

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**LIFECENTER NORTHWEST
DID NOT FULLY COMPLY WITH
MEDICARE REQUIREMENTS FOR
REPORTING ORGAN STATISTICS
IN ITS FISCAL YEAR 2009
MEDICARE COST REPORT**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Lori A. Ahlstrand
Regional Inspector General

November 2012
A-09-11-02039

Office of Inspector General

<https://oig.hhs.gov>

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:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <https://oig.hhs.gov>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

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.

LifeCenter Northwest (LifeCenter), a federally designated, independent OPO with donation service areas in Alaska, Montana, north Idaho, and Washington State, 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 LifeCenter's Medicare cost report were \$19,302,357, of which Medicare's share of organ procurement costs was \$8,196,694. For cost allocation purposes, LifeCenter reported 257 kidneys and 242 nonkidney organs.

OBJECTIVE

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

SUMMARY OF FINDINGS

LifeCenter did not fully comply with Medicare requirements for reporting organ statistics in its FY 2009 Medicare cost report. Based on our review of 49 donors, we determined that LifeCenter reported incorrect organ statistics for 15 organs related to 13 donors. Specifically, LifeCenter did not report five imported pancreases that were processed administratively with imported kidneys; three pancreases, two livers, and two kidneys that it attempted to procure for transplant; two pancreases procured for islet cell transplant; and one kidney procured from an adult donor. As a result, Medicare's share of organ procurement costs was overstated by an estimated \$88,205.

LifeCenter stated that human error and the manual system it used to track donors caused the incorrect reporting of organ statistics for the 15 organs.

RECOMMENDATIONS

We recommend that LifeCenter:

- submit a revised FY 2009 Medicare cost report to the Medicare administrative contractor to correct the estimated Medicare overstatement of \$88,205 related to the incorrect reporting of organ statistics and
- ensure that the organ statistics reported in future Medicare cost reports comply with Medicare requirements.

LIFECENTER NORTHWEST COMMENTS

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

TABLE OF CONTENTS

Page

INTRODUCTION.....1

BACKGROUND1

 Medicare Program.....1

 Organ Procurement Organizations.....1

 Medicare Reimbursement of Independent Organ Procurement
 Organizations1

 Medicare Cost Reports.....2

 Allocation of Organ Procurement Costs2

 LifeCenter Northwest.....3

 Prior Office of Inspector General Review3

OBJECTIVE, SCOPE, AND METHODOLOGY3

 Objective.....3

 Scope.....3

 Methodology4

FINDINGS AND RECOMMENDATIONS4

INCORRECT REPORTING OF ORGAN STATISTICS5

 Imported Pancreases Processed Administratively With
 Imported Kidneys.....5

 Organs That LifeCenter Attempted To Procure for Transplant.....5

 Pancreases Intended for Islet Cell Transplant.....6

 Kidney Procured From an Adult Donor.....6

CAUSE AND EFFECT OF INCORRECT REPORTING6

RECOMMENDATIONS6

LIFECENTER NORTHWEST COMMENTS7

APPENDIX

LIFECENTER NORTHWEST 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. If the OPO procures the kidney from a donor hospital, the OPO pays the donor hospital’s customary charge; however, if the OPO acquires the kidney from another OPO, the OPO acquiring the organ pays the other OPO’s standard acquisition 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 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.

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

LifeCenter Northwest

LifeCenter Northwest (LifeCenter), incorporated in 1996 as a nonprofit corporation, is a federally designated, independent OPO with donation service areas² in Alaska, Montana, north Idaho, and Washington State. Its corporate office is located in Bellevue, Washington. LifeCenter 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 LifeCenter's Medicare cost report were \$19,302,357, of which Medicare's share of organ procurement costs was \$8,196,694.

