
August 12, 2003

OPERATING PROFITS: Mining Medicare; How One Hospital Benefited From Questionable Surgery

By KURT EICHENWALD

Could it possibly be, Dr. Patrick Campbell wondered, that doctors at his hospital in Redding, Calif., were cracking open the chests of perfectly healthy people?

Dr. Campbell, an internist, first suspected trouble in Redding Medical Center's cardiology program soon after joining the hospital in 1993, according to papers obtained by federal investigators. That year, one of his patients underwent open-heart surgery even after the surgeon told Dr. Campbell the procedure was unnecessary. Two years later, another patient received a coronary bypass, though the cardiologist's report said it was not necessary.

Then there were the numbers -- tens of thousands of diagnostic tests, thousands of surgical coronary procedures. The totals seemed more likely for a major university medical center than for a hospital in a rural community of about 90,000 people.

Dismayed, Dr. Campbell brought his concerns to Stephen E. Corbeil, the hospital's chief executive at the time. Though Dr. Campbell declined to comment on the meeting and Mr. Corbeil did not return telephone calls, the papers obtained by federal investigators indicate that the administrator's response was succinct: The young internist, he said, should mind his own business.

Ultimately, Dr. Campbell's concern proved to be everyone's business. Last week, the hospital's owner, Tenet Healthcare, agreed to pay \$54 million to the government to resolve accusations that Redding Medical doctors conducted unnecessary heart procedures and operations on hundreds of healthy patients. Tenet did not admit any wrongdoing and agreed to cooperate with further investigations.

As disturbing as the accusations may be, there would have been a logic to what a patient called Redding's "little house of horrors" -- a logic born of the twisted finances of American health care, which may have made the hospital less willing to hear concerns about two of its highest-billing doctors.

Until federal agents raided Redding last fall, Tenet's business model was based on maximizing the dollars it could collect from Medicare, the nation's biggest buyer of health care. And Medicare's complex formulas -- the template for private insurers, as well -- reward some kinds of health care more richly than others, and few more richly than cardiac care.

So it was that two heart doctors at Redding -- Dr. Chae Hyun Moon, the chief cardiologist, and Dr. Fidel Realyvasquez, its top cardiac surgeon -- became immensely powerful, people who worked there said. Tenet promised investors growing profits, and at Redding, these people said, that required steady growth in cardiac care.

Together, Dr. Moon, who also sat on the hospital's board, and Dr. Realyvasquez directed the California

Heart Institute, the cardiac program that Redding had started in the 1970's, and it proved to be a bonanza.

"We were constantly being pushed to bigger budgets, and there was no way to do it without the heart institute," one former Redding administrator said. "People were terrified that Moon would go on vacation, because of the effect a few days would have on the hospital's financial performance."

While few doubt the hospital would have responded to explicit evidence of problems in the heart program, like high death rates, the financial pressures created a disincentive to pursue less specific suspicions, people who worked at Redding said.

And there were many suspicions. Besides Dr. Campbell, more than half a dozen doctors, along with medical technicians and patients, expressed concerns to multiple administrators, according to people interviewed and records obtained by investigators. There were also questions of competence: one former executive said that two years ago, a representative of the company whose ultrasound machine Dr. Moon relied on for many of his diagnoses warned that he was misusing it.

But the hospital never conducted the peer reviews that might have confirmed the critics' doubts.

"I sometimes just shake my head at the American system, where the financial intent is almost cleverly designed to create mischief," said Uwe Reinhardt, a Princeton University health care economist. "For administrators, it creates a conflict of interest when they're trying to deliver the numbers at the same time that doctors are saying the hospital is doing too much cardiac surgery."

Tenet's \$54 million settlement with the government -- the largest ever for accusations of billing federal health programs for unnecessary care -- means that the company will not face criminal or civil charges. But the company has been upended by the scandal, the first in a series of events to raise questions about the company's finances. Numerous executives, including Jeffrey C. Barbakow, its longtime chief executive, have resigned, and its stock has lost almost three-quarters of its value.

