



SEP 28 2006

TO: Mark B. McClellan, M.D., Ph.D.
Administrator
Centers for Medicare & Medicaid Services

FROM: Daniel R. Levinson *Daniel R. Levinson*
Inspector General

SUBJECT: Review of Organ Acquisition Costs Claimed by Certified Transplant Centers (A-09-05-00034)

The attached final report consolidates the results of our audits of organ acquisition costs claimed by 11 certified transplant centers (centers).

Medicare reimburses centers for costs associated with the acquisition of organs for transplant to Medicare beneficiaries. Hospitals claim and are reimbursed for these costs through submission of their Medicare Part A cost reports. Allowable organ acquisition costs include organ donor and recipient costs before hospital admission for the transplant operation (i.e., pretransplant services) and hospital inpatient costs associated with the donor. Medicare requires that these costs be reasonable; properly allocated among pretransplant, postransplant, nontransplant, and other activities; and supported by appropriate documentation. The Centers for Medicare & Medicaid Services (CMS) contracts with fiscal intermediaries to review hospital cost reports and determine the allowability of costs claimed.

The 11 centers audited claimed approximately \$203 million for organ acquisition costs associated with kidney, heart, liver, lung, and pancreas transplants, for which Medicare reimbursed approximately \$105 million. We limited our reviews to almost \$80 million (consisting primarily of salary and space costs) of the approximately \$203 million claimed. Our audits covered various periods between cost-reporting years 1997 and 2002.

The objective of our audits was to determine whether the 11 centers claimed allowable organ acquisition costs on their Medicare cost reports. Specifically, we determined whether the centers:

- complied with Medicare regulations and guidelines for claiming organ acquisition costs and
- received appropriate Medicare reimbursement for organ acquisition activities.

The 11 centers did not always comply with Medicare regulations and guidelines for claiming organ acquisition costs. Of the almost \$80 million of costs audited, approximately \$33 million complied with Medicare requirements for claiming, allocating, and documenting organ acquisition costs. However, almost \$47 million did not comply with Medicare's definition of organ acquisition costs, exceeded Medicare's limits on physician salaries, or was not allocated or documented properly. Based on the fiscal intermediaries' revisions to the 11 centers' cost reports for unallowable and unsupported costs, we estimate that Medicare's share of the \$47 million is approximately \$28 million.

Officials at the 11 centers either asserted that they lacked awareness and understanding of Medicare requirements for claiming organ acquisition costs or stated that they had inadvertently claimed costs that were not allowable as organ acquisition. In addition, the centers did not have all the necessary systems to identify, allocate, document, and claim organ acquisition costs in accordance with Medicare requirements.

We recommend that CMS consider the results of our 11 audits in prioritizing areas to be evaluated in annual audits by the fiscal intermediaries.

In its written comments on the draft report, CMS agreed with our recommendation.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. 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 through e-mail at George.Reeb@oig.hhs.gov. Please refer to report number A-09-05-00034 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF ORGAN ACQUISITION
COSTS CLAIMED BY CERTIFIED
TRANSPLANT CENTERS**



Daniel R. Levinson
Inspector General

September 2006
A-09-05-00034

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

Medicare reimburses hospitals that are certified transplant centers (centers) for costs associated with the acquisition of organs for transplant to Medicare beneficiaries. Hospitals claim and are reimbursed for these costs through submission of their Medicare Part A cost reports. Allowable organ acquisition costs include organ donor and recipient costs before hospital admission for the transplant operation (i.e., pretransplant services) and hospital inpatient costs associated with the donor. Medicare requires that these costs be reasonable; properly allocated among pretransplant, posttransplant, nontransplant, and other activities; and supported by appropriate documentation. The Centers for Medicare & Medicaid Services (CMS) contracts with fiscal intermediaries to review hospital cost reports and determine the allowability of costs claimed.

