

GAO

Report to the Chairman and Ranking
Minority Member, Committee on
Commerce, House of Representatives

March 1998

MEDICARE

Improper Activities by Mid-Delta Home Health



Office of Special Investigations

B-279241

March 12, 1998

The Honorable Thomas J. Bliley, Jr., Chairman
The Honorable John D. Dingell, Ranking Minority Member
Committee on Commerce
House of Representatives

This letter responds to your request that we investigate allegations of Medicare improprieties by home health care provider Mid-Delta Home Health (now known as Mid-Delta Health Systems, Inc.) of Belzoni, Mississippi, and affiliated companies. The allegations involved payroll-cost¹ and patient-care issues. Specifically, we examined allegations that Mid-Delta (1) routinely requested and received leave/bonuses back from its employees while charging Medicare their full amount, (2) paid the owner's daughter a full-time salary and charged it to Medicare although she was a full-time nursing student, and (3) conducted unnecessary and excessive home health care patient visits. As discussed in this report, during our investigation we received and followed up allegations of other questionable activities involving payroll-cost and patient-care issues.

Under the Medicare program, fiscal intermediaries² reimburse home health care providers their reasonable costs of serving beneficiaries when those claimed costs are found to be necessary, proper, actual, and related to patient care.³ We have previously noted that home health care providers have abused the Medicare program in numerous, sometimes fraudulent, ways.⁴ Such fraud/abuse has contributed to the recent growth in home health care costs—from about \$2 billion in 1989 to almost \$18 billion in 1996.

Results in Brief

Medicare, through the intermediary, reimbursed Mid-Delta Home Health for payroll costs between January 1993 and December 1996 that, in our opinion, were improperly claimed because they did not represent actual costs to the provider. Specifically, the owner of the company, Mrs. Clara T. Reed, regularly asked employees to return to the company the cash value of unused leave and about 20 percent or more of bonuses received.

¹For the purpose of this report, "payroll cost" includes salary, bonuses, and leave.

²An intermediary is an entity under contract with the Health Care Financing Administration to determine the amount of, and to make, Medicare payments to medical entities, such as home health agencies and rural health clinics.

³42 U.S.C. sections 1395x(v)(1)(A) and 1395y(a)(1)(A); 42 C.F.R. section 413.9(a).

⁴See the attached list of related GAO products.

Mrs. Reed also had a list of “special employees” to whom she gave larger bonuses if they agreed in advance to return a certain amount to the company. Mid-Delta then charged Medicare for these costs. Further, the employees were told that the returned money was needed for, among other things, a Mid-Delta Home Health-sponsored “indigent care fund.” However, rather than use the fund to provide home health care for those who could not afford it, Mid-Delta officials told us that the money was used to offset unpaid bills of private-pay patients of Mid-Delta’s affiliated rural health clinics. Our analysis of the indigent care fund determined that moneys deposited to the fund had been transferred to the operating account of P&T Management, Mid-Delta’s administrative services entity.

Mid-Delta Home Health also improperly claimed and was reimbursed by Medicare⁵ for other costs that, in our opinion, did not meet Medicare cost reimbursement principles since they were not related to patient care. One example involved salary paid to the owner’s daughter as a P&T Management executive vice president for over half of 1996 while she attended school full-time. In our opinion, Mid-Delta improperly claimed those payroll costs for Medicare reimbursement because the daughter’s salary included payment for the hours she was in school.⁶ Further, we question the reasonableness of the daughter’s \$65,000 in 1996 bonuses⁷ claimed by Mid-Delta for Medicare reimbursement. The bonuses represented approximately 119 percent of her base salary.

In addition, Mid-Delta was reimbursed by Medicare for the payroll costs of some P&T Management employees whose positions appeared to focus on marketing activities. We question the propriety of these claims because Medicare does not reimburse providers for marketing costs used to increase patient utilization of the provider’s facilities, as they are not properly related to patient care.⁸

In another payroll-cost matter, Mrs. Reed purchased a business from a third party, hired that individual to work for P&T Management, and gave the individual a \$10,000 bonus that was considered partial payment of the purchase price. Mid-Delta then improperly claimed the bonus as part of its payroll costs and was reimbursed by Medicare for this payment. The purchase of a business does not qualify as a payroll cost; and moreover,

⁵Medicare pays a portion of the home health agency’s total costs that is equal to Medicare’s portion of the total services rendered.

⁶42 C.F.R. section 413.9(a).

⁷The daughter received a \$10,000 bonus in July 1996 and a \$55,000 bonus in December 1996.

⁸2 Medicare & Medicaid Guide (CCH) para. 5996B.

Medicare does not reimburse providers for the cost of purchasing a business.

Finally, as alleged by current and former Mid-Delta Home Health nurses, Mid-Delta staff visited individual Medicare beneficiaries whose eligibility or need for the visits was questionable. We visited and/or reviewed case files for 41 of the patients identified by the nurses and determined that for at least 14, or 34 percent, of the patients, eligibility for Medicare-reimbursed services was questionable. One instance involved a Mid-Delta patient receiving services for about 2 years to monitor her blood pressure and a heart condition. However, when we visited her, she was providing day care in her home for four children aged approximately 5 years or younger. Mid-Delta's Medicare intermediary and we questioned the necessity of Mid-Delta's home health care visits to this patient as her activity was unlikely for someone who was unable to leave home without "a considerable, taxing effort"—a required condition for homebound status.⁹

We have shared information concerning these improper claims/questionable activities with the appropriate authorities.

