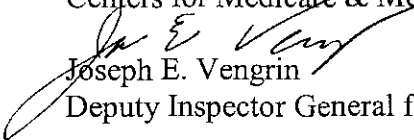




JUL - 5 2005

**TO:** Herb Kuhn  
Director, Center for Medicare Management  
Centers for Medicare & Medicaid Services

**FROM:**   
Joseph E. Vengrin  
Deputy Inspector General for Audit Services

**SUBJECT:** Audit of Clarian Health Partners' Organ Acquisition Costs Claimed for the Period  
January 1, 2000, Through December 1, 2000 (A-05-04-00049)

Attached is an advance copy of our final report on organ acquisition costs that Clarian Health Partners, Inc. (Clarian), claimed for calendar year (CY) 2000. We will issue this report to AdminaStar Federal, Inc., the Medicare intermediary, and to Clarian within 5 business days.

The objective of this self-initiated audit was to determine whether the organ acquisition costs that Clarian claimed on the CY 2000 Medicare cost report for its kidney, heart, liver, lung, and pancreas transplant programs were allowable. Specifically, did Clarian:

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

Clarian did not always comply with Medicare law, regulations, and guidelines for claiming organ acquisition costs in the preparation of its Medicare Part A cost report and received excess Medicare reimbursement for organ acquisition activities. Specifically, Clarian did not properly adjust some costs and did not have systems to accumulate certain costs of organ acquisition separately from the costs of posttransplant and other hospital activities.

We limited our review of organ acquisition costs to \$4 million of the \$12.5 million that Clarian claimed on its CY 2000 Medicare cost report. Clarian claimed \$414,385 in unallowable costs and \$2,524,864 in unsupported costs.

The unallowable costs of \$414,385 represented duplicate salary costs and missing or incorrect adjustments for unallowable costs. Based on these unallowable costs, Medicare overpaid Clarian an estimated \$270,665.

The unsupported costs of \$2,524,864 did not comply with Medicare's documentation requirements for reimbursement. We recognize that some portion of the \$2,524,864 may have related to organ acquisition activities and would have been allowable if properly documented. However, based on Federal regulations and the Provider Reimbursement Manual, the unsupported costs were considered unallowable for Medicare reimbursement. Although Clarian was unable to provide necessary documentation to support the \$2,524,864 in costs claimed for

CY 2000, the Centers for Medicare & Medicaid Services (CMS) and the Medicare intermediary may elect to use an alternative methodology to estimate the portion of these costs that relate to organ acquisition. If Clarian cannot provide alternative support for the \$2,524,864, a Medicare overpayment of \$1,818,679 will exist.

We recommend that the Medicare intermediary:

- recover the Medicare overpayment of \$270,665 for unallowable costs claimed as organ acquisition,
- work with Clarian to determine the allowable portion of the \$2,524,864 in unsupported costs and the related Medicare payment of \$1,818,679 and recover the portion that Clarian is unable to support,
- review organ acquisition costs that Clarian claimed on subsequent Medicare cost reports for issues similar to those identified in CY 2000 and recover any Medicare overpayments,
- monitor Clarian's future Medicare cost report claims for organ acquisition costs to ensure compliance with Medicare requirements, and
- instruct Clarian to develop and maintain adequate time studies and accounting controls and to provide clear direction to responsible personnel as to Medicare requirements for claiming and documenting organ acquisition costs.

Officials of the Medicare intermediary said that they could not respond to the recommendations in our draft report until they reviewed our working papers and the documentation to which Clarian referred in its response to the draft report. Nevertheless, the officials stated that they had reopened the CY 2000 cost report to make adjustments, anticipated performing fieldwork at Clarian, and would make necessary adjustments to subsequent cost reports.

We have provided the Medicare intermediary with the working papers that identify the unallowable and unsupported organ acquisition costs from the CY 2000 cost report. The intermediary can use these working papers, with additional documentation from Clarian, to determine the adjustments needed for the CY 2000 and subsequent cost report settlements.

In comments on our draft report, Clarian officials agreed with the amounts of the unallowable costs but did not address refunding the overpayment. Although Clarian officials agreed to work with the Medicare intermediary to determine the allowable portion of the unsupported costs, they did not agree with the identified overpayment amounts for unsupported salary and space costs and suggested allowing an alternative allocation method. Clarian did not address our recommendations that the intermediary (1) review cost reports filed after our audit period and (2) monitor Clarian's future cost reports. Clarian did, however, express its commitment to

enhancing its procedures and control systems to ensure appropriate filing of Medicare cost reports.

Although Clarian did not perform employee time studies during CY 2000, the Medicare intermediary may consider an allowable alternative methodology and adequate supporting documentation from Clarian to estimate the amount of unsupported costs related to organ acquisition. The Medicare intermediary and CMS officials will need to determine the acceptability of the proposed estimation methodology.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or Paul Swanson, Regional Inspector General for Audit Services, at (312) 353-2618. Please refer to report number A-05-04-00049 in all correspondence.