A criminal investigation of Drs. Moon and Realyvasquez is continuing, though no charges have been filed. Their work at the heart institute has been suspended, and Dr. Moon has surrendered his medical license pending resolution of the matter. Lawyers for each of them say that, while other doctors' opinions about their decisions may differ, neither did anything illegal.

"Certainly physicians can and do have differences of opinion," said Matthew Jacobs, a lawyer in Sacramento representing Dr. Moon. "But to base a fraud prosecution on such differences with no other evidence of fraud just doesn't work."

Malcolm Segal, a lawyer for Dr. Realyvasquez, said that his client's decisions to operate were justified. "Dr. Realyvasquez is an outstanding, well qualified surgeon," Mr. Segal said. "He did everything he was supposed to do and believes that when he provided the surgery to the patients, it was needed."

For its part, Tenet says that as part of its settlement with the government, it has imposed new checks and balances to ensure that no future problems could occur at Redding. Harry Anderson, a Tenet spokesman, said the company's new management had agreed to heighten monitoring and education programs "to rebuild the reputation and services of Redding Medical Center so it may continue to serve that community for years to come."

Meanwhile, there are hundreds of former patients of the two doctors who now must wonder whether

there was any reason for their operations. They are like Shirley B. Wooten, 78, who sought care last year for back and arm pain. After several tests, she was told she needed emergency bypass surgery, which was conducted by Dr. Realyvasquez. Complications followed, and Mrs. Wooten, who loved to attend dances with her husband, Bob, and take long driving trips around the California countryside, can no longer write or walk steadily. An independent expert has deemed the surgery unnecessary, and she is suing.

"I had to quit my job to take care of her," Mr. Wooten said. "Our lives came to a screeching halt after that surgery, I'll tell you."

Push for Higher Profits

By the winter of 1998, Redding Medical Center was virtually bursting at the seams. A conference room was converted into a patient care area. The emergency room was running over capacity.

"We were beyond full," one former administrator said. "We were flying."

That fiscal year, officials said, the hospital exceeded its budget for pretax profit by almost 50 percent, bringing in more than \$50 million. And then at a budget meeting with senior Tenet officials, the order came down: Do better next year.

"We said 'We don't know how to do it unless we have extra capacity,' " the former administrator said. "They were pushing for what I thought was ridiculous financial results."

Tenet agreed to invest millions of dollars to complete rapidly the construction of a five-story addition to the hospital. People in town came to call it "the tower," a symbol of how a once sleepy hospital, founded by a single local physician in 1945, had truly entered the big time.

The project only heightened Redding's dependence on Dr. Moon and the California Heart Institute. The son of a family practitioner, Dr. Moon told associates that his decision to become a doctor had been dictated to him by God when he was a boy. He graduated in 1972 from the Medical College at Yonsei University in Seoul, and completed his internship and residency at Metropolitan Hospital in New York.

After setting up practice in Redding in the early 1980's, Dr. Moon rapidly developed a reputation for aggressively pursuing evidence of coronary disease. He also was known for being quick to recommend a cardiac catheterization, in which a small tube is passed through a blood vessel to examine how a patient's heart is working.

"His philosophy has always been if you know the anatomy of the diseased heart, you are going to be able to make informed decisions," said Dr. Bruce Kittrick, an internist at Redding who does not believe the accusations against Dr. Moon. "That is what made him really investigate anatomically most of the people he took care of."

That willingness to conduct catheterizations and other invasive procedures also helped fuel Dr. Moon's success within Redding Medical Center. Over time, he became one of the hospital's biggest money-makers, conducting more than 35,000 catheterizations during his years there, which other cardiologists say is easily many times the number that they would expect in such a time frame.

In the last fiscal year he collected more from Medicare than all but one other cardiologist in Northern California, figures compiled by the program show, billing for almost \$4 million in the 12 months ended

June 30, 2002. In that year, Medicare records show, he billed for 876 catheterizations for the left side of the heart, at least four times the number performed by any of his colleagues in Northern California.

By the early 1990's, Dr. Moon's success gave him enormous power in the organization. At one point, according to several Redding doctors, a former administrator and investigative records, Dr. Moon earned the reputation for having been instrumental in persuading Tenet to dismiss one of Redding's chief executives. The event, which became the stuff of hospital legend, only increased Dr. Moon's influence, said one former administrator.