Background

The Health Care Financing Administration (HCFA)—an agency of the Department of Health and Human Services—administers the Medicare home health care program. That program has been part of Medicare since Medicare began in 1965 and serves as an alternative to lengthy in-patient hospitalization. Medicare home health costs averaged about a 33-percent per-year growth from 1989 to 1996—from about \$2 billion to almost \$18 billion. This occurred primarily because the number of beneficiaries receiving services increased as did the number of services per beneficiary.

A fiscal intermediary under contract to HCFA determines if a home health agency's services are reasonable and necessary¹⁰ and, in turn, which agency costs are reimbursable based on Medicare cost reimbursement principles.¹¹ These principles authorize Medicare intermediaries to reimburse home health care providers their reasonable costs of serving beneficiaries when those claimed costs are found to be necessary, proper,

⁹1 Medicare & Medicaid Guide (CCH) para. 1414.

¹⁰42 C.F.R. section 421.100(a)(2)(ii).

¹¹42 C.F.R. section 413 et seq.

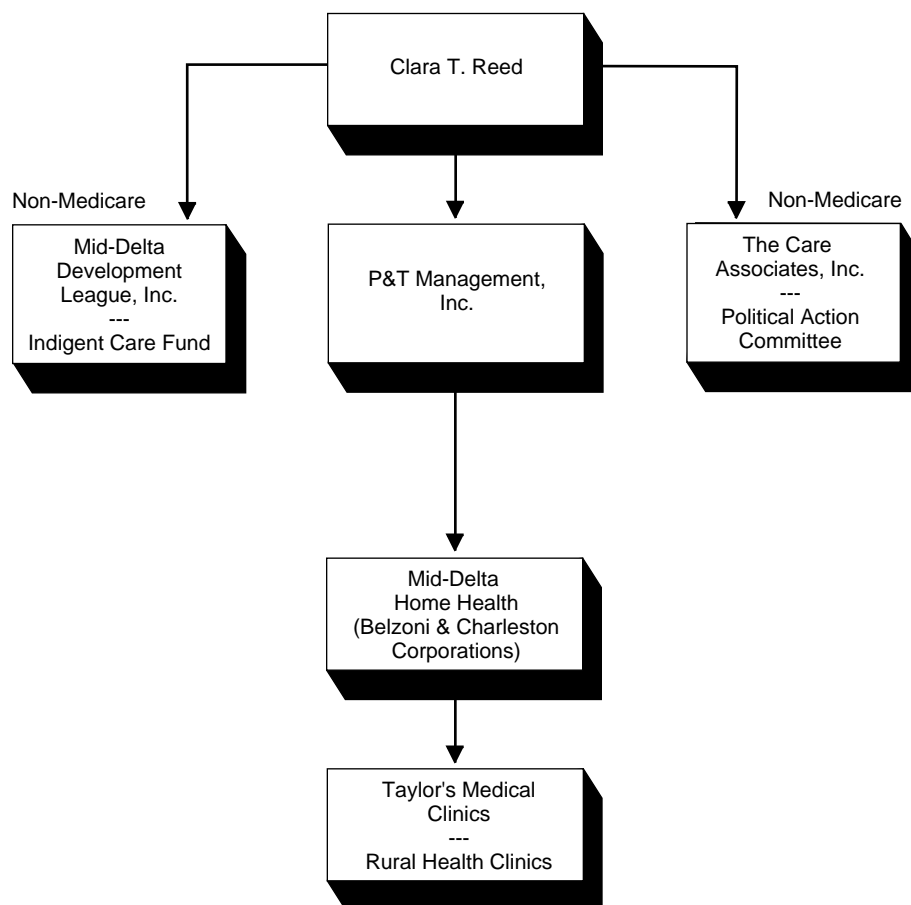
actual, and related to patient care.¹² In this regard, providers certify that they are familiar with the laws and regulations regarding the provision of health care services and that the services identified were provided in compliance with such laws and regulations.

Mid-Delta Home Health is one of the largest home health care providers in Mississippi. It is owned and operated by Clara T. Reed, who is Chief Executive Officer and Chief Financial Officer. At the time of our investigation, Mid-Delta Home Health employed over 600 people and consisted of two corporations (in Belzoni and Charleston, Mississippi) that provided home health care through 16 offices in different parts of the state. Medicare reimbursement to Mid-Delta for home health care and rural health clinic services from January 1993 to December 1996 totaled approximately \$77.9 million.

Mrs. Reed owned and/or controlled a number of related companies and organizations, including P&T Management, Inc., which provided overall management services for Mid-Delta Home Health and its affiliates (rural health care clinics known as Taylor's Medical Clinics); Mid-Delta Development League, Inc.—a nonprofit, tax-exempt (Internal Revenue Code section 501(c)(3)) organization; and The Care Associates, Inc., a political action committee formed to aid political candidates interested in “the health and welfare of” the poor and needy. See figure 1.

¹²42 C.F.R. section 413.9.