Prior Office of Inspector General Review

A prior Office of Inspector General review found that the federally designated, independent OPO for the State of Arizona did not fully comply with Medicare requirements for reporting organ statistics and related costs in its FY 2009 Medicare cost report.³ As a result, the OPO overstated Medicare's share of organ procurement costs by an estimated \$8,500.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

For cost allocation purposes, LifeCenter reported 257 kidneys and 242 nonkidney organs (107 livers, 47 hearts, 43 pancreases, 41 lungs, and 4 intestines) in its FY 2009 Medicare cost report. For our review, we judgmentally selected 49 donors⁴ to determine whether the organ statistics for kidneys, livers, hearts, pancreases, and intestines were correctly reported.

We did not determine whether LifeCenter correctly reported organ statistics for lungs because we plan to address reporting of lung statistics in a separate review of OPOs nationwide.

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

² A donation service area is a CMS-designated geographic area served by one OPO.

³ *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* (A-09-11-02035), issued April 13, 2012.

⁴ The 49 donors included cases that were discontinued and cases that involved organs intended for research. LifeCenter did not include organ statistics related to these cases in its FY 2009 Medicare cost report.

We conducted our audit from May 2011 to June 2012 and performed fieldwork at LifeCenter's corporate office in Bellevue, Washington.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- obtained LifeCenter's FY 2009 Medicare cost report from the MAC;
- obtained an understanding of LifeCenter's policies and procedures for reporting organ statistics in its Medicare cost report;
- reconciled the total costs reported in LifeCenter's FY 2009 Medicare cost report with its detailed trial balance;
- reconciled the organ statistics reported in LifeCenter's FY 2009 Medicare cost report with its supporting documentation;
- judgmentally selected 49 donors based on higher risk areas and reviewed the medical record documentation to determine whether the organ statistics were correctly reported;
- interviewed LifeCenter officials and personnel;
- reviewed the MAC's audit adjustments to the organ statistics and cost data reported in LifeCenter's FY 2009 Medicare cost report; and
- estimated the Medicare overpayments for overhead costs and administrative and general costs related to the incorrect organ statistics.

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

LifeCenter did not fully comply with Medicare requirements for reporting organ statistics in its FY 2009 Medicare cost report. Based on our review of 49 donors, we determined that LifeCenter reported incorrect organ statistics for 15 organs related to 13 donors.⁵ As a result, Medicare's share of organ procurement costs was overstated by an estimated \$88,205.

⁵ The 13 donors included one donor with three unreported organs (two kidneys and one liver).

INCORRECT REPORTING OF ORGAN STATISTICS

LifeCenter reported incorrect pancreas, liver, and kidney statistics. Specifically, LifeCenter did not report:

- five imported pancreases processed administratively with imported kidneys;
- three pancreases, two livers, and two kidneys that it attempted to procure for transplant;
- two pancreases procured for islet cell transplant; and
- one kidney procured from an adult donor.

Imported Pancreases Processed Administratively With Imported Kidneys

The Manual, part 2, section 3303.1, instructs OPOs to report the number of organs retrieved and/or processed administratively.

Contrary to the Manual, LifeCenter did not report five imported pancreases from five donors. The donors' medical records showed that LifeCenter imported the pancreases from outside of its donation service areas. LifeCenter also processed the pancreases administratively with imported kidneys. Although LifeCenter reported the kidneys in its organ statistics, it did not report the pancreases. Because LifeCenter understated its pancreas statistics, the kidney procurement costs reflected costs that should have been allocated to pancreases. As a result, LifeCenter overstated Medicare's share of organ procurement costs by an estimated \$48,108.

Organs That LifeCenter Attempted To Procure for Transplant

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

Contrary to the Ruling, LifeCenter did not report in its organ statistics all organs that it attempted to procure for transplant:

- LifeCenter did not report three pancreases from three donors and two livers from two donors. The donors' medical records showed that LifeCenter attempted to procure the organs for transplant. Because LifeCenter understated its pancreas and liver statistics, the kidney procurement costs reflected costs that should have been allocated to pancreases and livers. As a result, LifeCenter overstated Medicare's share of organ procurement costs by an estimated \$48,108.
- LifeCenter did not report two kidneys from one donor. The donor's medical records showed that LifeCenter attempted to procure the organs for transplant. Because LifeCenter understated its kidney statistics, the kidney procurement costs did not reflect

costs that should have been allocated to kidneys. As a result, LifeCenter understated Medicare's share of organ procurement costs by an estimated \$18,238.

