



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Office of Audit Services

OCT 01 2001

CIN: A-04-00-01223

REGION IV  
Room 3T41  
61 Forsyth Street, S.W.  
Atlanta, Georgia 30303-8909

Ms. Suzanne Heck, CFO  
Parkway Regional Medical Center  
Administration  
160 N.W. 170<sup>th</sup> Street  
North Miami Beach, Florida 33169

Dear Ms. Heck:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' report entitled *Audit of the Outpatient Oncology Clinic Costs at Parkway Regional Medical Center*. A copy of this report will be forwarded to the action official for his review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action 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.

In accordance with the principles of the Freedom of Information Act, 5 United States Code 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services reports issued to the Department's grantees and contractors are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 Code of Federal Regulations Part 5.)

To facilitate identification please refer to Common Identification Number (CIN) A-04-00-01223 in all correspondence relating to this report.

Sincerely yours,

Charles J. Curtis  
Regional Inspector General  
for Audit Services, Region IV

Enclosures - as stated

Direct Reply to HHS Action Official:  
Mr. Dale Kendrick  
Associate Regional Commissioner  
Centers for Medicare and Medicaid Services  
(404) 562-7301

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF THE OUTPATIENT  
ONCOLOGY CLINIC COSTS AT  
PARKWAY REGIONAL MEDICAL  
CENTER**



**OCTOBER 2001**

**A-04-00-01223**



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Ms. Suzanne Heck, CFO  
Parkway Regional Medical Center  
Administration  
160 N.W. 170<sup>th</sup> Street  
North Miami Beach, Florida 33169

Dear Ms. Heck:

This report provides you with the results of our *Audit of the Outpatient Oncology Clinic Costs at Parkway Regional Medical Center (Parkway), North Miami Beach, Florida*. The audit covered the Fiscal Years Ending (FYE) ending September 30, 1996 through September 30, 1999.

## EXECUTIVE SUMMARY

Our objective was to determine whether the management fees and other costs for the outpatient oncology clinic at Parkway met Medicare cost reimbursement guidelines.

### *Summary of Findings*

Our audit showed that Parkway did not meet Medicare cost guidelines in two areas: documenting the reasonable cost of the management fees, and claiming rental costs not related to patient care.

Parkway did not maintain records to demonstrate that it carried out its fiduciary responsibilities to ensure costs are reasonable as outlined in the Medicare cost guidelines. Further, the management fee was not based on the cost to provide the services. Rather, it was based solely on the amounts Parkway billed the insurers, such as Medicare, for services provided to oncology patients. As a result, we cannot render an opinion as to the reasonableness of the nearly \$8.9 million the Medicare program reimbursed Parkway for the outpatient oncology clinic.

Our audit also showed that Parkway claimed rental charges on the 1999 Medicare cost report that were not related to patient care. From the clinic's closing in November 1998 until May 1999, the total rental charges that Parkway claimed for Medicare reimbursement were more than \$119,000. Based on data furnished by Parkway's fiscal intermediary (FI), we estimate Medicare overpaid Parkway about \$52,000.

We are recommending that Parkway: (1) strengthen its procedures to ensure that Parkway record its justifications for future management support service agreements and to have that documentation available for review, and (2) remove unallowable rental charges from the cost report for the FYE September 30, 1999. We will provide the results of our audit to Parkway's FI for their use in closing the 1999 cost report.

Parkway, in its written response to our draft audit report, did not provide additional information regarding the reasonableness of management fees for the outpatient oncology clinic. In addition, Parkway believes its policies governing contracts for management services are based on sound business principles. Nonetheless, we found no evidence in their policies that corresponds with current Medicare requirements discussed in PRM1 2135. Based on the information provided we are still unable to render an opinion as to the reasonableness of the nearly \$8.9 million the Medicare program reimbursed Parkway for the outpatient oncology clinic.

Parkway also stated that it appears it inadvertently did not self-disallow the lease payments and included them in its cost report. As requested, we will provide Parkway with our working papers that support the \$119,401 adjustment. We will also provide the FI with a copy of our final report and any working papers it may request.