Figure 1: Organizations Owned and/or Controlled by Clara Reed



Improper Claim of Leave/Bonus Paybacks for Reimbursement

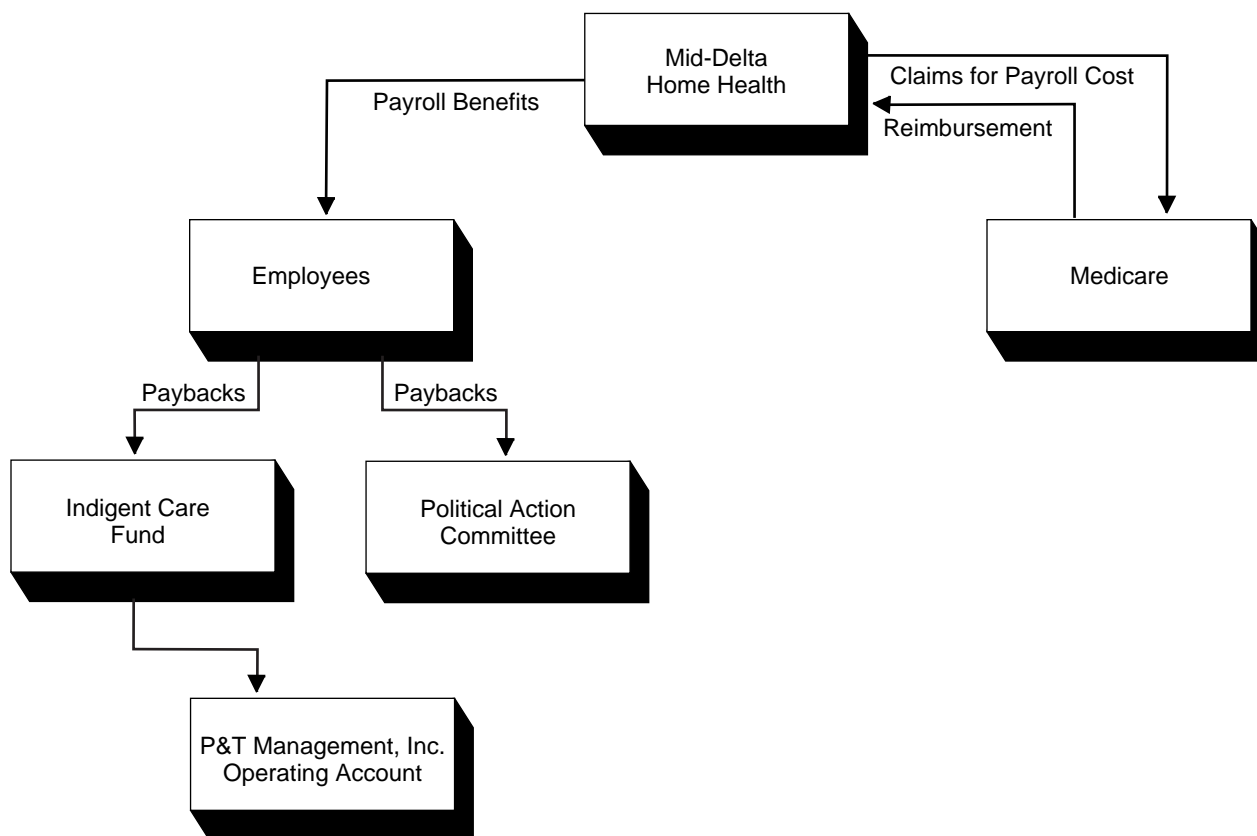
Mid-Delta Home Health, in our opinion, violated Medicare cost reimbursement principles in claiming costs that it had not incurred.¹³ First, Mid-Delta Home Health presented approximately \$226,000 in checks to its employees, representing payment for unused leave time in the 1993-96 period. Mrs. Reed subsequently asked the employees to endorse the checks and give them back to Mid-Delta. When questioned about this, some current and former employees told us that they had felt coerced into giving back the checks. The company then improperly claimed the full amounts of the leave as part of the employees' payroll costs and was reimbursed by Medicare. Second, Mrs. Reed requested—or, again according to some employees, coerced—Mid-Delta and P&T Management

¹³42 C.F.R. section 413.9(a).

employees to return a certain amount (about 20 percent or more) of their 1996 bonuses to the company. Those on a “special employee” list received larger bonuses by agreeing in advance to return certain amounts of their bonuses (an average of 29 percent) to the company. The bonus paybacks totaled about \$170,000, including \$80,000 from Mrs. Reed. Mid-Delta improperly claimed, and received reimbursement from Medicare for, the returned bonuses.

Mrs. Reed told the employees that the returned unused leave and bonus moneys would support, among other things, an “indigent care fund” for Mid-Delta’s home health care patients who had exhausted their Medicare and Medicaid visits. However, according to Mid-Delta’s controller, the moneys were used largely to offset unpaid bills of private-pay patients of the affiliated Taylor’s Medical Clinics. We determined that Mrs. Reed deposited moneys to P&T Management’s operating account or to the account of a political action committee that she controlled. See figure 2.

Figure 2: Flow of Mid-Delta Employees' Leave /Bonus Moneys



Unused Leave

According to Mrs. Reed, in 1994 after consulting with legal and tax advisors, she discontinued allowing her employees to roll over unused leave from one year to the next.¹⁴ Thus, as a company practice, employees were given checks for the cash value of their unused leave, then were asked to endorse and return them to the company. Further, former and current employees whom we interviewed complained that between 1993 and 1996, employees had been presented with unsigned (nonnegotiable) checks in payment for their unused leave time and were asked—some employees said coerced—to endorse the checks back to the company. Some also complained that in 1993 and 1994, Mrs. Reed had issued stock certificates instead of paying them for unused leave time.