This report consolidates the results of our audits of 11 centers. These centers claimed approximately \$203 million for organ acquisition costs associated with kidney, heart, liver, lung, and pancreas transplants, for which Medicare reimbursed approximately \$105 million. We limited our reviews to almost \$80 million (consisting primarily of salary and space costs) of the approximately \$203 million claimed. Our audits covered various periods between cost-reporting years 1997 and 2002.

OBJECTIVE

The objective of our audits was to determine whether the 11 centers claimed allowable organ acquisition costs on their Medicare cost reports. Specifically, we determined whether the centers:

- complied with Medicare regulations and guidelines for claiming organ acquisition costs and
- received appropriate Medicare reimbursement for organ acquisition activities.

SUMMARY OF FINDINGS

The 11 centers did not always comply with Medicare regulations and guidelines for claiming organ acquisition costs. Of the almost \$80 million of costs audited, approximately \$33 million complied with Medicare requirements for claiming, allocating, and documenting organ acquisition costs. However, almost \$47 million did not comply with Medicare's definition of organ acquisition costs, exceeded Medicare's limits on physician salaries, or was not allocated or documented properly. Based on the fiscal intermediaries' revisions to the 11 centers' cost reports for unallowable and unsupported costs, we estimate that Medicare's share of the \$47 million is approximately \$28 million.

Officials at the 11 centers either asserted that they lacked awareness and understanding of Medicare requirements for claiming organ acquisition costs or stated that they had inadvertently claimed costs that were not allowable as organ acquisition. In addition, the centers did not have

all the necessary systems to identify, allocate, document, and claim organ acquisition costs in accordance with Medicare requirements.

RECOMMENDATION

We recommend that CMS consider the results of our 11 audits in prioritizing areas to be evaluated in annual audits by the fiscal intermediaries.

CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

In its written comments on the draft report, CMS agreed with our recommendation. The complete text of CMS's comments is included as Appendix C.

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INTRODUCTION

BACKGROUND

Medicare reimburses hospitals that are certified transplant centers (centers) for certain costs associated with the acquisition of organs for transplant to Medicare beneficiaries. Medicare requires that claimed costs be reasonable, properly allocated, and supported.

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 hospital inpatient costs associated with the donor. Examples of allowable organ acquisition costs include tissue typing, recipient registration fees, recipient and donor evaluations, and organ purchases and transportation.

Medicare Reimbursement of Organ Acquisition and Transplantation Costs

Medicare uses three separate methods to pay for costs associated with the acquisition and transplantation of organs:

- Medicare Part A reimburses centers for organ acquisition costs as passthrough costs based on the ratio of Medicare transplants to total transplants. Under this retrospective cost reimbursement system, Medicare makes interim payments, calculated on a reasonable cost basis, throughout the year. At the end of the year, each hospital files a cost report, and the fiscal intermediary reconciles the interim payments with allowable costs as defined in Medicare regulations and policy.
- Medicare Part A reimburses centers for the costs of transplant surgeries and the organ recipients' inpatient and posttransplant care through the inpatient prospective payment system. Under this system, Medicare makes diagnosis-related group payments, which 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 physician services furnished to live donors or recipients during and after transplants.

Medicare Cost Allocation Requirements

Medicare requires that hospitals allocate only the portion of costs that relates to time spent on allowable organ acquisition activities as organ acquisition costs on the Medicare cost reports. Hospitals must use a reasonable basis to allocate costs to appropriate cost centers for pretransplant, posttransplant, and nontransplant activities and for transplant programs not approved for reimbursement by Medicare. Hospitals must also maintain separate cost centers for each type of organ.

Fiscal Intermediary Audits of Part A Cost Reports

The Centers for Medicare & Medicaid Services (CMS) contracts with fiscal intermediaries to process and pay hospital claims. The intermediaries use a prescribed audit program to review hospitals' Part A cost reports and determine the accuracy of the claims and the allowability of the costs. When CMS contracts each year with the intermediaries for cost report review services, CMS specifies the issues that it expects to be reviewed.

