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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

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The Honorable L. H. Fountain
Chairman, Subcommittee on
Intergovernmental Relations
and Human Resources
Committee on Government Operations
House of Representatives

RELEASED

Dear Mr. Chairman:

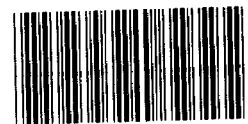
Subject: Information on Selected Medicare Independent
Dialysis Facility Audits (HRD-82-42)

This is in response to the Subcommittee's February 3, 1982, request for information on the results of our analysis of selected Health Care Financing Administration (HCFA) audits of independent dialysis facilities participating in Medicare's End Stage Renal Disease program. We were asked to provide data on (1) the adjustments beyond those made by HCFA that we believed should be made to the facility cost reports and (2) the related organization transaction costs 1/ included in these reports.

As part of our ongoing review of reimbursement under the End Stage Renal Disease program, we made a limited review of 13 of the 38 independent facility audits performed by Medicare fiscal intermediaries, under contract with HCFA, which also administer payments to dialysis facilities.

1/The costs of services, facilities, and supplies purchased from organizations related to the purchasing organizations by common ownership or control. Medicare cost reimbursement principles permit reimbursement to such providers at the lower of (1) the costs incurred by the related organization in furnishing the goods or services or (2) the costs at which the goods or services could be obtained elsewhere. (See 42 C.F.R. 405.427.)

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Our analysis consisted primarily of a review of the audit reports for the cost reporting years ended in 1978 or 1979 and supporting working papers prepared by the intermediary auditors. We also reviewed the adjustments and supporting documentation prepared by HCFA. In addition, we talked or met with the intermediary auditors and HCFA officials to obtain additional information on the work they performed. Our proposed adjustments were discussed with the intermediary auditors.

We based our review of the audits on the Medicare cost reimbursement standards contained in 42 C.F.R. 405, subpart D, and the interpretive material on them contained in Medicare manuals. Our work was performed in accordance with the Comptroller General's current standards for audit of governmental organizations, programs, activities, and functions.

The total costs reported by the 13 facilities were about \$15.4 million. Work done by the fiscal intermediaries and HCFA resulted in reductions of about \$2 million to the reported costs. Based on our limited review, we estimated that there should have been additional reductions of about \$690,000. A more complete audit might have resulted in additional reductions. The adjustments we made would reduce the average cost per treatment by about \$5.50 for the 13 facilities. Enclosure I summarizes the costs and number of treatments for the 13 facilities as reported by them and the adjustments made by the intermediary auditors, HCFA, and us. Most of the reductions we made related to


- incorrect allocations of parent company home office and/or regional office expenses,
- insufficient documentation to support management fees charged by related organizations,
- the cost of dialysis treatments provided for patients of other facilities which were paid for by those facilities,
- nonrecurring and/or undocumented legal expenses, and
- profits on transactions between related organizations.

Twelve of the facilities in our review purchased supplies and/or services from organizations we considered to be related. About 60 percent of the related organization purchases were for supplies, and the remainder were primarily for management and administrative services. The costs of these supplies and services in most cases amounted to more than 40 percent of the facilities' total reported costs. Enclosure II summarizes the total costs reported by the facilities and shows our estimate of the portion of the costs represented by related organization transactions.

The data reviewed did not provide enough information to enable us to determine how much of the related organization costs were audited by the fiscal intermediaries. However, none of the audits determined the actual costs to the related organizations selling dialysis supplies or the costs at which the supplies could be obtained from nonrelated organizations. The lower of the related organization's costs or the price at which the supplies could be obtained elsewhere is the maximum allowable for Medicare reimbursement purposes. Also, in many instances, home office and regional office costs reported by chain facilities were not audited. Therefore, substantial portions of costs were included in the cost reports without adequate assurance of compliance with Medicare regulations concerning related organization costs.

As requested by the Subcommittee staff, we did not obtain agency comments on this report because of time constraints. Unless you publicly announce the report's contents earlier, no further distribution will be made until 10 days from its issue date. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



Gregory J. Ahart
Director

Enclosures - 2

COSTS AND NUMBER OF TREATMENTS AS REPORTED BY THE FACILITIES

AND AS ADJUSTED BY THE FISCAL INTERMEDIARY, HCFA, AND GAO

FOR THE 13 INDEPENDENT FACILITIES

<u>Facility</u>		<u>Costs</u>	<u>Number of treatments</u>	<u>Average costs per treatment</u>	<u>Per treatment adjustment to reported costs (decrease (increase)) (note a)</u>
Kidneycare of Florida, Clearwater Unit, Clearwater, Fla.	Reported	\$ 516,058	4,248	\$121.48	
	Intermediary	453,793	4,247	106.85	\$14.63
	HCFA	453,793	4,247	106.85	0
	GAO	430,603	4,247	101.39	5.46
Kidneycare of Florida, Lakeland Unit, Lakeland, Fla.	Reported	711,662	5,858	121.49	
	Intermediary	565,764	5,671	99.76	21.73
	HCFA	565,746	5,671	99.76	0
	GAO	551,924	5,671	97.32	2.44
Sarasota Artificial Kidney Center, Sarasota, Fla.	Reported	899,502	7,005	128.41	
	Intermediary	821,649	7,005	117.29	11.12
	HCFA	806,085	7,005	115.07	2.22
	GAO	773,006	7,005	110.35	4.72
St. Petersburg Artificial Kidney Center, St. Petersburg, Fla.	Reported	1,155,984	9,499	121.70	
	Intermediary	1,082,859	9,499	114.00	7.70
	HCFA	1,057,984	9,499	111.38	2.62
	GAO	1,018,603	9,499	107.23	4.15
Community Dialysis Services of Northwest Georgia, Rome, Ga.	Reported	574,158	4,972	115.48	
	Intermediary	538,867	4,866	110.74	4.74
	HCFA	538,867	4,866	110.74	0
	GAO	499,210	4,866	102.59	8.15