¹⁴Mid-Delta employees could accrue 33 days of leave annually including, among other types, holidays, sick leave, and vacation time.

At Mrs. Reed's request, according to employees we interviewed, employees endorsed the back of their checks and returned them. Mid-Delta Home Health officials deposited most of the checks in an account for the indigent care fund and some to the bank account of a political action committee, both controlled by Mrs. Reed. (See fig. 2.) For the 1993-96 period, records show that Mid-Delta employees returned approximately \$226,000 in payment for unused leave. Some of the moneys from the account for the indigent care fund were subsequently deposited to P&T Management's operating account; and Mid-Delta's Director of Finance confirmed that Medicare had reimbursed the amount claimed for employee payroll costs, including the unused leave.

Current and former employees told us that in some instances employees who refused to surrender to what they termed as coercion and return payments for leave faced retaliatory measures, such as demotion or firing. Indeed, two former employees who had been fired from Mid-Delta Home Health believed that they had been fired because they had not returned payments for leave as requested. Mrs. Reed denied this allegation. However, 20 of the 29 employees we interviewed about unsigned leave checks stated that they had endorsed the checks and returned them because they feared losing their jobs if they did not.

In some cases in 1993 and 1994, Mrs. Reed gave employees a stock certificate representing an IOU for the monetary value of the checks they had endorsed and returned to the company.¹⁵ She told those employees, according to her statement to us, that she would remember that they had leave coming from the previous year and that they could take a day or so when they needed it. Some former employees complained to us that they had never been paid for their unused leave.

When we asked Mrs. Reed about the unsigned checks, she said that she could not cover the employees' leave checks without causing a cash flow problem. She said that if she had presented signed checks to the employees, they would have cashed them instead of returning them to the company. Mrs. Reed stated that no one was coerced—the employees voluntarily returned money to the company.

Bonuses

Mid-Delta Home Health paid bonuses to its employees based on various criteria, such as length of employment and annual salary. However,

¹⁵Mrs. Reed said that employees were told that the stock certificate was a nonvoting, nonparticipating certificate in Mid-Delta.

according to some Mid-Delta employees, a bonus's amount was also determined by the employee's willingness to return about 20 percent or more of the bonus to the company. Further, Mid-Delta then claimed, and received, the amount of the bonuses for Medicare reimbursement. (See fig. 2.)

Sources informed us that when bonus checks were distributed to employees, Mrs. Reed essentially coerced employees to pay back approximately 20 percent or more of their bonuses. Although several employees told us they had returned their bonuses voluntarily and that they had not felt threatened or coerced, other employees stated that they had complied with Mrs. Reed's requests for fear of losing their jobs. Mid-Delta and P&T Management employees in December 1996 received over \$933,000 in bonuses and returned about \$170,000 to the indigent care fund. (See fig. 2.) At least \$155,000 was then transferred from that fund to the P&T Management operating account. The \$170,000 included \$80,000 that Mrs. Reed returned from a \$125,000 bonus she had received in December 1996.

Further, according to one knowledgeable employee, Mrs. Reed had a list of "special employees" who received larger bonuses than did others if they agreed in advance to give back a certain amount. The source explained that Mrs. Reed talked to each employee on the list personally; and as each employee agreed to return the set amount to the company, she initialed by the employee's name on the list. Indeed, according to one employee, Mrs. Reed said, "I will give you a larger bonus if you agree to give some of it back." Further, another employee told us that when she did not return the bonus money immediately, she received a telephone call from Mrs. Reed asking, "Where's my money?" When the employee answered that she had thought the donation was voluntary, Mrs. Reed responded, "That was never your money in the first place. I want my money." The employee told us that when she returned her bonus in the form of four checks, asking (for personal financial reasons) that each be deposited at a later date, Mrs. Reed deposited all of them immediately. Other employees confirmed similar experiences.

Our review of a "special employees" list, containing 38 employees' names, showed that 35 had returned an average of 29 percent of their original bonuses and that the range of return from these employees was between 18 percent and 57 percent. We verified with Mid-Delta's Director of Finance that the employees had returned the amounts and that Mid-Delta

had claimed the full bonus amounts to Medicare for reimbursement. Table 1 lists details of bonus paybacks by some of the 35 employees.

Table 1: Sample of Bonus Paybacks by “Special Employees”

Employee	Original bonus claimed to Medicare	Net bonus after withholding ^a	Bonus amount returned to company	Bonus amount received by employee	Percent of original bonus returned
1	\$9,269.04	\$6,335.39	\$3,000.00	\$3,335.39	32%
2	9,500.00	6,322.25	3,000.00	3,322.25	32%
3	10,000.00	6,555.00	3,000.00	3,555.00	30%
4	10,000.00	7,455.00	3,000.00	4,455.00	30%
5	9,112.26	6,228.23	3,000.00	3,228.23	33%
6	3,500.00	2,392.25	1,992.25	400.00	57%
7	4,750.00	3,246.63	1,200.00	2,046.43	25%
8	7,397.88	5,026.45	2,530.00	2,526.45	34%
9	5,600.00	3,670.80	1,500.00	2,170.80	27%
10	4,803.82	3,283.41	1,500.00	1,783.41	31%

^aAmount of bonus after federal, state, and other withholding.

In contrast, although Mrs. Reed paid back part of her \$125,000 bonus, her family members did not pay back any of their bonuses. In December 1996, Mrs. Reed’s husband received a \$75,000 bonus and returned none; their daughter received a \$55,000 bonus and returned none.