Organ Acquisition Costs Claimed and Reimbursed

We performed audits of 11 centers. During the audit periods, these centers claimed approximately \$203 million for organ acquisition costs associated with kidney, heart, liver, lung, and pancreas transplants, for which Medicare reimbursed approximately \$105 million.

In addition to the 11 centers audited, about 240 other centers claimed approximately \$4.8 billion of organ acquisition costs over the 5-year period from 2000 to 2004, for which Medicare reimbursed approximately \$2.2 billion.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audits was to determine whether the 11 centers claimed allowable organ acquisition costs on their Medicare cost reports. Specifically, we determined whether the centers:

- complied with Medicare regulations and guidelines for claiming organ acquisition costs and
- received appropriate Medicare reimbursement for organ acquisition activities.

Scope

This report summarizes the most important issues from our individual reviews of the 11 centers and includes additional information gathered from CMS. The 11 centers were located in nine States.

Each audit covered at least 1 year, and five audits covered multiple years. Generally, we selected audit periods based on whether the fiscal intermediary had finalized the cost report for that year and whether the cost report could still be reopened (i.e., had not been finalized for more than 3 years). (See Appendix A for a list of the centers and audit periods.)

The scope of our audits included kidney, heart, liver, lung, and pancreas organ acquisition costs that the 11 centers claimed on their Medicare Part A cost reports. The total amount claimed for the audit periods was \$203,281,448. Based on our analysis of audits performed by the fiscal intermediaries and our survey work at the centers, we identified high-risk cost categories and

limited our scope to \$79,615,148 claimed for certain salaries, medical director fees, laboratory fees, space costs, and other costs. We limited our review of internal controls to reviewing each center's procedures for claiming costs as organ acquisition and allocating costs between pretransplant and other activities.

We did not audit the remaining \$123,666,300 claimed by the 11 centers and did not express opinions on the unaudited amounts. In addition, we did not audit the Medicare eligibility of the beneficiaries, the inpatient days claimed, or the ratio of costs to charges used on the Medicare Part A cost reports to determine certain costs. We did not audit the costs included in the indirect cost pools but did review the reasonableness of the statistics used to allocate the indirect costs.

Methodology

To accomplish our objective, we obtained an understanding of Medicare reimbursement principles for organ acquisition costs, reviewed the most current organ acquisition cost and reimbursement information available from CMS's Healthcare Cost Reporting Information System, and held discussions with officials at CMS and certain fiscal intermediaries about controls for organ acquisition cost claims. In addition, for each center audited, we generally reviewed the systems used to identify, allocate, document, and claim organ acquisition costs. We also reviewed information supporting organ acquisition cost claims.

We selected the 11 centers for audit based on survey information and other factors, such as the size of the centers and amounts claimed. Because our selection process was not random, we did not project the audit results to the universe of centers. Thus, we cannot estimate the amount of unallowable or unsupported organ acquisition costs claimed by the approximately 240 other centers.

Between July 8, 2004, and July 5, 2005, we issued 11 reports to the centers' fiscal intermediaries and distributed copies to the centers audited and to CMS.

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

FINDINGS AND RECOMMENDATION

The 11 centers did not always comply with Medicare regulations and guidelines for claiming organ acquisition costs. Of the almost \$80 million of costs audited, approximately \$33 million complied with Medicare requirements for claiming, allocating, and documenting organ acquisition costs. However, almost \$47 million was unallowable or unsupported. Based on the fiscal intermediaries' revisions to the 11 centers' cost reports for unallowable and unsupported costs, we estimate that Medicare's share of the \$47 million is approximately \$28 million. (See Appendix B for a list of the centers audited, claimed amounts reported as unallowable and unsupported, and related Medicare overpayments.)

Officials at the 11 centers either asserted that they lacked awareness and understanding of Medicare requirements for claiming organ acquisition costs or stated that they had inadvertently claimed costs that were not allowable as organ acquisition. In addition, the centers did not have

all the necessary systems to identify, allocate, document, and claim organ acquisition costs in accordance with Medicare requirements.