In total, Medicare's share of organ procurement costs was overstated by an estimated net amount of \$29,870.

Pancreases Intended for Islet Cell Transplant

The Manual, part 1, section 2773.2, requires OPOs to treat pancreases procured for islet cell transplant as solid organs for procurement purposes.

Contrary to the Manual, LifeCenter did not report two pancreases from two donors. The donors' medical records confirmed that the pancreases were intended for islet cell transplant. Because LifeCenter understated its pancreas statistics, the kidney procurement costs reflected costs that should have been allocated to pancreases. As a result, LifeCenter overstated Medicare's share of organ procurement costs by an estimated \$19,359.

Kidney Procured From an Adult Donor

The Manual, part 2, section 3306, states that for each organ procurement of both kidneys, count kidneys as two organs for allocation purposes. If a retrieval is known in advance to have only one potential kidney, count one kidney for allocation purposes.

Contrary to the Manual, LifeCenter did not report one kidney from an adult donor. The donor's medical records showed that two kidneys were intended for procurement as two separate organs; however, the kidneys were procured en bloc (as a unit), and only one kidney was reported. Because LifeCenter understated its kidney statistics, the kidney procurement costs did not reflect costs that should have been allocated to kidneys. As a result, LifeCenter understated Medicare's share of organ procurement costs by an estimated \$9,132.

CAUSE AND EFFECT OF INCORRECT REPORTING

LifeCenter stated that human error and the manual system it used to track donors caused the incorrect reporting of organ statistics for the 15 organs. As a result of LifeCenter's incorrect reporting, Medicare's share of organ procurement costs was overstated by an estimated \$88,205.

RECOMMENDATIONS

We recommend that LifeCenter:

- submit a revised FY 2009 Medicare cost report to the MAC to correct the estimated Medicare overstatement of \$88,205 related to the incorrect reporting of organ statistics and
- ensure that the organ statistics reported in future Medicare cost reports comply with Medicare requirements.

LIFECENTER NORTHWEST COMMENTS

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

APPENDIX

APPENDIX: LIFE CENTER NORTHWEST COMMENTS



1001 SE 4th St, Suite 300
Bellevue, WA 98004

www.lcnw.org

[info](#) 206.296.6288
[fax](#) 206.296.6288
[fax](#) 206.296.6288

Office of Audit Services, Region IX
90 – 7th Street, Suite 3-650,
San Francisco, CA 94103

Re: Report Number A-09-11-02039

[Washington](#)
[Montana](#)
[Idaho](#)
[Alaska](#)

Dear Sir/Madam,

Please accept this letter as LifeCenter Northwest's response to the Office of Inspector (OIG) draft report issued, September 20th, 2012.

Recommendation:

- Submit a revised FY 2009 Medicare cost report to Medicare administrative contractor to correct the estimated Medicare overstatement of \$88,205 related to the incorrect reporting of organ statistics.

LifeCenter Northwest concurs with this recommendation and will submit a revised FY 2009 Medicare cost report to the Office of Audit Services.

Recommendation:

- Ensure that the organ statistics reported in future Medicare cost reports comply with Medicare requirements.

LifeCenter Northwest concurs with this recommendation. Remedial action to address the accurate capture and reporting of organ reporting statistics was taken by LifeCenter Northwest prior to the commencement of the OIG FY 2009 audit. The changes we made appropriately address this recommendation and have facilitated our compliance with Medicare requirements since the change.

Yours Sincerely,

/Kevin O'Connor/

Kevin O'Connor
President & CEO
LifeCenter Northwest