Impropriety of Mid-Delta’s Claims for Reimbursement for Returned Leave/Bonuses

Although Medicare allows a provider to pay reasonable bonuses, Mid-Delta Home Health’s Medicare intermediary was unaware that Mid-Delta employees were returning a portion of their bonus money to the company. The intermediary stated that Mid-Delta claims for the payroll-cost amounts were improper if Mid-Delta had received back part of the employees’ salaries. The intermediary also informed us that intermediaries look at an entire employee compensation package to determine if the costs claimed are reasonable and that it had not conducted a detailed audit of any Mid-Delta cost report. Moreover, cost reports, which home health agencies submit to their intermediary for Medicare reimbursement, do not break down employees’ total compensation by such components as base salary, bonuses, and leave. Therefore, the amounts claimed are not likely to be questioned without an audit.

It is our opinion that Mid-Delta Home Health's claims for Medicare reimbursement of the returned leave moneys were also not proper because Mid-Delta had not incurred the costs. In a similar case involving an unrelated home health agency, HCFA formally ruled that "contributions" returned to the provider in the form of deductions from employees' salaries had reduced the provider's costs and therefore had been improperly claimed for Medicare reimbursement. Following the provider's appeal, the U.S. District Court for the Southern District of Mississippi upheld¹⁶ HCFA's decision, concluding that, under Medicare regulations, the contributions qualified as refunds of salary, thus reducing the company's salary expense. The court also noted that Medicare reimbursement was limited to costs incurred. The court in this case further determined that (1) the employee contributions created at least "a perception of impropriety" and (2) the home health agency had no safeguards in place to ensure that coercion was not involved.

Indigent Care Fund

According to a former Mid-Delta Home Health management official and other former and current employees, Mrs. Reed told employees that their returned funds would support, in part, a Mid-Delta "indigent care fund." Those employees who complied with the bonus payback, returned the money through personal checks or money orders made payable to the indigent care fund. Further, as previously stated, Mid-Delta Home Health officials deposited most of the employees' returned unused-leave checks to the fund.

Mrs. Reed told us that this fund was to assist in continuing the care of home health patients who needed it but who were no longer eligible for Medicare or Medicaid visits. However, according to one former Mid-Delta nurse, she was not paid at all for indigent-patient visits, much less from the indigent care fund. She questioned where the fund's money was going if it was not used to pay for charity visits to indigent home health care patients. When we questioned Mrs. Reed about this, she responded that she tells the nurses, "If I don't get paid, you don't get paid."

Indeed, Mid-Delta's controller told us that the indigent care fund was used to offset unpaid bills of patients of the company's rural health clinics, Taylor's Medical Clinics. In support of this statement, the controller provided us with records showing that approximately \$418,000 in patients' unpaid balances had been attributed to the "indigent pay" category for the 1994-96 period. Mrs. Reed told us, however, that she would transfer money

¹⁶Sta-Home Home Health Agency, Inc. v. Shalala, No. 3:91-CV-23 WC (S.D. Miss. Aug. 25, 1993).

from the indigent care fund account to the P&T Management operating account to alleviate cash flow problems or to cover payroll costs.

Our review of the “indigent pay” category records showed that the unpaid bills belonged mostly to private-pay patients of Taylor’s Medical Clinics. Mid-Delta’s controller stated that the clinics’ charges were too high for most self-pay and private insurance patients whose insurance companies reimbursed the clinics only for “reasonable and customary charges.” She further stated that the fund was used to cover instances in which such patients did not pay the clinics’ full charges. We noted that among the patients listed in the records were several Mid-Delta employees; Mrs. Reed’s granddaughter; and Mrs. Reed’s daughter, who was Executive Vice President for Operations of P&T Management.

Other Improper or Questionable Payroll-Cost/Reimbursement Issues

Additional Mid-Delta Home Health payroll-cost issues resulted in either improper or questionable claims to and reimbursement by Medicare: Mid-Delta improperly claimed Medicare reimbursement for the total 7-month salary that Mrs. Reed’s daughter received while she attended school full-time and worked part-time. We question Mid-Delta’s (1) claiming \$65,000 in bonuses to the daughter, which equated to about 119 percent of the daughter’s base salary and (2) claiming the payroll costs of “Community Education” staff who were marketing Mid-Delta and other affiliated operations. Finally, Mid-Delta purchased an employee’s business in part through a salary bonus to the employee that was later improperly claimed as a payroll cost and reimbursed as such by Medicare.

Improper or Questionable Claims of Daughter’s Payroll Costs

Daughter’s Salary Improperly Charged to Medicare

Mrs. Reed’s daughter, Ms. Pamela Redd, attended nursing school full-time at a local community college from June to December 1996. At the same time, she held the job title of Executive Vice President for Operations at P&T Management, Inc. and received a full-time 1996 salary of approximately \$54,660.¹⁷ An analysis of Ms. Redd’s employment time-and-attendance sheets showed that 53 percent of her 8-hour work day (from June to December 1996) was spent at school and related activities. Yet, according to Mid-Delta’s Director of Finance, Ms. Redd’s full-time

¹⁷According to the 1996 Employee Listing of Mid-Delta Home Health (and P&T Management, Inc.), Ms. Redd’s base salary was \$54,662.40.

salary was charged to Medicare for reimbursement. This was, in our opinion, an improper claim. According to the intermediary, Mid-Delta should not have been reimbursed for salary—approximately \$16,900 by our calculation—incurred while Ms. Redd attended school. According to Mrs. Reed and Ms. Redd, Ms. Redd was not the only employee attending school full-time; however, Ms. Redd was the only employee being paid a full-time salary for the time spent in school.