MEDICARE REQUIREMENTS FOR ALLOWABLE AND PROPERLY SUPPORTED ORGAN ACQUISITION COSTS

The Medicare “Provider Reimbursement Manual,” part 2, section 3625.3 (Worksheet D-6), states that no distinction should be made regarding the payment for kidney acquisition and all other organs for cost-reporting periods beginning on or after September 15, 1997.¹ Pursuant to section 3625.3, organ acquisition costs are based on kidney acquisition cost principles. Federal regulation and CMS guidance specify which costs qualify as kidney acquisition costs. The regulation (42 CFR § 412.100(a)(2)(b)); the “Intermediary Manual,” part 3, sections 3178.3 through 3178.16; and the “Provider Reimbursement Manual,” part 1, sections 2771.B and C, state that Medicare allows as kidney 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. Examples of allowable acquisition costs include tissue typing, recipient registration fees, recipient and donor evaluations, and organ purchases and transportation.

Medicare limits the allowable costs claimed for hospital-based physician services that are paid under the hospital’s reasonable cost basis. Pursuant to 42 CFR § 415.70, the costs that hospitals claim for medical directors on the Part A cost reports must be limited to Medicare’s reasonable compensation equivalents. The reasonable compensation equivalent calculation considers medical specialty and geographic area to determine allowable costs. The reasonable compensation equivalent rules require that these costs be adjusted on a pro rata basis for part-time and more than full-time physicians. Amounts in excess of the reasonable compensation equivalent are unallowable.

Federal regulations (42 CFR §§ 413.9(a) and (b), 413.20(d), and 413.24) and the “Provider Reimbursement Manual,” part 1, section 2304, state that Medicare costs claimed must be reasonable, properly allocated, and supported by proper documentation. The “Provider Reimbursement Manual,” part 1, section 2771.1.B, and part 2, sections 3610 and 3625, specifies that only the portion of costs that relates to time spent on allowable organ acquisition activities may be included as organ acquisition on the hospital’s Medicare cost report. If these costs relate to pretransplant, posttransplant, or nontransplant activities or to programs not approved for Medicare reimbursement, the hospital must allocate the costs to the appropriate cost centers using a reasonable basis. Pursuant to 42 CFR § 413.20(a), providers must maintain sufficient financial records and statistical data for proper determination of costs payable under the Medicare program. The documentation must be current, accurate, and sufficiently detailed to support the claims. This documentation includes all ledgers, books, records, and original evidence of cost (e.g., labor timecards, payroll records, and bases for apportioning costs) that pertain to the determination of reasonable cost.

¹For cost-reporting periods beginning on or before September 14, 1997, the payment for kidney acquisition and all other organs was based on Federal regulations and policy guidance applicable to each organ then in effect.

UNALLOWABLE AND UNSUPPORTED COSTS CLAIMED

Contrary to Medicare requirements for claiming organ acquisition costs, the 11 centers reviewed claimed unallowable and unsupported salaries, medical director fees, laboratory costs, floor space, and other costs totaling almost \$47 million. Based on the fiscal intermediaries' revisions to the 11 centers' cost reports for unallowable and unsupported costs, we estimate that Medicare's share of the \$47 million is approximately \$28 million. The costs did not comply with Medicare's definition of organ acquisition costs, exceeded Medicare's limits on physician salaries, or were not allocated or documented properly.

Medicare reimbursed the centers for transplant surgery, inpatient, and posttransplant activities through diagnosis-related group and other payments. To the extent these costs were also reimbursed as organ acquisition costs, the centers received duplicate reimbursement.

The table below summarizes the results of the 11 audits by cost category.