Attachment



DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF AUDIT SERVICES  
233 NORTH MICHIGAN AVENUE  
CHICAGO, ILLINOIS 60601

REGION V  
OFFICE OF  
INSPECTOR GENERAL

JUL - 7 2005

Report Number: A-05-04-00049

Ms. Pam Dallas, CPA  
Manager, Medicare Audit and Reimbursement  
AdminaStar Federal, Inc.  
8115 Knue Road, Mailpoint AF-41  
Indianapolis, Indiana 46250

Dear Ms. Dallas:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Audit of Clarian Health Partners' Organ Acquisition Costs Claimed for the Period January 1, 2000, Through December 31, 2000." A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

The HHS action official named below will make final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days. 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 issued to the Department's grantees and contractors are made available to members of the press and general public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-05-04-00049 in all correspondence.

Sincerely,

Paul Swanson  
Regional Inspector General  
for Audit Services

Enclosures -- as stated

Page 2 – Ms. Pam Dallas

**Direct Reply to HHS Action Official:**

Ms. Jackie Garner  
Regional Administrator  
Centers for Medicare & Medicaid Services  
Department of Health and Human Services  
233 North Michigan Avenue, Suite 600  
Chicago, Illinois 60601-5519



DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF AUDIT SERVICES  
233 NORTH MICHIGAN AVENUE  
CHICAGO, ILLINOIS 60601

REGION V  
OFFICE OF  
INSPECTOR GENERAL

JUL - 7 2005

Report Number: A-05-04-00049

Mr. Isadore Rivas  
Vice-President, Finance  
Clarian Health Partners, Inc.  
950 N. Meridian Street, 12<sup>th</sup> Floor  
Indianapolis, Indiana 46204

Dear Mr. Rivas:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Audit of Clarian Health Partners' Organ Acquisition Costs Claimed for the Period January 1, 2000, Through December 31, 2000." A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

The HHS action official named below will make final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days. 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 issued to the Department's grantees and contractors are made available to members of the press and general public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-05-04-00049 in all correspondence.

Sincerely,

Paul Swanson  
Regional Inspector General  
for Audit Services

Enclosures – as stated

Page 2 – Mr. Isadore Rivas

**Direct Reply to HHS Action Official:**

Ms. Jackie Garner  
Regional Administrator  
Centers for Medicare & Medicaid Services  
Department of Health and Human Services  
233 North Michigan Avenue, Suite 600  
Chicago, Illinois 60601-5519

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF CLARIAN HEALTH  
PARTNERS' ORGAN ACQUISITION  
COSTS CLAIMED FOR THE PERIOD  
JANUARY 1, 2000, THROUGH  
DECEMBER 1, 2000**



**Daniel R. Levinson  
Inspector General**

**JULY 2005  
A-05-04-00049**



# *Office of Inspector General*

<http://oig.hhs.gov>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR part 5.)

## **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

Clarian Health Partners, Inc. (Clarian), owns and operates three hospital facilities within 1 mile of one another in Indianapolis, IN. The three facilities are licensed as one acute care hospital. Clarian claimed \$12,537,133 on its calendar year (CY) 2000 Medicare cost report for organ acquisition costs associated with kidney, heart, liver, lung, and pancreas transplants. Medicare reimburses certified transplant programs for their proportionate share of costs associated with the acquisition of organs for transplant to Medicare beneficiaries. Medicare's share of the \$12,537,133 claimed for CY 2000 was \$7,020,523.

### OBJECTIVE

The objective of this self-initiated audit was to determine whether the organ acquisition costs that Clarian claimed on the CY 2000 Medicare cost report for its kidney, heart, liver, lung, and pancreas transplant programs were allowable. Specifically, did Clarian:

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

### SUMMARY OF FINDINGS

Clarian did not always comply with Medicare law, regulations, and guidelines for claiming organ acquisition costs in the preparation of its Medicare Part A cost report and received excess reimbursement for organ acquisition activities. Specifically, Clarian did not properly adjust some costs and did not have systems to accumulate certain costs of organ acquisition separately from the costs of posttransplant and other hospital activities. The table below summarizes the results of the audit by cost category:

#### Results of Audit

<u>Cost Category</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Unallowable</u>	<u>Unsupported</u>	<u>Unaudited<sup>1</sup></u>
Salaries	\$2,420,159	\$0	\$69,620	\$2,348,958	\$1,581
Medical Directors	349,765	0	349,765	0	0
Floor Space	175,906	0	0	175,906	0
Other Costs <sup>2</sup>	9,591,303	1,065,261	(5,000)	0	8,531,042
<b>Total</b>	<b><u>\$12,537,133</u></b>	<b><u>\$1,065,261</u></b>	<b><u>\$414,385</u></b>	<b><u>\$2,524,864</u></b>	<b><u>\$8,532,623</u></b>

<sup>1</sup>We limited the scope of our audit based on our analysis of high-risk cost categories, a review of audits that the Medicare intermediary performed, and our survey work at Clarian. We do not express an opinion on the \$8.5 million not audited.

<sup>2</sup>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.

We limited our review of organ acquisition costs to \$4 million of the \$12.5 million that Clarian claimed on its CY 2000 Medicare cost report. Clarian claimed \$414,385 in unallowable costs and \$2,524,864 in unsupported costs.