We have also responded to Parkway's comments in the Findings and Recommendations section of this report.

## INTRODUCTION

### Background

The Medicare program, administered by the Centers for Medicare and Medicaid Services (CMS)<sup>1</sup>, was established by Title XVIII of the Social Security Act. Medicare provides health insurance coverage for people aged 65 and over, the disabled, people with end stage renal disease, and certain others who elect to purchase Medicare coverage. Under section 1833(a), the Act provides for coverage of medical services, including outpatient clinic services. The CMS reimburses outpatient services through the Medicare Part B Programs. Medicare reimbursement for outpatient clinic services was based on the cost of services to the Medicare patients.

As a Medicare Part B provider, Parkway received reimbursement for outpatient oncology services from its FI. At the end of each Medicare FY, Parkway filed a cost report with its FI. By filing the cost report, Parkway reconciled its costs to the Medicare payments received during the year from the FI. Parkway's ancillary costs are those costs that are identifiable to a particular Parkway service. Clinic costs are reimbursed through the ancillary group.

To establish a standardized method of reporting, CMS has assigned line numbers on the cost report for each class of costs. The CMS established line 59.02 for FYs 1996 and 1997 and line 59.30 for FYs 1998 and 1999 for reporting clinic costs. In order to be considered allowable for reimbursement, these costs must meet the requirements set forth in the Code of Federal Regulations (CFR) for the Medicare program as well as CMS's program instructions.

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<sup>1</sup> Formerly the Health Care Financing Administration

Parkway, which is an acute care facility, provided outpatient oncology clinic services in the North Miami Beach area from March 1987 through November 1998. Parkway's owners in March 1987 were American Medical International, Inc. At the beginning of our audit period October 1, 1995, OrNda Healthcorp owned Parkway. During our review, Parkway was owned by Tenet Healthcare Corporation (Tenet) of Santa Barbara, California. Tenet acquired Parkway through a merger with OrNda in January 1997.

Parkway contracted with Comprehensive Cancer Center, Inc. (CCC) to manage the outpatient oncology clinic as well as provide services to patients. The original contract that was effective March 13, 1987 was amended as of November 1, 1996. The CCC was owned by Salick Health Care, Inc. (Salick). By April 1997, Salick had become a wholly owned subsidiary of Astra-Zeneca, an international pharmaceutical company. Salick treats patients with catastrophic illness requiring sophisticated long-term care, principally in the areas of cancer, kidney failure, organ transplantation and certain immunodeficiency diseases. Astra-Zeneca purports to rank second in the world in the development of anti-cancer medicines.

From October 1, 1995 through September 30, 1999, Parkway claimed costs totaling approximately \$14 million to operate the oncology clinic. Of that amount, Parkway paid CCC \$13.3 million for providing oncology services and managing the oncology clinic. The amount of Parkway's Medicare reimbursement was nearly \$8.9 million.

## **OBJECTIVE, SCOPE AND METHODOLOGY**

The objective of our audit was to determine whether the oncology clinic management fees and other clinic costs incurred by Parkway from October 1, 1995 through September 30, 1999 met Medicare cost reimbursement guidelines.

We conducted our audit in accordance with generally accepted government auditing standards. The audit fieldwork was conducted from October 2000 through July 2001 at Parkway's main location in North Miami Beach, Florida.

We limited consideration of the internal control structure to those controls covering the oncology clinic management fees and other clinic costs reported on the cost reports because the objective of our review did not require an understanding or assessment of Parkway's complete internal control structure. We judgmentally sampled and reviewed supporting documentation for the oncology clinic and other related costs.

To accomplish our objective, we reviewed:

- Federal regulations related to outpatient clinic services, including the basis of cost reimbursement, and the use of management service agreements;
- Parkway's cost reports for FYE 1996 through 1999, and related working papers furnished by Parkway's FI; and

- Parkway's accounting records applicable to the oncology clinic management fees and other costs for FYEs 1996 through 1999.

