



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION IX
90 - 7TH STREET, SUITE 3-650
SAN FRANCISCO, CA 94103

April 13, 2012

Report Number: A-09-11-02035

Ms. Katherine Mills, C.P.A.
Chief Financial Officer
Donor Network of Arizona
201 West Coolidge Street
Phoenix, AZ 85013

Dear Ms. Mills:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Donor Network of Arizona Did Not Fully Comply With Medicare Requirements for Reporting Organ Statistics and Related Costs in Its Fiscal Year 2009 Medicare Cost Report*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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If you have any questions or comments about this report, please do not hesitate to contact Lorralli Herrera, Senior Auditor, at (619) 557-6131, extension 105, or through email at Lorralli.Herrera@oig.hhs.gov, or contact Danuta Biernat, Audit Manager, at (323) 261-7218, extension 701, or through email at Danuta.Biernat@oig.hhs.gov. Please refer to report number A-09-11-02035 in all correspondence.

Sincerely,

/Lori A. Ahlstrand/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nanette Foster Reilly
Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 355
Kansas City, MO 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**DONOR NETWORK OF ARIZONA
DID NOT FULLY COMPLY WITH
MEDICARE REQUIREMENTS FOR
REPORTING ORGAN STATISTICS
AND RELATED COSTS IN ITS
FISCAL YEAR 2009
MEDICARE COST REPORT**



Daniel R. Levinson
Inspector General

April 2012
A-09-11-02035

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

Pursuant to Title XVIII of the Social Security Act (the Act), the Medicare program provides health insurance for people aged 65 and over, those with certain disabilities, and those who have end-stage renal disease, which is permanent kidney failure. Section 1881 of the Act authorizes Medicare reimbursement for dialysis, transplantation, and procurement of kidneys. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program.

Organ procurement organizations (OPO) are not-for-profit organizations that are responsible for procuring and preserving transplantable organs and transporting them to transplant centers. An OPO may be independent or hospital-based. Independent OPOs work closely with donor hospitals and transplant centers to facilitate organ donation and transplantation. CMS requires independent OPOs to submit Medicare cost reports annually to determine the amounts payable under Medicare associated with kidney procurement. Medicare does not reimburse independent OPOs for the costs of procuring organs other than kidneys.

The Medicare cost report summarizes OPOs' statistical and financial data. The statistical data include organ statistics, which consist of the number of kidney and nonkidney organs that the OPO procured and/or administratively processed. The financial data include organ procurement costs, which consist of direct costs, overhead costs, and administrative and general costs.

To ensure proper allocation of organ procurement costs so that Medicare pays for its fair share of these costs, CMS's Ruling No. 1543-R requires that OPOs report in their organ statistics not only organs procured but also organs they attempted to procure. If an OPO overstates the number of kidneys procured or understates the number of nonkidney organs procured, organ procurement costs will not be properly allocated among kidney and nonkidney organs. Kidney procurement costs will reflect costs that should have been allocated to nonkidney organs, resulting in Medicare's share of costs being overstated.

According to CMS's *Provider Reimbursement Manual*, OPOs are not required to include in their organ statistics those organs procured exclusively for research; however, OPOs must report proceeds from the sale of research organs as a reduction to expenses.

Donor Network of Arizona (DNA), the federally designated, independent OPO for the State of Arizona, submitted to the Medicare administrative contractor its fiscal year (FY) 2009 Medicare cost report covering the period January 1 through December 31, 2009. Total costs reported in DNA's Medicare cost report were \$25,977,391, of which Medicare's share of organ procurement costs was \$7,084,183. For cost allocation purposes, DNA reported 270 kidneys and 279 nonkidney organs.

OBJECTIVE

Our objective was to determine whether DNA complied with Medicare requirements for reporting organ statistics and related costs in its FY 2009 Medicare cost report.

SUMMARY OF FINDINGS

DNA did not fully comply with Medicare requirements for reporting organ statistics and related costs in its FY 2009 Medicare cost report:

- Based on our review of 65 donor case files, we determined that DNA reported incorrect kidney and pancreas statistics related to 3 donors. As a result, Medicare's share of organ procurement costs was overstated by an estimated net amount of \$5,855. DNA attributed the incorrect reporting of organ statistics to incorrect information provided by organ procurement staff to the finance department, which generates data reported in the Medicare cost report.
- DNA did not report proceeds from the sale of research organs as a reduction to its expenses. As a result, Medicare's share of organ procurement costs was overstated by an estimated \$2,600. DNA attributed the omission of research revenues to an inadvertent reporting error in preparing its Medicare cost report.

In total, Medicare's share of organ procurement costs was overstated by an estimated \$8,455 in DNA's FY 2009 Medicare cost report.