<u>Facility</u>		<u>Costs</u>	<u>Number of treatments</u>	<u>Average costs per treatment</u>	<u>Per treatment adjustment to reported costs (decrease (increase)) (note a)</u>
Community Dialysis Services of Southwest Georgia, Valdosta, Ga.	Reported	\$ 710,837	6,699	\$106.11	
	Intermediary	687,013	6,422	106.98	\$ (.87)
	HCFA	687,013	6,422	106.98	0
	GAO	619,570	6,422	96.48	10.50
Anderson Dialysis Clinic, Inc., Anderson, S.C.	Reported	662,858	4,341	152.70	
	Intermediary	508,683	4,145	122.72	29.98
	HCFA	458,943	4,145	110.72	12.00
	GAO	435,724	4,145	105.12	5.60
Florence Dialysis Center, Inc., Florence, S.C.	Reported	1,096,007	11,189	97.95	
	Intermediary	939,909	10,623	88.48	9.47
	HCFA	892,464	10,623	84.01	4.47
	GAO	843,240	10,623	79.38	4.63
Florida Parish Artificial Kidney Center, Hammond, La.	Reported	683,690	4,271	160.08	
	Intermediary	588,915	4,271	137.89	22.19
	HCFA	528,607	4,271	123.77	14.12
	GAO	483,532	4,271	113.21	10.56
Cape Cod Artificial Kidney Center, Yarmouth, Mass.	Reported	516,752	4,513	114.50	
	Intermediary	505,214	4,513	111.95	2.55
	HCFA	505,214	4,513	111.95	0
	GAO	472,847	4,513	104.77	7.18
Dialysis Services of New Hampshire, Inc., Concord, N.H.	Reported	1,088,134	7,075	153.80	
	Intermediary	980,941	7,188	136.47	17.33
	HCFA	866,152	7,188	120.50	15.97
	GAO	854,261	7,188	118.85	1.65

<u>Facility</u>		<u>Costs</u>	<u>Number of treatments</u>	<u>Average costs per treatment</u>	<u>Per treatment adjustment to reported costs (decrease (increase)) (note a)</u>
Southern Connecticut Out of Hospital Dialysis Unit, Inc., Bridgeport, Conn.	Reported	\$1,576,609	11,006	\$143.25	
	Intermediary	1,492,696	10,966	136.12	\$ 7.13
	HCFA	1,232,666	10,966	112.41	23.71
	GAO	1,230,693	10,966	112.23	.18
The Kidney Center, Boston, Mass.	Reported	5,165,798	46,886	110.18	
	Intermediary	4,786,213	46,515	102.90	7.28
	HCFA	4,768,381	46,515	102.51	.39
	GAO	4,456,291	46,515	95.80	6.71

a/Represents the extent of adjustments beyond those made by the immediately preceding organizations.

TOTAL COST REPORTED AND GAO'S ESTIMATE
OF TRANSACTIONS WITH RELATED ORGANIZATIONS
FOR THE 13 INDEPENDENT FACILITIES

<u>Facility</u>	<u>Total reported costs</u>	<u>Related organization transactions</u>	
		<u>GAO esti- mated costs</u>	<u>Percentage of total reported costs</u>
Kidneycare of Florida, Clearwater Unit, Clearwater, Fla.	\$ 516,058	\$ 286,825	56
Kidneycare of Florida, Lakeland Unit, Lakeland, Fla.	711,662	352,471	50
Sarasota Artificial Kidney Center, Sarasota, Fla.	999,502	415,551	46
St. Petersburg Artificial Kidney Center, St. Petersburg, Fla.	1,155,984	540,279	47
Community Dialysis Services of Northwest Georgia, Rome, Ga.	574,158	155,624	27
Community Dialysis Services of Southwest Georgia, Valdosta, Ga.	710,837	212,503	30
Anderson Dialysis Clinic, Inc., Anderson, S.C.	662,858	291,891	44
Florence Dialysis Center, Inc., Florence, S.C.	1,096,007	514,083	47
Florida Parish Artificial Kidney Center, Hammond, La.	683,690	302,166	44
Cape Cod Artificial Kidney Center, Yarmouth, Mass.	516,752	225,956	44
Dialysis Service of New Hampshire, Inc., Concord, N.H.	1,088,134	105,110	10
Southern Connecticut Out of Hospital Dialysis Unit, Bridgeport, Conn.	1,576,609	0	0
The Kidney Center, Boston, Mass.	5,165,798	2,577,169	50