The unallowable costs of \$414,385 represented duplicate salary costs and missing or incorrect adjustments for unallowable costs. During the audit, Clarian officials generally agreed that these costs were claimed in error. Based on these unallowable costs, Medicare overpaid Clarian an estimated \$270,665.<sup>3</sup>

The unsupported costs of \$2,524,864 did not comply with Medicare's documentation requirements for reimbursement. During the audit, Clarian officials expressed their belief that their accounting system was properly capturing organ acquisition costs. We recognize that some portion of the \$2,524,864 may have related to organ acquisition activities and would have been allowable if properly documented. However, based on Federal regulations and the Provider Reimbursement Manual, the unsupported costs were considered unallowable for Medicare reimbursement. Although Clarian was unable to provide necessary documentation to support the \$2,524,864 in costs claimed for CY 2000, the Centers for Medicare & Medicaid Services (CMS) and the Medicare intermediary, AdminaStar Federal, Inc., may elect to use an allowable alternative methodology to estimate the portion of these costs that related to organ acquisition. If Clarian cannot provide alternative support for the \$2,524,864, a Medicare overpayment of \$1,818,679 will exist.<sup>3</sup>

## **RECOMMENDATIONS**

We recommend that the Medicare intermediary:

- recover the Medicare overpayment of \$270,665 for unallowable costs claimed as organ acquisition,
- work with Clarian to determine the allowable portion of the \$2,524,864 in unsupported costs and the related Medicare payment of \$1,818,679 and recover the portion that Clarian is unable to support,
- review organ acquisition costs that Clarian claimed on subsequent Medicare cost reports for issues similar to those identified in CY 2000 and recover any Medicare overpayments,
- monitor Clarian's future Medicare cost report claims for organ acquisition costs to ensure compliance with Medicare requirements, and

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<sup>3</sup>The Medicare intermediary determined the estimated Medicare overpayment amounts associated with our findings by using proprietary software to adjust Clarian's Medicare cost report.

- instruct Clarian to develop and maintain adequate time studies and accounting controls and to provide clear direction to responsible personnel as to Medicare requirements for claiming and documenting organ acquisition costs.

## **MEDICARE INTERMEDIARY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

Officials of the Medicare intermediary stated that they could not respond to the recommendations in our draft report until they reviewed our working papers and the documentation to which Clarian referred in its response to the draft report. Nevertheless, the officials stated that they had reopened the CY 2000 cost report to make adjustments, anticipated performing fieldwork at Clarian, and would make necessary adjustments to subsequent cost reports.

We have provided the Medicare intermediary with the working papers that identify the unallowable and unsupported organ acquisition costs from the CY 2000 cost report. The intermediary can use these working papers, with additional documentation from Clarian, to determine the adjustments needed for the CY 2000 and subsequent cost report settlements.

## **CLARIAN COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In comments on our draft report, Clarian officials agreed with the amounts of the unallowable costs but did not address refunding the overpayment. Although Clarian officials agreed to work with the Medicare intermediary to determine the allowable portion of the unsupported costs, they did not agree with the identified overpayment amounts for unsupported salary and space costs and suggested allowing an alternative allocation method. Clarian did not address our recommendations that the intermediary (1) review cost reports filed after our audit period and (2) monitor Clarian's future cost reports. Clarian did, however, express its commitment to enhancing its procedures and control systems to ensure appropriate filing of Medicare cost reports.

Although Clarian did not perform employee time studies during CY 2000, the Medicare intermediary may consider an allowable alternative methodology and adequate supporting documentation from Clarian to estimate the amount of unsupported costs related to organ acquisition. The Medicare intermediary and CMS officials will need to determine the acceptability of the proposed estimation methodology.

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## INTRODUCTION

### BACKGROUND

#### **Clarian Health Partners, Inc.**

Clarian Health Partners, Inc. (Clarian), owns and operates three hospital facilities within 1 mile of one another in Indianapolis, IN. The three facilities (Methodist Hospital, Indiana University Hospital, and Riley Hospital) are licensed as one acute care hospital. Kidney, lung, and heart transplants are performed at Methodist Hospital; kidney, pancreas, and liver transplants are performed at Indiana University Hospital. No transplants are performed at Riley Hospital. In 2003, the Clarian Transplant Center was ranked the fourth largest transplant center in the Nation based on patient volume, with more than 500 organs transplanted that year.

Our audit covered calendar year (CY) 2000. During this period, Clarian operated kidney, heart, liver, lung, and pancreas transplant programs. Medicare certified the kidney and heart transplant programs on October 17, 1986, and the liver and lung transplant programs on March 11, 1993, and February 2, 1995, respectively. Medicare approved Clarian's pancreas transplant program on July 1, 1999.

Clarian claimed \$12,537,133 for organ acquisition costs associated with the five transplant programs during CY 2000. Medicare's share was \$7,020,523. Clarian classified an additional \$163,845 associated with artificial heart transplants and tissue and eye banks as nonreimbursable because Clarian did not have Medicare approval for the transplantation of these organs in 2000.

#### **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 costs are reimbursed outside the Medicare prospective payment system and are in addition to the hospital's payment for the transplant itself.

Medicare reimburses hospitals for organ acquisition costs as passthrough costs under Medicare Part A based on the ratio of Medicare-usable organs to total usable organs. 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.

Medicare also reimburses hospitals for the transplant surgery, inpatient, and posttransplant costs for the recipients, but through different payment systems. Medicare Part A pays for the cost of the transplant surgeries and certain follow-up care through diagnosis-related group payments to the hospital. These payments are set at a predetermined rate per discharge for groups of patients that demonstrate similar resource consumption and length-

of-stay patterns. Medicare Part B pays for the physician services furnished to live donors or recipients during and after transplants.