We issued a draft report to Parkway on August 21, 2001. Their written response, dated September 20, 2001, is included as Appendix A to this report.

## **FINDINGS AND RECOMMENDATIONS**

The management fee for the outpatient oncology clinic at Parkway related to revenues and was not based on the cost to provide the services. Since Parkway officials provided no documentation to show that they carried out their fiduciary responsibilities to ensure costs are reasonable, we cannot render an opinion as to the reasonableness of the nearly \$8.9 million the Medicare program reimbursed Parkway for the outpatient oncology clinic. Our audit also showed that Parkway claimed about \$52,000 in Medicare reimbursement for rental costs not related to patient care.

### **REASONABLE COSTS OF PURCHASED SERVICES**

Parkway purchased the services to manage the outpatient oncology clinic. However, Parkway did not maintain records to demonstrate that it carried out its fiduciary responsibilities to ensure costs are reasonable as outlined in the Medicare cost guidelines. Further, the management fee was not based on CCC's cost to provide the services. Rather, it was based on the amounts Parkway billed the insurers, such as Medicare, for services provided to oncology patients. Therefore, we cannot render an opinion as to the reasonableness of the nearly \$8.9 million the Medicare program reimbursed Parkway for the outpatient oncology clinic from October 1, 1995 through September 30, 1999.

Under the Medicare cost principles, providers receiving payment on the basis of reasonable cost must provide adequate cost data that is based on an approved cost finding methodology. The Medicare cost principles further instruct providers that if they choose to supply services using personnel from sources outside of their immediate control environment, there should be a certain decision process that occurs. Two of the more important tasks in the decision process are to determine reasonable costs of the services, and to maintain records of the decision process.

### **Reasonable Cost Decisions**

The Medicare cost principles discuss what is required to ensure providers make reasonable cost determinations. PRM1 2135.2 states:

*“ . . . a provider is prudent to solicit competitive bids. Therefore, in the absence of competitive bidding which would otherwise be appropriate in the circumstances, the*

*provider must be able to demonstrate the manner in which it searched the marketplace for the most appropriate and effective means of obtaining the services.”*

Parkway officials could not show that they selected the contract with CCC from competitive bids or searched the marketplace in any other manner for the most appropriate and effective means of obtaining the service.

In the absence of a market analysis, the cost principles provide general guidance on determining whether services purchased under arrangement are obtained at the best possible cost. The PRM1 2135.3 states:

*“Generally, purchased management and administrative support service costs are reasonable if the costs incurred . . . provide for a total guaranteed cost equal to or less than the provider’s current cost for such department or service.”*

However, Parkway had no prior cost experience providing oncology clinic services and the management fee was not based on CCC’s cost to provide the services. Rather, the management fee was based on the amounts Parkway billed the insurers, such as Medicare, for services provided to oncology patients. For Medicare patients, Parkway paid CCC the total amount it billed Medicare for the services rendered to the beneficiaries. When Parkway’s Medicare reimbursement was less than the amount that Parkway paid CCC, Parkway obtained a refund from CCC for the difference between the Medicare billed amounts and the Medicare reimbursement. Under this arrangement, Parkway did not have any cost factors to evaluate and determine whether the management fee was reasonable or the best possible cost.

The Parkway records we audited accounted for the transfer of \$13.3 million of revenues from Parkway to CCC, approximately \$8.9 million in Medicare reimbursements. Since these amounts were revenues and no documentation was presented to show how this related to the cost of providing services, there was no basis under which we could determine whether the management fee reasonably reflected the costs incurred to operate the oncology clinic.