RECOMMENDATIONS

We recommend that DNA:

- submit a revised FY 2009 Medicare cost report to the Medicare administrative contractor to correct the estimated Medicare overstatement of \$8,455 related to the reporting errors and
- ensure that the organ statistics and related costs reported in future Medicare cost reports comply with Medicare requirements.

DONOR NETWORK OF ARIZONA COMMENTS

In written comments on our draft report, DNA concurred with our recommendations and provided information on actions that it had taken or planned to take to address the recommendations. DNA's comments are included in their entirety as the Appendix.

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DONOR NETWORK OF ARIZONA COMMENTS

INTRODUCTION

BACKGROUND

Medicare Program

Pursuant to Title XVIII of the Social Security Act (the Act), the Medicare program provides health insurance for people aged 65 and over, those with certain disabilities, and those who have end-stage renal disease (ESRD), which is permanent kidney failure. The ESRD Amendments of 1978, P.L. No. 95-292, added to the Act section 1881, which authorizes Medicare reimbursement for dialysis, transplantation, and procurement of kidneys. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program.

Organ Procurement Organizations

Organ procurement organizations (OPO) are not-for-profit organizations that are responsible for procuring and preserving transplantable organs and transporting them to transplant centers. CMS certifies OPOs to recover or procure organs in CMS-defined exclusive geographic service areas pursuant to section 371(b)(1)(F) of the Public Health Service Act.

Pursuant to section 1138(b)(1) of the Act, for organ procurement costs to be reimbursed under Medicare, an OPO must be a “qualified organ procurement organization” as described in section 371(b) of the Public Health Service Act and meet several other statutory requirements. Qualified OPOs have an agreement with the Secretary of Health and Human Services to be reimbursed under Title XVIII of the Act for the procurement of kidneys.

An OPO may be independent or hospital-based. Independent OPOs work closely with donor hospitals and transplant centers to facilitate organ donation and transplantation. Hospital-based OPOs operate within a hospital’s administrative and financial structure.

Medicare Reimbursement of Independent Organ Procurement Organizations

The Medicare program reimburses independent OPOs only for the cost of procuring kidneys, while transplant hospitals reimburse OPOs for procuring nonkidney organs. OPOs do not bill Medicare directly for organ procurement services related to kidneys. The donor hospital providing the kidney bills the OPO its customary charge. The OPO provides the kidney to the certified transplant center, which pays the OPO and reports the kidney procurement costs in its Medicare cost report. The OPO submits its own Medicare cost report, in which it reports the costs of procuring the kidney and the payment it received from the certified transplant center. Based on the cost report, Medicare Part A makes a retroactive adjustment directly with the independent OPO to reconcile any overpayment or underpayment resulting from the total payments that the independent OPO received from transplant centers for kidneys furnished for transplantation.

Medicare Cost Reports

CMS requires independent OPOs to submit Medicare cost reports annually so that it can properly determine the amounts payable under Medicare associated with kidney procurement. The cost report summarizes the OPO's statistical and financial data to determine the amount claimed for Medicare reimbursement. The statistical data include organ statistics, which consist of the number of kidney and nonkidney organs that the OPO procured and/or administratively processed.¹ The financial data include organ procurement costs, which consist of direct costs, overhead costs, and administrative and general costs:

- Direct costs include costs for operating rooms, anesthesiology, respiratory therapy, intensive care units, and donor tissue typing.
- Overhead costs include costs for procurement coordinators, professional education, and public education.
- Administrative and general costs include costs for accounting and legal fees, office salaries and supplies, and travel and meetings.

Allocation of Organ Procurement Costs

To ensure proper allocation of organ procurement costs so that Medicare pays for its fair share of these costs, CMS's Ruling No. 1543-R (the Ruling) requires that OPOs report in their organ statistics not only organs procured but also organs they attempted to procure. Furthermore, CMS's *Provider Reimbursement Manual* (the Manual), Pub. No. 15-2, chapter 33, instructs independent OPOs on how to assign direct costs to a particular organ and allocate overhead costs and administrative and general costs using the OPOs' organ statistics:

- Section 3306 of the Manual requires independent OPOs to assign direct costs to a particular organ if the costs are specifically identifiable to that organ. For direct costs that are not specifically identifiable, OPOs are required to allocate those costs among the organs procured.
- Section 3311 of the Manual requires independent OPOs to allocate overhead costs to a particular organ based on the total number of organs procured and to allocate administrative and general costs to the particular organ based on the total accumulated direct costs and overhead costs.