"No one would ever want to take him on," he said. "Moon was Redding Medical Center, and he knew it."

Indeed, Dr. Moon became fond of making that point himself. "Who is Redding Medical Center?" he said in a recorded presentation in the mid-1990's. And then, participants said, Dr. Moon pointed to himself.

Administrators' pay grew if Redding's profits exceeded Tenet's expectations, so the financial performance of Dr. Moon, Dr. Realyvasquez and their cardiac program was reviewed intently.

As part of a companywide procedure, Redding's chief financial officer prepared a report each month describing important events affecting the hospital's returns.

"They noticed everything," one former administrator recalled. "If Moon's numbers were off a little bit, they asked about it."

In turn, Redding did all it could to keep its heart specialists happy. The hospital began an advertising campaign, with mailings and billboards that used tombstones and other images invoking death to persuade Redding residents to be checked for heart disease. It paid nurses to dictate charts for Dr. Moon, who colleagues and former administrators said made little time for record keeping. It sponsored golf tournaments to promote the heart institute, and sometimes offered Dr. Moon use of its helicopter to fly to the golf course, administrators and doctors said.

The doctors also received particular attention from senior Tenet executives, particularly Thomas Mackey and Neil Sorrentino, according to former Redding executives, doctors and documents obtained by investigators. Mr. Mackey was ultimately the chief operating officer of Tenet, while Mr. Sorrentino was the head of its California hospitals.

Topping it off were the financial rewards. Former Redding administrators said that, around 1997, Dr. Realyvasquez demanded and was given a lucrative contract, paying him huge sums of money.

"He told us the number he wanted, and we had to work backwards to figure out a way to get it to him," one administrator said.

Normal checks and balances did not seem to apply to Dr. Moon, Redding physicians said. He was not only head of the cardiology program but also a hospital director. And though he was not board certified in cardiology or internal medicine -- a credential he dismissed as insignificant -- he was also head of the hospital's Cardiology Care Committee, in charge of conducting peer review of his own program's quality of care.

Court records say that committee rarely, if ever, met.

Others Saw Trouble Signs

Across town, Redding's chief rival, Mercy Medical Center, also took admissions from Dr. Moon. But the staff there was far less impressed with him.

In 1996, one of his patients at Mercy, Charles K. Brown, a 67-year-old man from Anderson, Calif., suffered a stroke while Dr. Moon was performing a catheterization and soon died. Staff members in Mercy's catheterization lab complained to the hospital's medical division, saying that Dr. Moon's care had fallen below appropriate standards.

According to court records, the staff members said that Dr. Moon left the hospital while the patient was unstable, leaving nurses without clear instructions. A review of the medical chart found no indication that Dr. Moon had taken basic preparatory steps to ensure that Mr. Brown was well enough for the procedure, according to written findings of the medical division.

As a result, the medical division ruled that Dr. Moon would have to be monitored by another doctor.

"Leaving the nurses to deal with the complication was inappropriate and a serious quality of care issue," read a letter to Dr. Moon from the medical division. "You will not jeopardize patient safety."

Dr. Moon objected, saying in a letter that he had alerted Mr. Brown's other doctors to his problems and had been assured they were handling his care. The division revised its decision, saying that the monitoring would be limited to two cases and that a letter would be placed in his file. Dr. Moon struck back, announcing in an advertisement in the local newspaper that he would no longer admit patients to Mercy. He then sued the hospital, claiming defamation and financial harm. The suit was later dismissed.

About the same time, Dr. Campbell, the internist, brought his concerns about Redding Medical Center's heart program to Mr. Corbeil, then the hospital's chief executive.

Dr. Campbell arrived at Redding in 1993 and quickly benefited from Dr. Moon's influence; the cardiologist helped him and three other doctors form a group practice, and pledged that Tenet would provide more than \$100,000 toward the group's start-up costs.