**Daughter's Bonuses
Questionably Claimed for
Medicare Reimbursement**

We learned that in addition to her approximately \$54,660 base salary, Ms. Redd received two bonuses totaling \$65,000 in 1996, equal to approximately 119 percent of her base salary. This was reflected in Ms. Redd's 1996 W-2 form, which showed that she had been paid almost \$122,000.

When we asked Ms. Redd about the amount of the bonuses in relation to her base salary, she did not explain why she had received the large bonuses. However, the Mid-Delta controller stated that in addition to using various company criteria (e.g., length of employment and annual salary), Mrs. Reed determined bonus amounts largely at her discretion.

According to Mid-Delta's Director of Finance, Ms. Redd's payroll costs, including the bonuses, were claimed to Medicare for reimbursement. In our opinion and that of the intermediary, Mid-Delta's claim to Medicare for Ms. Redd's 1996 bonuses was questionable because of the disparity between her base salary and the bonus amounts and because she was not working full-time in 1996.

**Questionable Submission
for Medicare
Reimbursement of Payroll
Costs of Personnel Who
Marketed/Promoted
Mid-Delta Home Health**

Under Medicare cost reimbursement principles, all payments to providers of services must be based on the reasonable cost of services covered under Medicare and related to patients' care. Although Medicare reimbursement is available for expenses associated with educating the community on home health care, it is not available for the expenses of promoting and marketing home health care services in order to increase patient utilization of a provider's facility.¹⁸ We noted the unavailability of Medicare reimbursement for marketing activities for this purpose in our 1995 report regarding another home health care agency.¹⁹

In the intermediary's review of Mid-Delta's 1993 and 1994 cost reports, it noted that it had disallowed various expenses, in part, because they were

¹⁸42 C.F.R. section 413.85(c); 2 Medicare & Medicaid Guide (CCH) para. 5996B.

¹⁹Medicare: Allegations Against ABC Home Health Care (GAO/OSI-95-17, July 19, 1995).

related to marketing functions. These disallowed expenses included the purchase of, among others things, radio and television advertisements; 1,100 fund-raising cookbooks; and an exhibit booth to recruit staff at a physicians convention.

However, according to company records and knowledgeable former P&T Management employees, Community Education staff primarily promoted and marketed Mid-Delta Home Health and Taylor's Medical Clinic services to other providers and the public. Mid-Delta's Director of Finance also confirmed that Medicare reimbursed the salaries of the Community Education employees. Further, according to Community Education staff, Mrs. Reed changed receipts and documents for marketing-related activities to reflect that the activities were associated with Community Education and were therefore Medicare-reimbursable. For example, in December 1995, Mrs. Reed told staff to purchase about \$4,000 in Christmas gifts for physicians. When an employee noted "Gift items for referral sources" on the receipt, Mrs. Reed changed the receipt to show that the gifts were for employees, which could be Medicare reimbursable. We question the propriety of Mid-Delta's submitting payroll and other costs related to marketing activities for Medicare reimbursement because the costs involved marketing and promoting the company.

Minutes from staff and other meetings in December 1996, January 1997, and May 1997 noted that the Community Education staff continued to market Mid-Delta services to schools, nursing homes, and hospitals. For example, December 1996 minutes noted that staff had met with a physician "about referring patients to the agency" who had diabetes and that cards had been placed in waiting rooms "of physicians who indicated that they would refer patients to us [Mid-Delta]." January 1997 minutes noted that the Community Education staff had "sold contracts to nursing homes and other providers; . . . [and] marketed psych services to physicians in [the] Yazoo City area. . . ." Minutes from May 1997 stated that by operating booths at various outside meetings, Community Education staff were "promoting the Center for Specialized Diabetic Foot Services" and that the Community Education department would help to market Mid-Delta Home Health's cardiac program.

Indeed, according to a former P&T Management vice president, "Community Education is a euphemism for marketing." Further, according to former Community Education managers, the primary responsibilities of Community Education staff were to promote and market on behalf of Mid-Delta and Taylor's Medical Clinics. In discussions with us, a former

manager said that the duties of P&T Management's Community Education staff were "for the purpose of developing business" for Mid-Delta Home Health and Taylor's Medical Clinics, generating physician referrals, and attracting managed care contracts and for other sales functions.

Bonus Used to Purchase Business Improperly Claimed as Payroll Cost and Reimbursed by Medicare

According to a former Mid-Delta employee, Mrs. Reed used the bonus system as a means, in part, to purchase a business and be reimbursed by Medicare. We learned that Mrs. Reed had purchased a business called Warren's Children's Services for \$125,000. This business provided services under Medicaid's Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program for children from birth to age 18 years.

In February 1995, Mrs. Reed hired Ms. Betty Martin, owner of Warren's Children's Services, as P&T Management's Director of EPSDT at a \$70,000-a-year salary. Ms. Martin was to educate the nursing staff on the EPSDT program. Mrs. Reed gave Ms. Martin a \$25,000 check as a down payment for Warren's Children's Services in March 1995 and a second check for \$25,000 in December 1995. (See table 2.)