If an OPO overstates the number of kidneys procured or understates the number of nonkidney organs procured, organ procurement costs will not be properly allocated among kidney and

¹ Administrative processing includes activities such as arranging laboratory testing and locating prospective recipients for organs that were attempted to be procured for transplant or for organs procured but not transplanted because of a defect. Administrative processing also includes coordinating the procurement of organs obtained from other OPOs.

nonkidney organs. Kidney procurement costs will reflect costs that should have been allocated to nonkidney organs, resulting in Medicare's share of costs being overstated.

Donor Network of Arizona

Donor Network of Arizona (DNA), incorporated in 1992 as a not-for-profit corporation, is the federally designated, independent OPO for the State of Arizona. Its corporate office is located in Phoenix, Arizona. DNA submitted its fiscal year (FY) 2009 (January 1 through December 31, 2009) Medicare cost report to Cahaba Government Benefit Administrators, LLC, the Medicare administrative contractor (MAC) responsible for reviewing the annual Medicare cost reports for the 51 independent OPOs nationwide. Total costs reported in DNA's Medicare cost report were \$25,977,391, of which Medicare's share of organ procurement costs was \$7,084,183.

Office of Inspector General Reviews of Organ Procurement Organizations

Two prior Office of Inspector General reviews determined whether OPOs complied with Medicare requirements for reporting selected organ acquisition overhead costs and administrative and general costs in their Medicare cost reports.² Those reviews found that the two independent OPOs did not fully comply with Medicare requirements and reported unallowable and unsupported costs in their Medicare cost reports. However, those reviews did not evaluate whether the OPOs complied with Medicare requirements for reporting organ statistics.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether DNA complied with Medicare requirements for reporting organ statistics and related costs in its FY 2009 Medicare cost report.

Scope

For cost allocation purposes, DNA reported 270 kidneys and 279 nonkidney organs in its FY 2009 Medicare cost report. For our review, we judgmentally selected 65 donor case files³ to determine whether the organ statistics for kidneys, hearts, lungs, livers, pancreases, pancreas islets, and intestines were correctly reported.

² *Review of OneLegacy's Reported Fiscal Year 2006 Organ Acquisition Overhead Costs and Administrative and General Costs* (A-09-08-00033), issued January 28, 2010, and *Review of California Transplant Donor Network's Reported Fiscal Year 2007 Organ Acquisition Overhead Costs and Administrative and General Costs* (A-09-09-00087), issued October 1, 2010.

³ The donor case files included cases that were discontinued and cases that involved organs intended for research. DNA did not include organs related to these cases in its FY 2009 Medicare cost report.

We did not review the overall internal control structure of DNA. We limited our review of DNA's internal controls to obtaining an understanding of its policies and procedures used for reporting organ statistics in its Medicare cost report.

We conducted our audit from April 2011 to March 2012 and performed fieldwork at DNA's corporate office in Phoenix, Arizona.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- obtained DNA's FY 2009 Medicare cost report from the MAC;
- obtained an understanding of DNA's policies and procedures for reporting organ statistics in its Medicare cost report;
- reconciled the total costs reported in DNA's FY 2009 Medicare cost report with its detailed trial balance;
- reconciled the organ statistics reported in DNA's FY 2009 Medicare cost report with its organ donor log;
- judgmentally selected 65 donor case files based on higher risk areas and reviewed the medical record documentation to determine whether the organ statistics had been correctly reported;
- interviewed DNA officials and personnel;
- reviewed the MAC's audit adjustments to the organ statistics and cost data reported in DNA's FY 2009 Medicare cost report; and
- estimated the Medicare overpayments for overhead costs and administrative and general costs related to reporting errors.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

DNA did not fully comply with Medicare requirements for reporting organ statistics and related costs in its FY 2009 Medicare cost report:

- Based on our review of 65 donor case files, we determined that DNA reported incorrect kidney and pancreas statistics related to 3 donors. As a result, Medicare's share of organ procurement costs was overstated by an estimated net amount of \$5,855.⁴ DNA attributed the incorrect reporting of organ statistics to incorrect information provided by organ procurement staff to the finance department, which generates data reported in the Medicare cost report.
- DNA did not report proceeds from the sale of research organs as a reduction to its expenses. As a result, Medicare's share of organ procurement costs was overstated by an estimated \$2,600. DNA attributed the omission of research revenues to an inadvertent reporting error in preparing its Medicare cost report.

In total, Medicare's share of organ procurement costs was overstated by an estimated \$8,455 in DNA's FY 2009 Medicare cost report.

INCORRECT REPORTING OF ORGAN STATISTICS

DNA reported incorrect kidney and pancreas statistics in its FY 2009 Medicare cost report. As a result, DNA overstated Medicare's share of organ procurement costs by an estimated net amount of \$5,855.