### **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., pretransplant services) and the hospital inpatient costs associated with the donor. Allowable organ acquisition costs include such costs as tissue typing, recipient registration fees, recipient and donor evaluations, organ purchases and transportation, and inpatient stays for organ donors.

### **Medicare Supporting Documentation Rules**

Medicare rules require that hospitals maintain separate cost centers for each type of organ. Hospitals may include only the portion of salaries that relates to time spent on allowable organ acquisition activities as organ acquisition costs on the Medicare cost report. If an employee performs both pretransplant and other activities (posttransplant or nontransplant), the hospital should allocate the related salary to the appropriate cost centers using a reasonable basis. The documentation must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries. This documentation includes all ledgers, books, records, and original evidences of cost (e.g., labor timecards, payrolls, and bases for apportioning costs) that pertain to the determination of reasonable cost.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

The objective of this self-initiated audit was to determine whether the organ acquisition costs that Clarian claimed on the CY 2000 Medicare cost report for its kidney, heart, liver, lung, and pancreas transplant programs were allowable. Specifically, did Clarian:

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

To the extent that the costs claimed were unallowable or unsupported, we disclosed the related estimated Medicare overpayment.

### **Scope**

The scope of our audit included kidney, heart, liver, lung, and pancreas organ acquisition costs that Clarian claimed on its CY 2000 Medicare cost report. Based on our analysis of the Medicare intermediary's audits and our survey work at Clarian, we identified higher risk cost categories and limited our scope to \$4,004,510 claimed for certain salaries,



medical director fees, space costs, and other costs. We did not review the remaining \$8,532,623 and do not express an opinion on this amount. In addition, we did not audit the total number of organs transplanted, the Medicare eligibility of the recipients, inpatient days, or the ratio of costs to charges used on the Medicare Part A cost report to determine certain costs. We also did not audit the costs included in the indirect cost pools but did review the reasonableness of the statistics used to allocate the indirect costs.

We limited our review of Clarian's internal controls to a review of procedures for claiming organ acquisition costs and allocating costs between pretransplant and other activities. We performed our fieldwork, which included visits to Clarian's offices in Indianapolis, IN, from February through July 2004.

### **Methodology**

To accomplish our objective, we:

- obtained an understanding of Medicare reimbursement principles for organ acquisition costs;
- reviewed the documentation supporting the organ acquisition costs that Clarian claimed for CY 2000;
- reviewed accounting and payroll records;
- examined time studies conducted during CYs 2002 and 2003;
- interviewed Clarian employees, managers, and medical directors;
- toured the two transplant centers and reviewed floor plans for 2000 and 2003;
- obtained documentation from the Medicare intermediary and reviewed working papers from prior Medicare intermediary audits; and
- discussed our findings with the Medicare intermediary.

The Medicare intermediary determined the estimated Medicare overpayment amounts associated with our findings using proprietary software to adjust Clarian's Medicare cost report. The Medicare intermediary determined the impact on Medicare reimbursement for each adjustment by running an audit adjustment report and separate settlement summaries for each adjustment.

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

## FINDINGS AND RECOMMENDATIONS

Clarian did not always 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, Clarian did not properly adjust some costs and did not have systems to accumulate certain costs of organ acquisition separately from the costs of posttransplant and other hospital activities. Table 1 summarizes the results of the audit by cost category:

**Table 1: Results of Audit**

<u>Cost Category</u>	<u>Unallowable</u>	<u>Unsupported</u>
Salaries	\$69,620	\$2,348,958
Medical Directors	349,765	0
Floor Space	0	175,906
Other Costs	(5,000)	0
<b>Total</b>	<b>\$414,385</b>	<b>\$2,524,864</b>

The unallowable costs of \$414,385 represent duplicate salary costs and missing or incorrect adjustments for unallowable costs. During the audit, Clarian officials generally agreed that these costs were claimed in error. Based on these unallowable costs, Medicare overpaid Clarian an estimated \$270,665.

The unsupported costs of \$2,524,864 did not comply with Medicare's documentation requirements for reimbursement. During the audit, Clarian officials expressed their belief that their accounting system was properly capturing organ acquisition costs. We recognize that some portion of the \$2,524,864 may have related to organ acquisition activities and would have been allowable if properly documented. However, based on Federal regulations and the Provider Reimbursement Manual (PRM), the unsupported costs did not meet Medicare reimbursement requirements.

Although Clarian was unable to provide necessary documentation to support \$2,524,864 in costs claimed for CY 2000, the Centers for Medicare & Medicaid Services (CMS) and the Medicare intermediary may elect to use an allowable alternative methodology to estimate the portion of these costs related to organ acquisition. If Clarian cannot provide alternative support for the \$2,524,864, a Medicare overpayment of \$1,818,679 will exist.

### UNALLOWABLE COSTS

Clarian's cost report included \$414,385 in unallowable costs that represented duplicate salaries and missing or incorrect adjustments to the cost report. These costs were claimed in error by Clarian or were not properly adjusted by the Medicare intermediary. The estimated Medicare overpayment for these unallowable costs was \$270,665. The balance of this section details the unallowable costs shown in Table 2.