Table 2: Payments Made to Purchase Warren's Children's Services

Date	Payment amount	Payment returned	Character of payment
March 1995	\$25,000		Purchase payment
December 1995	25,000		Purchase payment
December 1996	10,000 ^a		Bonus
June 1997		\$5,000 ^b	Advance bonus
June 1997		5,000 ^b	Pay raise
June 1997	35,000		Purchase payment
July 1997	30,000		Purchase payment
Total paid	\$125,000		

^aMid-Delta claimed a December 1996 bonus of \$12,099 as a payroll cost for Medicare reimbursement, while \$10,000 of the bonus was represented to Ms. Martin as a payment toward purchase of her business.

^bMs. Martin returned the payment check to Mrs. Reed.

A year later, in December 1996, Ms. Martin received a P&T Management bonus for about \$12,000. However, Mrs. Reed told Ms. Martin that \$10,000 of the bonus was partial payment for Ms. Martin's business. Ms. Martin stated to us that she was concerned because P&T Management withheld

taxes from bonuses. We determined that the \$10,000 portion of the bonus had been claimed improperly as part of Ms. Martin's payroll costs.

In June 1997, according to Ms. Martin, she received two more checks for \$5,000 each, in partial payment for the business. One check was presented as an advance bonus; and the other, as a salary advancement, or pay raise. Ms. Martin returned the checks to Mrs. Reed and demanded the remainder of the money owed her for the business. According to Ms. Martin, Mrs. Reed replied, "I'm not going to employ you and pay you [for the business] too." Shortly thereafter, Ms. Martin left the company.

Ms. Martin subsequently received a check for \$35,000 with a note, signed by Mrs. Reed, that said, "Before July 17, 1997, I will pay the \$30,000 I owe you." We confirmed that Ms. Martin received an additional check for \$30,000.

When we asked Mrs. Reed about the payments to Ms. Martin, she confirmed that she had given Ms. Martin \$10,000 in bonus as a payment toward the purchase of Warren's Children's Services. She also confirmed that taxes had been withheld from the bonus. After we had questioned Mrs. Reed about the matter, she talked with her controller and her Director of Finance. Mrs. Reed then informed us that the controller and the Director of Finance had determined that she still owed Ms. Martin \$10,000 because the bonus should not have represented partial payment for the business. As of February 1998, Ms. Martin had not received the final \$10,000 payment.

Questionable Nature of Some Mid-Delta Home Health Services

Mid-Delta Home Health nurses and other professionals voiced concerns to us that Mid-Delta was providing Medicare-reimbursed home health care services to patients who, in their professional opinions, were ineligible for the services.²⁰ In response, we visited and/or reviewed patient documents of 41 home health care patients. In this regard, the intermediary—whom we requested to also review patient documents—and we question the reasonableness and necessity of Mid-Delta services received by at least 34 percent of those patients. Our questions involve (1) Mid-Delta actions to ensure continued home health services to Medicare patients, (2) excessive home visits by Mid-Delta staff, and (3) the lack of documentation to justify

²⁰In the past, we and the Office of the Inspector General, Department of Health and Human Services have noted continuing problems involving home health care agencies in which (1) home health care visits were made to individuals who, in our respective opinions or the opinion of medical experts, were not homebound; (2) visits were either not provided or provided less often than claimed; (3) visits were not documented; and (4) claims were made for unnecessary visits or services.

home visits. The intermediary and we also question Mid-Delta's provision of Medicare-reimbursable home health services to some apparently ineligible patients as they did not appear to meet HCFA's requirement that their condition create an inability to leave home without "considerable, taxing effort."²¹

Questionable Mid-Delta Home Health Care Services

After interviewing a number of Mid-Delta Home Health's patients, patients' friends, and relatives and evaluating the patients' plans of care (HCFA Form 485) and other case material, we question the reasonableness and/or necessity of the Medicare-reimbursable home health care services provided to 14 of the 41 patients reviewed during our investigation. The intermediary stated that in these cases, the claim would not be allowed. For example, the intermediary and we noted that Mid-Delta was providing services that were not covered in the plans of care. The situations giving rise to these questionable Mid-Delta services included the following:

- Exaggerated severity of patient conditions in patient-care documents to ensure continued home health services. For example, the May-July 1997 plan of care for a patient, being seen for over 2 years for recurring seizures, stated that he had had a seizure in June 1997. However, the physician's narrative report for that patient indicated that this was untrue—the patient had not had a seizure during the plan-of-care period. For another patient, the intermediary in its review of the patient's plan of care noted that the Mid-Delta Home Health documentation "seem[ed] to exaggerate the patient's condition."
- Excessive use of skilled nursing visits. For example, a Mid-Delta patient had been seen for 5 years for hypertension-related conditions. For the June-August 1997 period, Mid-Delta nurses visited the patient twice a week for these conditions. However, the intermediary noted that the patient's condition as noted in the plan of care showed the necessity for only one visit a month. In addition, the June-August 1997 plan of care for a diabetic patient with hypertension ordered weekly skilled nursing visits for these conditions. However, the intermediary noted in the review of the patient's plan of care that the patient needed only monthly skilled nursing visits for bloodwork. Weekly visits were not reasonable and necessary.
- Lack of documentation in plans of care to justify the need for home health services. The plan of care for a diabetic Mid-Delta patient stated that the patient was unable to fill his syringes accurately, necessitating skilled

²¹Medicare patients qualify for home visits if they are confined to their home, i.e., homebound (except when receiving outpatient services); are under the care of a physician who prescribes and periodically reviews a plan of home care for them; and need intermittent skilled nursing care or physical or speech therapy. 42 C.F.R. section 424.22. See also 1 Medicare & Medicaid Guide (CCH) para. 1414.

nursing visits. However, the intermediary could find no documentation to support a reason for the patient's inability. In addition, another patient, having been visited for 6 years, was prescribed a new drug in late April 1997, necessitating twice-a-week visits for 4 weeks. However, the intermediary's review noted that the patient's June-August 1997 plan of care still called the medication "new." The plan of care, according to the intermediary's review, included no documentation to indicate the need for continued skilled nursing visits.