Kidney Statistics

The Manual, part 2, section 3306, states: "For each organ procurement, of both kidneys, count kidneys as two organs for allocation purposes." Furthermore, section 3306 states: "Pediatric kidneys procured for transplantation 'En bloc' [organs procured as a unit] are to be counted as one kidney for allocation purposes."

Contrary to the Manual, DNA reported incorrect kidney statistics:

- DNA understated its kidney statistics by reporting two kidneys as one organ. The medical records for the donor showed that both kidneys were procured. Therefore, DNA should have reported two kidneys instead of one kidney in its Medicare cost report. As a result of the incorrect reporting, DNA understated Medicare's share of organ procurement costs by approximately \$6,000.

⁴ The estimated Medicare overpayment consists of overhead costs and administrative and general costs. We did not estimate overpayments related to direct costs.

- DNA overstated its kidney statistics by reporting an en bloc pediatric kidney as two kidneys. The medical records for the donor showed that the en bloc kidney was procured from a 7-month-old. Therefore, DNA should have reported one kidney instead of two kidneys in its Medicare cost report. As a result of the incorrect reporting, DNA overstated Medicare's share of organ procurement costs by approximately \$6,000.

DNA's reporting of incorrect kidney statistics did not affect Medicare's share of organ procurement costs because DNA both understated and overstated Medicare's share by approximately the same amount.

Pancreas Statistics

The Ruling states that to ensure proper allocation of overhead costs, if procurement was attempted but no organ procured, the organ must still be reported for purposes of proper cost finding.

Contrary to the Ruling, DNA did not report a pancreas that was attempted to be procured for transplant. The medical records for the donor confirmed that the pancreas was intended for transplant; however, the pancreas was later sent to research. Because DNA understated its pancreas statistics, the kidney procurement costs reflected costs that should have been allocated to pancreases. As a result, DNA overstated Medicare's share of organ procurement costs by an estimated \$5,855.

UNREPORTED PROCEEDS FROM THE SALE OF RESEARCH ORGANS

According to the Manual, part 2, chapter 33, independent OPOs are not required to include in their organ statistics those organs procured exclusively for research; however, section 3309 of the Manual requires independent OPOs to report proceeds from the sale of research organs as a reduction to expenses. Because the proceeds are revenue, the OPO must reduce the expenses reported for organ procurement by the same amount.

Contrary to the Manual, DNA did not report \$5,000 of proceeds from the sale of research organs as a reduction to expenses. As a result, DNA overstated Medicare's share of organ procurement costs by an estimated \$2,600.

RECOMMENDATIONS

We recommend that DNA:

- submit a revised FY 2009 Medicare cost report to the Medicare administrative contractor to correct the estimated Medicare overstatement of \$8,455 related to the reporting errors and
- ensure that the organ statistics and related costs reported in future Medicare cost reports comply with Medicare requirements.

DONOR NETWORK OF ARIZONA COMMENTS

In written comments on our draft report, DNA concurred with our recommendations and provided information on actions that it had taken or planned to take to address the recommendations. DNA's comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: DONOR NETWORK OF ARIZONA COMMENTS



A Donate Life Organization

March 30, 2012

Donor Network of Arizona
201 West Coolidge Street
Phoenix, AZ 85013

Ms. Lori Ahlstrand
Regional Inspector General for Audit Services
Office of Audit Services, Region IX
90 - 7th Street, Suite 3-650
San Francisco, CA 94103

RE: Response to Recommendations

Report Number A-09-11-02035-
Office of Inspector General draft report entitled Donor Network of Arizona Did Not Fully Comply
With Medicare Requirements for Reporting Organ Statistics and Related Costs in Its Fiscal Year
2009 Medicare Cost Report, March 2012

Dear Ms. Ahlstrand:

Per your request, the following is Donor Network's written response to the two recommendations specified in the above referenced report:

- We concur with the 2009 Medicare overstatement of \$5,855 due to incorrectly classifying a pancreas, and the overstatement of \$2,600 for not properly reporting research organs. Per the Medicare Administrative Contractor's instructions, we will send a request to ask that they re-open the 2009 Medicare cost report. The MAC will then process the reopening and notify the CMS central office and they will let the OIG know when completed. Donor Network will forward the notice of reopening and the corrected NPR to the OIG documenting completion.
- We concur with the treatment of the identified incorrectly classified organ statistics and have taken steps to improve organ disposition follow through to ensure that organ statistics and related costs reported in future Medicare cost reports will comply with Medicare requirements.

Sincerely,

A handwritten signature in cursive script, appearing to read "Katherine Mills".

Katherine Mills, CPA
Chief Financial Officer