### **Procedural and Record Keeping Responsibilities**

The Medicare cost principles require providers to retain records of the decisions leading to purchases of management services. The PRM1 2135.5 states:

*“Records must be available which will support the cost of purchased management and administrative support services. Such support could include . . .*

- A. A copy of the contracts and any amendments;*
- B. Periodic progress reports submitted by the management organization;*
- C. An analysis showing the efforts of the provider to comply with the prudent buyer principle guidelines . . .”*

At the time of our review, the most comprehensive records Parkway could provide us were of the accounting for the financial transfers between Parkway and CCC and copies of the contract documents. However, Parkway did not provide any records documenting the use of the prudent buyer principle.

Tenet, Parkway's current owner acquired the hospital on January 30, 1997. Tenet's purchase was after November 1, 1996, the date Parkway had renegotiated and amended the outpatient oncology clinic contract with CCC. Therefore, it appears that Tenet had no control over Parkway's renegotiation with CCC.

At our request, Parkway provided us their current contracting policies and procedures. Our review of these procedures showed that they do not contain any requirements for complying with Medicare cost principles such as using prudent buyer guidelines and employing reasonable costing initiatives including the use of cost comparisons to show whether it would be more beneficial to provide services with the hospital's resources or contracting out the services.

### **Recommendations**

We recommend that Parkway revise its contracting policies to ensure that the decisions and the methodology to contract for management administrative services are formally recorded and are available for future review and analysis.

### **Auditee Comments and OIG Response**

In commenting on our draft report, Parkway stated that they conducted a diligent search and were unable to locate any record of competitive bids or other analysis pertaining to the Oncology contract primarily because the contract was executed over 14 years ago, when the hospital was under different ownership. Parkway also mentioned that they follow federal record retention guidelines, which typically have a 7-year retention period.

We agree that the original contract was entered into in 1987; however, the contract was due to expire in March 1997. In lieu of terminating the contract, Parkway renegotiated the terms with Salick and signed a new contract on November 1996. The renegotiated agreement occurred within our audit period. It also occurred within Medicare's 7-year retention period. However, Parkway could not provide us with any documentation to show that they followed the Medicare guidelines for management agreements during the renegotiation with Salick of the agreement.

Parkway also stated their contracting policies are based on sound business principles and that CMS's implementation of the prospective payment system for outpatient services ended cost reimbursement for hospital outpatient services. However, we found no evidence in those policies that corresponds with current Medicare requirements discussed in PRM1 2135; particularly, the requirements for soliciting bids, providing for a total guaranteed cost equal to or less than a provider's current cost for services, and maintaining records of the efforts to search for and obtain the most reasonable cost.



Although CMS implemented a prospective payment system for outpatient services, it has not revoked or changed PRM1 2135. Therefore, providers are responsible for following those principles. We believe Parkway should revise their policies to correlate with Medicare requirements with respect to contracting for management services and thus ensure future compliance with PRM1 2135.

## **RENTAL CHARGES**

Parkway claimed \$119,401 for lease costs not related to patient care. In its cost report, Parkway claimed these costs for 5 months after Parkway terminated the contract with CCC and the clinic closed. Based on data furnished by the fiscal intermediary, we estimate that Medicare was overcharged about \$52,000 due to the excess rent charges.

Medicare regulations at 42 CFR 413.9 (c)(3) state that:

*“The determination of reasonable cost of services must be based on cost related to the care of Medicare beneficiaries.”*

The oncology clinic was housed in a building adjacent to the hospital and leased by Parkway. Parkway ceased to provide oncology services when the Management Agreement was terminated and the oncology clinic closed in November 1998. At that time, CCC stopped seeing and treating oncology patients at the clinic. Therefore, the area occupied by the clinic ceased being a productive facility related to the care of Medicare beneficiaries.

For the 5 months following the clinic’s closure, Parkway’s lease costs totaling \$119,401 were not related to the care of Medicare beneficiaries and any claims for these costs would not be reasonable and necessary and related to patient care. However, Parkway included these costs on its Medicare cost report for FYE September 30, 1999.

## **Recommendation**

We recommend that Parkway remove the excessive rental charges from the cost report for FYE September 30, 1999. We will provide the FI the amount of the FYE 1999 adjustments for the rental charges for their use in determining the actual refund due the Medicare program.