**Table 2: Unallowable Costs**

<u>Cost Category</u>	<u>Unallowable Costs</u>	<u>Estimated Medicare Overpayment</u>
Other Department's Salaries	\$69,620	\$52,346
Medical Directors' Fees	349,765	221,909
Other Costs	(5,000)	(3,590)
<b>Total</b>	<b>\$414,385</b>	<b>\$270,665</b>

**Other Department's Salaries**

Clarian claimed the salary for the director of clinical operations as both a direct transplant employee salary and a reclassified salary from another department. Clarian claimed the salary charged to the transplant programs as a direct cost on the cost report. When reclassifying the salaries from other departments, Clarian mistakenly included the director's full salary rather than the lesser amount charged to the other department and thereby duplicated some of the costs.

Pursuant to 42 CFR § 413, Medicare costs claimed must be reasonable and allowable. This section and the PRM, Part I, section 2304 specify that the cost information must be current, properly allocated, and supported by auditable documentation.

The duplicated salary amount of \$69,620 was unallowable and resulted in an estimated Medicare overpayment of \$52,346. During the audit, Clarian officials attributed the salary duplication to inadequate oversight of the cost reporting process caused by time constraints for completing the cost report.

**Medical Directors' Fees**

Clarian prepared a cost report adjustment to delete medical director fees totaling \$349,765 but received an estimated Medicare overpayment of \$221,909 when the Medicare intermediary failed to make the adjustment during the cost report settlement.

These medical directors were physicians under contract with Clarian to provide medical and surgical services to the various organ transplant programs. However, the contracts did not include a written allocation agreement for physician compensation, and the medical directors were not required to prepare time reports to account for their time on duty. Therefore, the medical director fees were not allowable for inclusion in the organ acquisition costs on the Medicare Part A cost report.

Federal regulations (42 CFR § 415.60(f)(2)) state: "In the absence of a written allocation agreement, the intermediary assumes, for purposes of determining reasonable costs of the provider, that 100 percent of the physician compensation cost is allocated to services to beneficiaries . . . ." The services to beneficiaries (normal patient care costs) would be reimbursable under Medicare Part B rather than as organ acquisition costs.

Clarian prepared a cost report adjustment to delete all of the medical director fees because adequate documentation to support a cost allocation to organ acquisition activities was lacking. Although the Medicare intermediary's cost report software required that the adjustment be moved to a different worksheet, the intermediary overlooked this adjustment during the cost report settlement process. As a result, the medical director fees of \$349,765 mistakenly remained in the costs claimed, and Clarian received an estimated \$221,909 in excess Medicare reimbursement.

### **Other Costs**

Clarian officials inappropriately deleted \$5,000 in physician billing expenses from the claimed kidney organ acquisition costs. During our audit, Clarian officials attributed this deletion to human error. Upon further review, Clarian officials realized that the \$5,000 had been charged to a nonreimbursable cost center and not to organ acquisition costs. The adjustment should not have been made. This error resulted in underreported kidney acquisition costs, and Clarian received \$3,590 less in Medicare reimbursement than it was due.

### **UNSUPPORTED COSTS**

Clarian's cost report included \$2,524,864 in salary and floor space costs that were not properly supported with current, accurate documentation that differentiated between pretransplant and posttransplant activities as required by Medicare regulations and guidelines. Only the portion of salaries that relates to time spent on allowable organ acquisition activities may be included as organ acquisition costs on the cost report. If an employee performs both pretransplant and other activities (posttransplant or nontransplant), the related salary should be allocated to the appropriate cost centers using a reasonable basis. Costs incurred to supervise or support organ transplant employees should be allocated on a basis consistent with the time allocation of the supervised and supported staff. Costs claimed must be reasonable, properly allocated, and supported by proper documentation.

Part III, section 3178 of the Intermediary Manual and the PRM, Part I, section 2771 provide guidance on allowable organ acquisition services. These sections define allowable organ acquisition costs as those services furnished to the recipient and live organ donor before admission to the hospital for the transplant operation (i.e., pretransplant costs) and hospital inpatient costs associated with the donor. The manuals further indicate that the transplant operation, physician services, and postoperative care for the recipient are reimbursed elsewhere under Medicare (Part A and Part B) and should not be claimed as organ acquisition costs. Therefore, only the portion of the transplant center costs that relates to time spent on pretransplant activities and hospital inpatient costs for the organ donor may be included as organ acquisition costs.

Regarding documentation, 42 CFR § 413.20(a) states: "The principles of cost reimbursement require that providers maintain sufficient financial records and statistical data for proper determination of costs payable under the program." Hospitals are required

to maintain accounting cost centers that accumulate the costs of organ acquisition for cost reporting purposes. If staff time and hospital space are used for both pretransplant and other activities (posttransplant or nontransplant), the related costs should be allocated to the appropriate cost centers using a reasonable basis of allocation. The hospital must be able to document what portions of the costs relate to pretransplant activities. The PRM, Part I, section 2313.2.E provides guidelines for periodic employee time studies that can be used to allocate salary costs in lieu of ongoing time reports.

