

United States Senate Committee on Finance

For Immediate Release

Monday, March 6, 2006

Grassley, Baucus Continue Work on Specialty Hospitals, Ask Inspector General and Government Accountability Office to Review

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, today asked both the Inspector General for the Department of Health and Human Services (HHS-OIG) and the Government Accountability Office (GAO) to review patient safety and quality, as well as financial arrangements at physician-owned specialty hospitals. The senators asked for both reviews as part of a continuing effort to understand the impact physician-owned specialty hospitals have on patients, community hospitals, and the Medicare and Medicaid programs. The requests follow a February 14, 2006, request the two sent to the Department of Health and Human Services seeking information regarding the enforcement of the moratorium on new specialty hospitals imposed by the *Medicare Prescription Drug, Improvement, and Modernization Act of 2003* and a February 27, 2006, letter to the Medicare Payment Advisory Commission (MedPAC) requesting further examination on the impact of specialty hospitals on community hospitals.

“The two reports Senator Baucus and I are seeking will help shed light on how these specialty hospitals impact our communities and the health care system,” Grassley said. “We need to know the impact so we can make educated decisions to ensure that patients receive the highest quality care for the most cost effective price. Patient care should always come before profit, and these reports should help us understand these facilities better to ensure that this is the case.”

Baucus said, “There are two issues that leap out for review: patient safety, and the use of taxpayer dollars through Medicare and Medicaid. If patients’ health is at risk in these facilities, we need to uncover that now. If Medicare and Medicaid dollars are paying for less than the best care in these facilities, that demands immediate attention.”

Grassley and Baucus outlined their requests in letters today to Inspector General Levinson and Comptroller General Walker. The text of the two letters sent, as well as the letter to MedPAC, follows.

March 6, 2006

The Honorable Daniel R. Levinson
Inspector General
Department of Health and Human Services

Office of Inspector General
330 Independence Ave, SW
Washington, DC 20201

Dear Inspector General Levinson:

The United States Senate Committee on Finance (Committee) has exclusive jurisdiction over, among other things, the Medicare and Medicaid programs. As Chairman and Ranking Member of the Committee, we have a responsibility to protect these programs along with the more than 80 million Americans who receive healthcare from them.

Our interest in specialty hospitals dates back to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), which contained an 18-month moratorium on the expansion of new physician-owned specialty hospitals. Continued concerns and debate about these facilities led to provisions contained in the Deficit Reduction Act of 2005 seeking further study by the Department of Health and Human Services (HHS). On February 14th, we wrote to Secretary Leavitt regarding the administration and enforcement of the moratorium on specialty hospitals by CMS, in addition to concerns about patient safety and quality of care at these facilities. A copy of this letter attached for your review.

Currently, we are unaware of any planned audits or evaluations directed at examining both patient safety and the quality of care at physician-owned specialty hospitals. Accordingly, we are writing to request that your office conduct a thorough analysis, audit, and evaluation of patient safety and quality of care provided to patients at the physician-owned specialty hospitals across the country. In conducting this review, we ask that you keep us apprised of all developments during the course of your review.

Thank you in advance for your assistance with this important matter.

Sincerely,

Charles E. Grassley
Chairman

Max Baucus
Ranking Member

Enclosures

March 6, 2006

The Honorable David M. Walker
Comptroller General of the United States
United States Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Comptroller General Walker:

The United States Senate Committee on Finance (Committee) has exclusive jurisdiction over, among other things, the Medicare and Medicaid programs. As Chairman and Ranking Member of the Committee, we have a responsibility to protect these programs along with the more than 80 million Americans who receive healthcare from them.

On February 14, 2006, we wrote to Secretary Leavitt of the Department of Health and Human Services (HHS) regarding concerns about the administration and enforcement of the moratorium on the expansion of physician-owned specialty hospitals administered by the Centers for Medicare and Medicaid Services (CMS). Our inquiry focused on the administration of the moratorium as well as patient safety and quality of care provided. We write today raising further concerns regarding the arrangements used to finance these facilities.

Recently, the Committee received information regarding at least one suspect arrangement used to finance a network of physician-owned specialty hospitals. Based upon a review of this information, we have serious concerns regarding the investment structures of these facilities and whether those who invest are truly at risk. Further, the information raises additional questions about the disclosure of investments by the hospitals, as well as the proportionality of investment related to financial return. Each of these concerns present significant questions as they have the potential to represent an arrangement exchanging a monetary benefit for increased patient referrals by a physician investor, an arrangement which the Stark self-referral law and Anti-kickback laws were designed to prevent.

Currently, we are aware of only one survey being conducted by your office regarding physician-owned specialty hospitals that was requested by House Committee on Ways and Means Chairman Bill Thomas. Therefore, we write today to request a thorough review of the arrangements used to finance physician-owned specialty hospitals by the Forensic Audits & Special Investigations Team. In conducting this review, we ask that your team keep us apprised of all developments during the course of your review.

Thank you in advance for your assistance with this matter.

Sincerely,

Charles E. Grassley
Chairman

Max Baucus
Ranking Member

February 27, 2007

Mark Miller, Ph.D.
Executive Director
Medicare Payment Advisory Commission
601 New Jersey Ave., N.W., Suite 9000
Washington, D.C. 20001

Dear Dr. Miller:

In your March 2005 report to Congress on physician-owned specialty hospitals, you stated that your analysis was based on “a limited number of hospitals over a limited period of time” and that “findings could change” as the industry evolves.

We would like you to examine more recent data from communities where physician-owned hospitals operate, and tell us if your findings have changed with respect to the following three questions:

- (1) How have physician-owned specialty hospitals affected the financial condition of community hospitals in their markets?
- (2) Is it more or less costly to treat patients at physician-owned specialty hospitals than at full-service community hospitals?
- (3) Has the formation of physician-owned hospitals caused the overall volume of procedures to increase in markets where they operate?

In answering these three questions, we would like you to examine additional years of data from the communities you analyzed in your March 2005 report and, if possible, to examine additional communities with physician-owned hospitals that were opened too late to be included in your initial study.

Please provide us with a briefing on your findings as soon as they become available. We thank you in advance for your assistance.

Sincerely,

Charles E. Grassley
Chairman

Max Baucus
Ranking Member