Provision of Services to Patients With Questionable Eligibility

Mid-Delta nurses; the intermediary, after a preliminary review of patient data; and we concluded that Mid-Delta was providing services to patients whose eligibility was questionable.

Some of the Mid-Delta Home Health patients we visited or whose cases we reviewed did not appear to meet HCFA requirements that they be homebound. According to patient interviews and our observations, the efforts that the patients needed to leave home were neither considerable nor taxing. Yet, Mid-Delta provided them Medicare-reimbursable home health care services.

For example, one elderly Mid-Delta Home Health patient was in his yard moving a 5-foot section of a telephone pole when we visited. The patient's actions contradicted Mid-Delta's patient records, relied on by the intermediary for eligibility determinations, that indicated that the patient had poor endurance, ambulated with a cane, and appeared homebound. Another Mid-Delta patient, under home health care for about 2 years, received skilled nursing visits twice a week to monitor her blood pressure and a heart condition. However, when we visited her, she was conducting a child care service in her home with four children, aged approximately 2 to 5 years. The intermediary stated, when we asked about this situation, that such activity meant that the Mid-Delta patient was most likely ineligible for home health care. A third homebound patient told us that he regularly walked 2 to 3 miles a day. Some other patients in our investigation also left their homes on a regular basis—whether walking or driving—for such activities as visits to a neighbor, store, bank, or post office.

With regard to issues of home health care eligibility and services, we have reported in the past that few Medicare home health claims are subject to medical review, Medicare beneficiaries are rarely visited by fiscal intermediaries, and the physicians of record have limited involvement in

home health care. Indeed, our 1995 report, Medicare: Allegations Against ABC Home Health ([GAO/OSI-95-17](#)), discussed questionable activities regarding the ABC Home Health Agency that were similar to those in our investigation of Mid-Delta Home Health.

Scope and Methodology

We conducted our investigation during 1997, following up allegations made by former and current employees of P&T Management and Mid-Delta Home Health. Our inquiry covered those organizations' participation in the Medicare home health program.

We reviewed applicable laws and regulations, HCFA directives, and documents presented by these organizations and by their former and current employees. We also reviewed Mid-Delta Home Health patient files and cost records, cost reports submitted to the Medicare intermediary, and those provided by the organizations' accountant and controller. Records/documents reviewed fell primarily between January 1, 1993—the first year that the intermediary audited the Mid-Delta Home Health cost report—and December 31, 1996. In addition, we reviewed court documents cited in this report and various other records provided by the intermediary, P&T Management, Mid-Delta Home Health, Mid-Delta Development League, and other affiliated companies.

We interviewed over 67 current and former employees of P&T Management and Mid-Delta Home Health and met with state regulatory officials at selected locations in Mississippi. We also interviewed a number of Mid-Delta Home Health patients, their relatives, and their friends and visited some Mid-Delta patients at their residences. In addition, we met with intermediary officials, investigators, and regulatory officials at HCFA in Florida and Maryland.

As arranged with your offices, unless you announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies of this report to interested congressional committees; the Secretary of Health and Human Services; the Inspector General, Department of Health and Human Services; and other officials of the Department. Copies will also be made available to

other interested parties on request. If you have any questions regarding this investigation, please contact me on (202) 512-7455 or Assistant Director Barney Gomez of my staff on (202) 512-6722. Major contributors to this report are listed in appendix I.

A handwritten signature in black ink, reading "Eljay B. Bowron". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Eljay B. Bowron
Assistant Comptroller General
for Special Investigations

Major Contributors to the Report

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GAO Related Products

Medicare Home Health: Success of Balanced Budget Act Cost Controls Depends on Effective and Timely Implementation ([GAO/T-HEHS-98-41](#), Oct. 29, 1997).

Medicare Home Health Agencies: Certification Process Is Ineffective in Excluding Problem Agencies ([GAO/T-HEHS-97-180](#), July 28, 1997).

Medicare: Need to Hold Home Health Agencies More Accountable for Inappropriate Billings ([GAO/HEHS-97-108](#), June 13, 1997).

Medicare Post-Acute Care: Cost Growth and Proposals to Manage It Through Prospective Payment and Other Controls ([GAO/T-HEHS-97-106](#), Apr. 9, 1997).

Medicare: Home Health Cost Growth and Administration's Proposal for Prospective Payment ([GAO/T-HEHS-97-92](#), Mar. 5, 1997).

Medicare Post-Acute Care: Home Health and Skilled Nursing Facility Cost Growth and Proposals for Prospective Payment ([GAO/T-HEHS-97-90](#), Mar. 4, 1997).

Medicare: Home Health Utilization Expands While Program Controls Deteriorate ([GAO/HEHS-96-16](#), Mar. 27, 1996).

Medicare: Allegations Against ABC Home Health Care ([GAO/OSI-95-17](#), July 19, 1995).

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