During the audit, Clarian officials expressed their belief that their established procedures for allocating organ acquisition costs by cost centers and organ type were adequate. They said that they were not aware of the need for time studies until a consultant hired in 2002 suggested that time studies be considered to document pretransplant allocations. According to the officials, Clarian took some action by starting to plan time studies in 2002.

We recognize that some portion of the \$2,524,864 may have related to organ acquisition activities and would have been allowable if properly documented. However, based on 42 CFR §§ 413.24(a) and 413.24(c) and the PRM, Part I, section 2304, these unsupported costs did not meet Medicare reimbursement requirements. Although Clarian was unable to provide necessary documentation to support \$2,524,864 in costs claimed for CY 2000, CMS and the Medicare intermediary may elect to use an allowable alternative methodology to estimate the portion of these unsupported costs related to organ acquisition. If Clarian does not provide alternative support for the \$2,524,864, a Medicare overpayment of \$1,818,679 will exist. The balance of this section details the unsupported costs shown in Table 3.

**Table 3: Unsupported Costs**

<u>Cost Category</u>	<u>Unsupported Costs</u>	<u>Estimated Medicare Overpayment</u>
Transplant Employees' Salaries	\$2,206,319	\$1,596,794
Other Departments' Salaries	142,639	110,360
Floor Space	175,906	111,525
<b>Total</b>	<b>\$2,524,864</b>	<b>\$1,818,679</b>

**Transplant Employees' Salaries**

Although the \$2,206,319 claimed as salary costs for employees of the five transplant programs was accumulated in cost centers for the various organs, Clarian did not have a system to determine the salary costs applicable to pretransplant services. If Clarian does not provide alternative support for the unsupported salary costs, an estimated Medicare overpayment of \$1,596,794 will exist.

Clarian established one or more cost centers to accumulate costs for each organ transplant program; however, the salaries claimed as organ acquisition related to the total time that

employees were assigned to work in the transplant centers, including time not related to organ acquisition activities. Clarian used an exception reporting system for payroll purposes, under which employees reported only the time absent during their normal working hours and did not account for total hours on a time-reporting form. Clarian did not conduct employee time studies of pretransplant effort until CY 2002. Our interviews with a sample of employees confirmed that their work included both pretransplant and posttransplant activities.

### **Other Departments' Salaries**

Clarian did not support \$142,639 in reclassified salaries for employees from other departments with current, accurate documentation that differentiated among pretransplant, posttransplant, and nontransplant activities as required by Medicare. If Clarian does not provide alternative support for the unsupported salary costs, an estimated Medicare overpayment of \$110,360 will exist.

Clarian reclassified the salary costs for six employees from other departments to the various cost report lines for organ acquisition. The employees were social workers, financial counselors, a dietitian, and the director of clinical operations.<sup>1</sup> Clarian had not implemented a system to allocate employee salary costs among pretransplant, posttransplant, and nontransplant activities. Our interviews with a sample of Clarian employees confirmed that their work included both pretransplant and posttransplant activities.

### **Floor Space**

Clarian claimed \$175,906 in overhead costs applicable to 5,910 square feet of transplant floor space that was not properly allocated among pretransplant, posttransplant, and other activities. If hospital space is used for both pretransplant and other activities, the related costs should be allocated using a reasonable basis of allocation.

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

For the CY 2000 cost report, Clarian used 5,910 square feet related to transplant centers in Methodist Hospital and Indiana University Hospital as the basis for allocating overhead costs. Although the square footage claimed was supported by floor plans and allocated to each organ type based on the number of organs transplanted, Clarian did not have space studies or other documentation to determine the pretransplant portion of the \$175,906 in

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<sup>1</sup>A portion of the director's salary was unallowable, as reported on page 5. The remaining salary was part of the reclassified salary costs reported here.

overhead costs claimed. If Clarian does not provide adequate support for the pretransplant space, an estimated Medicare overpayment of \$111,525 will exist.

## 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

Cost Category	Unallowable		Unsupported	
	Costs	Estimated Medicare Overpayment	Costs	Estimated Medicare Overpayment
Salaries	\$69,620	\$52,346	\$2,348,958	\$1,707,154
Medical Directors	349,765	221,909	0	0
Floor Space	0	0	175,906	111,525
Other Costs	(5,000)	(3,590)	0	0
<b>Total</b>	<b>\$414,385</b>	<b>\$270,665</b>	<b>\$2,524,864</b>	<b>\$1,818,679</b>

Note: Clarian claimed unsupported costs of \$2,524,864 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 Clarian cannot provide alternative support for these costs, a Medicare overpayment of \$1,818,679 will exist.

## RECOMMENDATIONS

We recommend that the Medicare intermediary:

- recover the Medicare overpayment of \$270,665 for unallowable costs claimed as organ acquisition,
- work with Clarian to determine the allowable portion of the \$2,524,864 in unsupported costs and the related Medicare payment of \$1,818,679 and recover the portion that Clarian is unable to support,
- review organ acquisition costs that Clarian claimed on subsequent Medicare cost reports for issues similar to those identified in CY 2000 and recover any Medicare overpayments,
- monitor Clarian's future Medicare cost report claims for organ acquisition costs to ensure compliance with Medicare requirements, and

- instruct Clarian to develop and maintain adequate time studies and accounting controls and to provide clear direction to responsible personnel as to Medicare requirements for claiming and documenting organ acquisition costs.