Results of Audits at the 11 Centers

Cost Category	Costs Claimed			Medicare Share of Unallowable and Unsupported
	Unallowable	Unsupported	Total Unallowable and Unsupported	
Salaries	\$1,177,528	\$24,506,226	\$25,683,754	\$14,818,705
Medical director fees	1,512,210	1,803,027	3,315,237	2,084,638
Laboratory costs	1,589,176	0	1,589,176	1,273,992
Floor space	2,050,939	5,618,406	7,669,345	5,027,405
Other costs	4,878,419	3,669,597	8,548,016	5,225,378
Total	\$11,208,272	\$35,597,256	\$46,805,528	\$28,430,118

Three of the eleven hospitals audited accounted for almost 70 percent of the total unallowable and unsupported costs claimed. The majority of unallowable and unsupported costs related to salaries, medical director fees, and floor space.

Generally, we classified costs as unallowable or unsupported based on the existence and quality of information supporting the costs claimed as organ acquisition.

For the costs we classified as unallowable, documentation provided by the centers showed that the costs were improperly charged to organ acquisition and should have been charged to another cost center. The unallowable salaries and medical director fees generally represented payments to employees who did not work on allowable organ acquisition activities or payments that exceeded the limits specified in 42 CFR § 415.70. For example, for centers that assigned one set of transplant coordinators to pretransplant activities and another set to posttransplant activities but claimed 100 percent of the salaries of both as organ acquisition, we classified the documented posttransplant salaries as unallowable. In addition, the unallowable costs for floor

space pertained to areas in the hospital that were used for activities not related to organ acquisition.

For the costs we classified as unsupported, the centers were unable to provide documentation to identify the costs related to organ acquisition separate from the costs related to other activities. For example, some centers claimed as organ acquisition costs 100 percent of the salaries of transplant coordinators who worked on both allowable pretransplant and unallowable posttransplant activities. However, these centers lacked adequate documentation to split time between the two activities. Although we concluded that some portion of the unsupported costs charged to organ acquisition was for pretransplant activities and would have been allowable if properly documented, we reported the entire amount as unsupported because the centers lacked adequate documentation.

In each of our reports on the individual centers, we stated that CMS and the fiscal intermediary might elect to use an allowable alternative methodology to estimate the amount of unsupported costs related to organ acquisition. We recommended that the fiscal intermediary recover the Medicare overpayment from any center that could not provide alternative support for the costs that we identified as unsupported.

CAUSES OF NONCOMPLIANCE WITH MEDICARE REQUIREMENTS FOR CLAIMING COSTS

Lack of Understanding of Medicare Requirements

Officials at the 11 centers audited gave various reasons for why they claimed organ acquisition costs for activities not related to organ acquisition. Although none of the officials said that they had intentionally submitted unallowable claims, some agreed that they had made errors when preparing cost reports:

- Some officials said that they were unaware of the need to account for and claim organ acquisition costs separately from organ transplantation costs.
- Officials at one center said that they were unaware of the need to allocate transplant department salaries between pretransplant and posttransplant activities until the fiscal intermediary questioned the costs.
- Some officials said that they were unaware that they had claimed certain unallowable transplant program costs for Medicare reimbursement.

In response to our recommendations to provide clear direction to responsible personnel on Medicare requirements for claiming and documenting organ acquisition costs, some transplant officials said that they were unsure of Medicare's requirements. However, Medicare's "Provider Reimbursement Manual" includes guidance regarding the definition of allowable organ acquisition costs and longstanding instructions to accumulate and allocate costs equitably.

Inadequate Systems

The 11 centers did not implement all the necessary systems to identify, allocate, document, and claim organ acquisition costs. Pursuant to Federal regulations, these systems should have included:

- time-and-effort reporting to identify pretransplant, posttransplant, and nontransplant activities;
- allocation plans for medical directors' compensation;
- reasonable compensation equivalent limits on medical directors' compensation; and
- a method to accumulate allocation statistics for floor space and other indirect costs.

In response to our recommendations to improve systems for claiming organ acquisition costs, some transplant officials said that they had begun developing systems to collect the information needed to segregate costs between pretransplant and posttransplant activities and to allocate costs equitably between pretransplant and other activities.

