles T. Curtis
Regional Inspector General
for Audit Services, Region IV
Department of Health and Human Services
Office of Inspector General
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia, 30303

Dear Mr. Curtis:

This letter is written in response to your draft report number A-04-04-00001 transmitted to UAB Hospital in a letter dated October 7, 2004.

The following comments are made to the various sections of your draft report:

Salaries and Employee Benefits

UAB Hospital concurs with the finding that certain post transplant salary and employee benefit costs were erroneously included in organ acquisition costs. This occurred, as we explained, when a new account, transplant organ procurement, was established during FY-2000 and there was confusion as to the type of salary being recorded in the account.

UAB Hospital will amend the FY-2001 cost report to reclassify these salary and employee benefit costs out of organ acquisitions costs.

Heart Valve Costs

UAB Hospital concurs with the finding that \$44,100 in heart valve costs were erroneously included in organ acquisitions costs. In addition, UAB Hospital identified to you \$105,000 in kidney organ acquisition cost that were erroneously included in the heart acquisitions cost center.

UAB Hospital will amend the FY-2001 cost report to reclassify the \$44,100 in heart valve cost out of the kidney acquisitions cost center and also reclassify \$105,000 from the heart acquisition cost center to the kidney acquisition cost center.

Department of Financial Management
1500 Liberty National Building
2001 3rd Avenue South
205.934.9957
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The University of
Alabama at Birmingham
Mailing Address:
LNB 1500
619 19TH ST S
BIRMINGHAM AL 35249-6551

Pancreas Procurement Fees

UAB Hospital concurs with the finding that \$345,699 in pancreas procurement fees were erroneously included in the kidney acquisitions cost center. In addition, since these were combination kidney/pancreas transplants, UAB Hospital believes that a portion, based on number of transplants, of the kidney acquisitions cost center costs excluding kidney organ procurement fees should be reclassified to the pancreas acquisition cost center.

UAB Hospital will amend the FY-2001 cost report to reclassify the \$345,699 in pancreas procurement fees to the pancreas acquisition cost center and also reclassify approximately 7.1% (based on number of organs) of the kidney acquisitions cost centers, excluding kidney procurement fees, to the pancreas acquisitions cost center.

Kidney Ancillary Charges

UAB Hospital does not concur that ancillary charges for living related kidneys were overstated by \$123,000. Based on additional analysis performed after the auditors left the field it was determined that operating room charges were not understated by \$309,983 but were in fact properly stated in the as filed cost report. Use of the correct operating room charges therefore produces an understatement of ancillary charges for living related kidneys of \$186,783.

UAB Hospital will amend the FY-2001 cost report to correct the understatement of ancillary charges for living related kidneys.

Tissue Typing Offset

UAB Hospital concurs that reductions related to tissue typing services provided to outside parties should be used to reduce the cost of the tissue typing cost center rather than the administrative and general cost center. However, the UAB Hospital does not concur in the offset of revenue. Charges to these outside parties were made at the same rate as charges to hospital patients. Costs for these tissue typing services can be determined and the costs for these services should be removed from the cost report.

UAB Hospital will amend the FY-2001 cost report to remove the cost of tissue typing services provided to outside parties.

Unreported Revenue and Associated Ancillary Costs

UAB Hospital concurs that \$272,510 in revenue received from its organ procurement organization (OPO) was not recorded on worksheets D-6 of the cost report. It also concurs that costs associated with the procurement of organs from cadaver donors at UAB Hospital were not included on worksheets D-6 of the cost report. However, UAB Hospital believes that the cost is greater than the \$75,574 indicated in the draft report since not all charges from the time the patient was declared brain dead were included in the calculation.

UAB Hospital will amend the FY-2001 cost report to properly record \$272,510 received from its organ procurement organization. It will also calculate costs from the time the patient was declared brain dead and include in the cost report.

Organ Count

UAB Hospital concurs that it used the discharge date rather than the transplant date for heart and lung transplants. In addition it concurs that it did not report any organs as "excised in the provider."

UAB Hospital will amend the FY-2001 cost report to record heart and lung transplants based on the date of discharge. It will also amend the FY-2001 cost report to record organs excised in the provider. Based on your analysis of the revenue received from our organ procurement organization and the manual instructions quoted by you at CMS Provider Reimbursement Manual, part 2, section 3625, the following changes in the number of usable organs and Medicare usable organs are anticipated.

<u>Kidney</u>	<u>As Filed</u>	<u>As Amended</u>
Total Usable Organs	184	198
Medicare Usable Organs	300	314
Medicare Ratio	.6133	.6305
<u>Heart</u>	<u>As Filed</u>	<u>As Amended</u>
Total Usable Organs	7	17
Medicare Usable Organs	19	29
Medicare Ratio	.3684	.5862
<u>Lung</u>	<u>As Filed</u>	<u>As Amended</u>
Total Usable Organs	10	18
Medicare Usable Organs	29	37
Medicare Ratio	.3448	.4864
<u>Liver</u>	<u>As Filed</u>	<u>As Amended</u>
Total Usable Organs	10	25
Medicare Usable Organs	84	99
Medicare Ratio	.1190	.2525
<u>Pancreas</u>	<u>As Filed</u>	<u>As Amended</u>
Total Usable Organs	12	19
Medicare Usable Organs	17	24
Medicare Ratio	.7058	.7916

Accrual Issue

UAB Hospital concurs that various organ procurement fees were recorded on a cash rather than accrual basis. While the Hospital believes that the difference in cost is not material, it will amend the FY-2001 cost report to record these costs on the accrual basis.

The table below summarizes UAB Hospital's estimated reimbursement effect of amending the FY-2001 cost report.

Projected Results of Amending Cost Report

<u>Category</u>	<u>Estimated Medicare Overpayment (Under payment)</u>
Salary and Employee Benefits	\$263,000
Heart Valve Costs	19,000
Kidney Procurement Costs	(28,000)
Pancreas Procurement Costs	(37,000)
Pancreas Acquisition Costs	(15,000)
Kidney Ancillary Charges	(47,000)
Tissue Typing Costs	106,000
Unreported Revenue and Costs	228,000
Organs excised in the provider	(793,000)
Total	<u>\$(304,000)</u>

If you have any questions or need any additional information, please let me know.

Sincerely,



William W. Higdon
Director of Reimbursement

ACKNOWLEDGMENTS

This report was prepared under the direction of Charles J. Curtis, Regional Inspector General for Audit Services, Region IV. Other principal Office of Audit Services' staff that contributed include:

Pete Barbera, *Audit Manager*
Tasha Wolford, *Senior Auditor*
Terry Frix, *Auditor*

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