## **MEDICARE INTERMEDIARY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

Officials of the Medicare intermediary said that they could not respond to the recommendations in our draft report until they reviewed our working papers and the documentation to which Clarian referred in its response. Nevertheless, the officials said that they had reopened the CY 2000 cost report to make adjustments, anticipated performing fieldwork at Clarian, and would make necessary adjustments to subsequent cost reports. The intermediary's comments are included as Appendix A.

We have provided the Medicare intermediary with the working papers that identify the unallowable and unsupported organ acquisition costs from the CY 2000 cost report. The intermediary can use these working papers, with additional documentation from Clarian, to determine the adjustments needed for the CY 2000 and subsequent cost report settlements.

## **CLARIAN COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In Clarian's comments on our draft report, which are included as Appendix B, officials agreed with the amounts of the unallowable costs but did not address refunding the overpayment. They attributed the unallowable other department's salary costs to a reclassification error and the overpayment for medical director fees to the Medicare intermediary's failure to adjust the cost report for information that Clarian provided.

Clarian did not address our recommendations that the intermediary (1) review cost reports filed after our audit period and (2) monitor future cost reports from Clarian. Clarian did, however, express its commitment to continuing enhancements to its procedures and control systems to ensure appropriate filing of Medicare cost reports.

The following sections summarize Clarian's other comments along with our response.

### **Unsupported Costs**

#### **Clarian Comments**

Clarian officials agreed to work with the Medicare intermediary to determine the allowable portion of the unsupported costs. However, the officials did not agree with the identified overpayment amounts for unsupported salary and space costs and suggested allowing alternative allocation methods for estimating the appropriate pretransplant versus posttransplant costs for salaries and space. Clarian officials planned to provide time studies from CYs 2002 through 2004 as an alternative cost basis for CY 2000 allocations. They also requested that we provide the Medicare intermediary with specific



guidelines that indicate the use of subsequent time studies as an allowable alternative methodology.

### **Office of Inspector General Response**

Because Clarian did not have an adequate allocation for pretransplant versus posttransplant costs for CY 2000, we could not determine the allowability of the salaries and space costs. During fieldwork, Clarian provided documentation for three time studies, each for 1 week, that were completed in 2002 and 2003. Clarian did not estimate the reimbursable pretransplant salary or space costs using these time studies and did not assess the applicability of this information to the audit period. Although Clarian did not perform employee time studies during CY 2000, the Medicare intermediary may consider an allowable alternative methodology and adequate supporting documentation from Clarian to estimate the amount of unsupported costs related to organ acquisition. The Medicare intermediary and CMS officials will need to determine the acceptability of the proposed estimation methodology.

### **Underreported Space Costs**

#### **Clarian Comments**

Clarian officials also noted underreported square footage used to allocate space-related costs to the transplant centers and the transplant immunology laboratory. According to the officials, the added square footage would result in allocable general service costs that were not previously claimed. They planned to provide the Medicare intermediary with documentation that supports the additional space-related costs.

### **Office of Inspector General Response**

During our fieldwork, we noted that the underreported space was being used for transplant activities but could not confirm whether this space was occupied during CY 2000. Clarian officials will need to determine the square footage applicable to pretransplant activities in order for the Medicare intermediary to consider the adjustment of the CY 2000 square footage allocation.

# **APPENDIXES**



Medicare  
Medicare Audit & Reimbursement

APPENDIX A

February 9, 2005

Mr. Paul Swanson  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
Office of Inspector General  
233 North Michigan Avenue  
Chicago, Illinois 60601

RE: Clarian Health Partners  
Report Number A-05-04-00049  
Provider Number 15-0056  
Organ Acquisition Costs  
For the Fiscal Year Ended December 31, 2000

Dear Mr. Swanson:

This is in response to your December 23, 2004 draft report entitled "Audit of Clarian Health Partners' Organ Acquisition Costs Claimed for the Period January 1, 2000 through December 31, 2000".

On February 8, 2005 I had a conversation with Cynthia Owens of your staff. As discussed with Ms. Owens, I hesitate to give concurrence or nonconcurrence with the findings until I have had an opportunity to review both the working papers prepared for the draft report and review the provider's documentation to support their response to the draft report. Ms. Owens anticipates I will have the OIG working paper copies sometime next week. This will ensure that I have the proper understanding of the OIG's position prior to starting any review of the provider's documentation as a result of your audit.

In summary, we have reopened the 2000 cost report in order to implement the findings noted by the OIG unless the provider can substantiate evidence to the contrary of the findings. We will await your final report and any directives with regard to expanding our normal CMS scope of audit review in this area. I anticipate field work will be required and the results of our adjustments will be carried forward to subsequent years settled or not yet settled as of this date.

Please contact me if I can provide further clarification. I can be reached directly at 317-841-4565.

Sincerely,

A handwritten signature in cursive script that reads "Pam Dallas".