## **Auditee Comments and OIG Response**

Parkway stated that it appears it inadvertently did not self-disallow the lease payments and included them in its cost report. However, Parkway plans to coordinate with the FI to ensure the appropriate cost report adjustments are made. Parkway also stated that we did not provide them with copies of our working papers supporting the \$119,401 lease payments identified. At no time before or during the 30-day time period allotted for responding to our draft report did Parkway request copies of our audit working papers. We will provide Parkway the working papers that support the \$119,401 adjustment. We will also provide the FI with a copy of our final report and any working papers it may request to adjudicate this issue.

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To facilitate identification, please refer to the Common Identification Number (CIN) A-04-00-01223 on any correspondence related to this report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Charles J. Curtis".

Charles J. Curtis  
Regional Inspector General  
for Audit Services, Region IV

Enclosures - as stated

# PARKWAY

Regional Medical Center

Tenet South Florida HealthSystem

Appendix A

Page 1 of 2

160 Northwest 170th Street  
North Miami Beach, FL 33169  
Tel 305.651.1100  
<http://www.parkwayregionalmedctr.com>

September 20, 2001

Charles J. Curtis  
Regional Inspector General  
Department of Health and Human Services  
Office of Audit Services, Region IV  
Sam Nunn Atlanta Federal Center  
61 Forsyth St., SW, Room 3T41  
Atlanta, GA 30303-8909

Re: *Audit of the Outpatient Oncology Clinic Costs at Parkway Regional  
Medical Center  
CIN A-04-00-01223*

Dear Mr. Curtis:

Thank you for the opportunity to review the draft audit report entitled *Audit of the Outpatient Oncology Clinic Costs at Parkway Regional Medical Center* ("Report"). According to your letter, the Report is not to be considered final as it is subject to further review and revision. Our responses to the findings and recommendations in the Report are set forth below.

The Report states that Parkway ("Hospital") officials could not show that they selected the contract from competitive bids or searched the marketplace for the most appropriate and effective means of obtaining the service. We wish to clarify that, although we conducted a diligent search, we were unable to locate any record of competitive bids or other analysis pertaining to the Oncology contract primarily because the contract was executed over fourteen years ago, when the Hospital was under different ownership. In addition, none of the administrative personnel at the Hospital today were employees of Parkway in 1987. We currently follow federal record retention guidelines, which typically have a seven-year retention period for financial and business records.

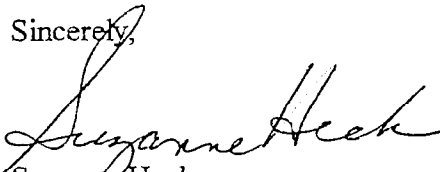
With respect to the specific recommendation to revise our contracting policies and procedures, we believe that our policies, procedures, and internal controls governing contracts for management services provide adequate safeguards to ensure that the decisions and methodologies for such contracts are based on sound business principles. Moreover, on August 1, 2001 the Centers for Medicare and Medicaid Services implemented a prospective payment system for outpatient services, which effectively ended cost reimbursement for hospital outpatient services. We will however, consider

the need to clarify the Medicare requirements with respect contracting for management services where applicable.

The Hospital self-disallowed in the filed cost report over \$1 million of rental/lease charges pertaining to non-hospital space. Although the OIG/OAS did not provide us with copies of their workpapers supporting the \$119,401 lease payments identified in the Report, it appears that this amount was inadvertently not included in the self-disallowed amounts. We respectfully request copies of the OIG/OAS audit workpapers in order to validate their findings. Accordingly, we will coordinate with the fiscal intermediary to ensure the appropriate cost report adjustments are made.

Finally, we reserve our rights to a fair hearing and judicial review under all applicable laws and regulations. If you should have any questions regarding the above, please don't hesitate to contact me.

Sincerely,



Suzanne Heck  
Chief Financial Officer

cc: Craig Armin  
Cheryl Wagonhurst, ESQ