RECOMMENDATION

We recommend that CMS consider the results of our 11 audits in prioritizing areas to be evaluated in annual audits by the fiscal intermediaries.

CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

In its written comments on the draft report, CMS agreed with our recommendation and stated that it would consider the results of our reviews in establishing cost report audit priorities for its fiscal intermediaries. CMS also stated that it planned to add several steps to the organ acquisition section of the Hospital Desk Review Program to address issues noted in our reviews. CMS expected these steps to assist the fiscal intermediaries in identifying and scoping organ acquisition reviews.

CMS noted that the fiscal intermediaries were in the process of auditing the 11 centers that we reviewed and that some of the centers had provided alternative documentation supporting some of their costs.

The complete text of CMS's comments is included as Appendix C.

APPENDIXES

SUMMARY OF CLAIMS FOR THE 11 CENTERS

Center (Report Number) ¹	Audit Period	Claimed Costs	Medicare Reimbursement
Yale–New Haven Hospital, CT (A-01-04-00503)	October 1, 1997, to September 30, 2001	\$13,485,294	\$6,492,769
Massachusetts General Hospital, MA (A-01-04-00516)	October 1, 2000, to September 30, 2002	16,247,964	7,164,570
University Hospital of Brooklyn, NY (A-02-04-01003)	January 1, 1998, to December 31, 1998	4,174,166	2,559,531
Thomas Jefferson University Hospital, PA (A-03-04-00012)	July 1, 1999, to June 30, 2000	3,714,209	1,688,970
University of Alabama at Birmingham, AL (A-04-04-00001)	October 1, 2000, to September 30, 2001	17,509,708	9,189,437
Clarian Health Partners, IN (A-05-04-00049)	January 1, 2000, to December 31, 2000	12,537,133	7,020,523
Baylor University Medical Center, TX (A-06-04-00017)	July 1, 1996, to June 30, 2001	69,364,082	40,732,523
St. Vincent Medical Center, CA (A-09-03-00046)	July 1, 1998, to June 30, 1999	9,003,290	6,005,332
University of California at Los Angeles Medical Center, CA ² (A-09-03-00048)	July 1, 1998, to June 30, 1999	23,610,320	6,891,250
California Pacific Medical Center, CA (A-09-03-00053)	January 1, 1998, to December 31, 2000	24,676,657	10,271,297
Virginia Mason Medical Center, WA (A-10-03-00010)	January 1, 1997, to December 31, 1999	8,958,625	7,077,836
Total		\$203,281,448	\$105,094,038

¹These reports are available at <http://oig.hhs.gov>.

²The amounts reported above for the University of California at Los Angeles Medical Center included claimed costs of \$393,293 for July 1, 1996, to June 30, 1998, that we reported as unallowable. The related Medicare reimbursement was \$257,369.

APPENDIX B

SUMMARY OF AUDIT RESULTS FOR THE 11 CENTERS

Center	Unallowable		Unsupported		Total Unallowable and Unsupported	
	Costs Claimed	Est. Medicare Overpayment	Costs Claimed	Est. Medicare Overpayment	Costs Claimed	Est. Medicare Overpayment
Yale–New Haven Hospital	\$0	\$0	\$1,572,795	\$793,482	\$1,572,795	\$793,482
Massachusetts General Hospital	1,041,718	489,618	2,299,519	949,296	3,341,237	1,438,914
University Hospital of Brooklyn	0	0	343,272	263,888	343,272	263,888
Thomas Jefferson University Hospital	131,506	64,447	927,785	398,918	1,059,291	463,365
University of Alabama at Birmingham	1,665,866	913,208	0	0	1,665,866	913,208
Clarian Health Partners	414,385	270,665	2,524,864	1,818,679	2,939,249	2,089,344
Baylor University Medical Center	5,010,761	4,195,303	13,633,200	9,157,378	18,643,961	13,352,681
St. Vincent Medical Center	813,902	570,596	907,126	683,315	1,721,028	1,253,911
University of California at Los Angeles Medical Center	1,150,829	625,415	4,661,194	1,924,376	5,812,023	2,549,791
California Pacific Medical Center	710,457	391,413	7,387,659	3,340,339	8,098,116	3,731,752
Virginia Mason Medical Center	268,848	268,832	1,339,842	1,310,950	1,608,690	1,579,782
Total	\$11,208,272	\$7,789,497	\$35,597,256	\$20,640,621	\$46,805,528	\$28,430,118



DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

AUG 23 2006

 Administrator
 Washington, DC 20201

TO: Daniel R. Levinson
Inspector General

FROM: Mark B. McClellan, M.D., Ph.D. *Mark McClellan*
Administrator

SUBJECT: Office of Inspector General (OIG) Draft Report: "Review of Organ Acquisition Costs Claimed by Certified Transplant Centers" (A-09-53-00034)

Thank you for the opportunity to review and comment on the OIG's draft report entitled, "Review of Organ Acquisition Costs Claimed by Certified Transplant Centers." We appreciate the OIG's efforts to ensure that Medicare's payments to certified transplant centers for organ acquisition services are reasonable and necessary.

Medicare reimburses certified transplant centers for the cost of organs used in organ transplantation for Medicare beneficiaries. These costs related to the procurement or purchase of organs are accumulated on the Medicare cost report, CMS 2552, specifically worksheet D-6. Costs that are allowable in organ acquisition include organ donor and recipient costs prior to admission to the hospital, as well as costs associated with both living and deceased donors. The cost reports require separate cost findings for each type of organ acquisition because each type of organ has differing costs and significantly different Medicare utilization rates.

The Centers for Medicare & Medicaid Services' (CMS) policy regarding organ acquisition costs can be found in the Provider Reimbursement Manual, HCFA Pub. 15-1, sections 2770 to 2775. In addition, the instructions to the CMS 2552 cost reporting forms include instructions for filing the cost report to ensure proper allocation of costs. These instructions direct providers to include costs that are related to organ acquisition in the organ acquisition cost centers, and require costs associated with the transplant of an organ to be excluded from acquisition because the transplants are paid on a prospective basis whereas organ acquisition costs are paid separately on a pass-through basis.

The OIG's draft report estimated that \$47 million of the \$80 million of costs reviewed were either unallowable or unsupported. Medicare's share of the estimated \$47 million in excess costs is \$28.3 million, which includes \$7.7 million of unallowable costs, and \$20.6 million of unsupported costs. The fiscal intermediaries (FIs) are in the process of auditing the providers that were the subject of the OIG's review, however their work is not yet complete. It should be

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noted that, some providers have been able to provide the FIs with alternative documentation that supports some of their costs and therefore will be reimbursed for these items. Accordingly, it is expected that the actual Medicare overpayment will be less than the \$28.3 million projected by the OIG.

OIG Recommendation

The OIG recommend that CMS consider the results of its 11 audits in prioritizing areas to be evaluated in annual audit by the FIs.

CMS Response

CMS will consider the results of the OIG review in establishing cost report audit priorities for our FIs. Due to limited audit resources, FIs determine what cost reports and issues are going to be reviewed based on general audit priorities, desk review results, and historical knowledge of the provider. CMS plans to add several steps to the organ acquisition section of the Hospital Desk Review Program to address issues noted in the OIG's review. We expect this update will be released to FIs in 2007. This should assist the FIs in identifying and scoping organ acquisition reviews. In addition, CMS provided training in Organ Acquisition to the FIs at the Audit Conference held on May 2, 2006 in Baltimore, Maryland.

CMS thanks the OIG for its efforts on this report. These findings provide us with invaluable information that confirms that our policy regarding organ procurement cost allocations is clear and understandable to providers. Further we can use the information supplied in the report to help us take action towards our commitment to improve our audits of pass-through costs. We look forward to working together with you in the future as we address the recommendations in this report.