Pam Dallas, CPA  
Manager, Medicare Audit and Reimbursement



Isadore Rivas  
Vice President, Finance

January 21, 2005

Mr. Paul Swanson  
Regional Inspector General for Audit Services  
Department of Health & Human Services  
Office of Audit Services  
233 North Michigan Avenue  
Chicago, Illinois 60601

RE: Report Number A-05-04-00049

Dear Mr. Swanson:

Clarian Health Partners, Inc. (Clarian) has received and reviewed your report entitled "Audit of Clarian Health Partners' Organ Acquisition Cost Claimed for the Period January 1, 2000 through December 31, 2000." As requested in your letter dated December 23, 2004, Clarian is hereby submitting the following comments to the findings and recommendations in the report:

1. Clarian respectfully requests that the statement "Medicare reimbursed Clarian for organ acquisition costs as passthrough costs under Medicare Part A, based on the ratio of Medicare transplants to total transplants" under the section *Medicare Reimbursement of Organ Acquisition and Transplant Costs* (on page 1) be changed to "Medicare reimbursed Clarian for organ acquisition costs as passthrough costs under Medicare Part A, based on the ratio of the number of Medicare usable organs to the number of total usable organs". This change is particularly important for a transplant center, such as Clarian, since the Organ Procurement Organization recovers a substantial number of organs at the transplant center.
2. Salary Costs—Clarian agrees that the Salary amount determined by the OIG to be unallowable (\$69,620) was erroneously included in the cost report as a result of an inadvertent reclassification error and is appropriately denied. However, with respect to the amount of Salaries shown as unsupported (\$2,348,958), Clarian believes that a substantial portion of the amount claimed was for time spent on pre-transplant activities. Unfortunately, certain contemporaneous time studies were not maintained; however, Clarian began time studies in calendar year 2002, and has conducted those studies on a monthly basis beginning in March 2004.

Mr. Paul Swanson

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These time studies demonstrate consistent ratios applicable to pre versus post-transplant activities at Clarian for the various periods affected. It is Clarian's belief that utilizing available time studies through December 2004, cumulatively, is a reasonable basis for allocating pre versus post-transplant activities in the 2000 cost report, as well as for other cost report periods. Based upon these more recent time studies and other information, as applied in the 2000 cost report, we believe that we can demonstrate that a significant portion of the claimed costs were for pre-transplant activities and should be allowable. Further, Clarian believes that these more recent time studies and other information substantively meet the adequacy of cost information requirements (contained in 42 CFR §§ 413.24(a) and 413.24(c) and PRM, part I, § 2304 as referenced in your report) and, based upon the acceptance of subsequent time studies by other Intermediaries for similar situations, we respectfully request that more specific definitions or guidelines be provided to the Medicare Intermediary that would indicate that an allowable alternative methodology, as referenced in your report, would include subsequent time studies. As recommended in your report, we will work with the Intermediary to determine what portion is allowable.

3. **Medical Directors**—Clarian agrees that the amount shown in the report for Medical Directors (\$349,765) is unallowable. However, as we indicated to your staff during their fieldwork, Clarian did not include these expenses as reimbursable on the 2000 Medicare cost report; rather, errors occurred in the transmission of the information through the computer software between Clarian and the Intermediary which caused these expenses to be mistakenly included in the report. Clarian had notified the Intermediary of the error, and the Intermediary has since issued a notice of re-opening that includes and will address this issue.
4. **Other Department Salaries**— Clarian agrees that the amount shown was not appropriately allocated between pre versus post-transplant. Clarian will work with the Intermediary to determine the appropriate adjustments, as recommended.
5. **Floor Space** – Clarian agrees that space was not appropriately allocated between pre versus post-transplant activities. Clarian will work with the Intermediary, as recommended, to determine appropriate adjustments for allowable costs.

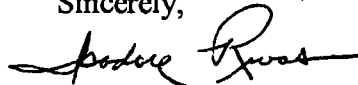
Mr. Paul Swanson  
Page 3

In addition, during the OIG audit fieldwork, it was discovered that space related to transplant (8,506 square feet) and the transplant immunology laboratory (3,824 square feet) should have been reported as allowable and, therefore, reimbursable costs were under-reported. This matter was discussed with the OIG staff at the time of their fieldwork. While the transplant space would require pre versus post-allocation, the transplant immunology laboratory costs, which are predominantly pre-transplant in nature, would require allocation on the basis of patient charges for transplant services. Clarian estimates that the inclusion of the costs associated with the additional space will result in additional allowable Medicare reimbursable cost, and as part of its discussions with the Intermediary Clarian will provide the necessary documentation for consideration.

Clarian would like to acknowledge the professionalism and cooperation of your staff during their review. Cost reporting regulations for organ acquisition costs are complex and provide considerable challenge in implementation. We are committed to continued enhancements to our procedures and control systems to ensure appropriate filing of Medicare Cost Reports. Clarian appreciates the opportunity to work with the Intermediary in resolving the remaining issues in accordance with your recommendations.

Please feel free to contact me should you have any questions regarding this response.

Sincerely,



Isadore Rivas  
Vice President, Finance

cc: David Alvar, CHE, Director, Organ Transplant, Clarian Health Partners  
Shirley Bishop, Director, Government Programs/Revenue & Reimbursement, Clarian Health Partners  
Michael Jaimet, Esq., Deputy General Counsel, Clarian Health Partners  
Jerome Kelly, Esq., Assistant General Counsel, Clarian Health Partners  
Marvin G. Pember, Executive Vice President and CFO, Clarian Health Partners  
Norman G. Tabler, Jr., Senior Vice President, General Counsel & Chief Compliance Officer, Clarian Health Partners