The same year, Dr. Campbell's worries about the heart center began. Dr. Moon recommended that a patient, Mary Rosburg, receive immediate coronary surgery, according to papers obtained by federal investigators. A surgeon working with Dr. Realyvasquez telephoned Dr. Campbell, vehemently arguing that no surgery was needed. Dr. Moon's view prevailed, and the once-reluctant surgeon performed the operation. Ms. Rosburg died from complications several months later.

In 1995, another of Dr. Campbell's patients, Emma Jean Montgomery, came under the care of Dr. Moon's team. An associate of Dr. Moon informed Dr. Campbell that the patient had severe coronary disease and needed immediate surgery, which Dr. Realyvasquez performed. Afterward, when Dr. Campbell reviewed the medical chart, he found none of the evidence of serious heart problems that Dr. Realyvasquez had described, according to records obtained by federal investigators.

Dismayed, Dr. Campbell took Ms. Montgomery's records to another local cardiologist, Dr. Roy Ditchey, who was astounded to hear that the patient had undergone surgery, according to information obtained by federal investigators.

It was then that Dr. Campbell approached Mr. Corbeil, but the administrator dismissed his concerns, papers obtained by the investigators say. Dr. Campbell, who still practices in Redding, has since filed a suit on behalf of the government, under the federal whistle-blower statute, which remains under seal.

When faced with credible concerns about a program, health care experts said, it is commonplace in the hospital industry to bring in an outside group to conduct a review.

"Most hospital administrators are very responsible," said Evelyn Baram-Clothier, executive director of the American Medical Foundation for Peer Review and Education. "I have administrators who call us to review departments just to be sure they're O.K."

In the fall of 1996, Mr. Corbeil was succeeded by Kenneth Rivers. The following spring, according to court documents and records obtained by federal investigators, a group of doctors including Dr. Campbell, Dr. Kittrick and two others approached him to discuss the cardiac program.

According to the papers, Dr. Kittrick spoke for the group and asked for an independent peer review of the cardiology program, to determine if the catheterizations were reliable. Mr. Rivers replied that he would have to ask Tenet's lawyers whether such a study would violate patient confidentiality, the records say.

No such study was ever done, according to doctors at the hospital.

As new administrators arrived, the same pattern was repeated. According to court papers and other records, Dr. Roy Pick, a local cardiologist, approached Mr. Rivers's successor, Stephen Schmidt, and Mr. Schmidt's replacement, Hal Chilton, the current chief executive. Each time, Dr. Pick, who had reviewed the records of some of Dr. Moon's patients, raised concerns about the heart program and asked for an independent peer review. None was undertaken.

Dr. Pick and Mr. Chilton did not return calls seeking comment. A phone number for Mr. Schmidt, who has since retired, could not be located. Phone numbers found through a computer search for Mr. Phillips, Mr. MacKay and Mr. Sorrentino were all disconnected.

Dr. Thomas Drakes, a board-certified oncologist who worked at Redding for two decades and taught at the University of California at Davis, said he, too, raised his concerns with Mr. Schmidt, with little result.

"Here I am, a guy on his staff who has some credibility, and I go to Schmidt and tell him he's going to have a '60 Minutes' episode on your hands here if you don't do something," Dr. Drakes said. "He just said, 'Don't worry about it.' "

But, by 2002 the secrets at Redding Medical Center were about to burst into public view.

Differing Diagnoses

Last year, the Rev. John Corapi decided, at 55, to have a cardiac stress test at Redding. He passed the test, but Dr. Moon still suggested a trip to the catheterization lab.

While Father Corapi, a Roman Catholic priest, was still on the table, Dr. Moon broke the news: He needed an emergency triple bypass. According to Father Corapi, the doctor said he had three dissecting arteries, a critical condition. Still, Dr. Moon suggested waiting for surgery until the next week, when

Dr. Realyvasquez returned.

Anxious, Father Corapi said that he telephoned a friend in Las Vegas, Joseph F. Zerga, an accountant who had close contacts with a cardiac unit at a local hospital. He persuaded Father Corapi to come to Nevada for the emergency surgery.

But when he got to Las Vegas, the heart specialists were confused. "While I was being processed in, the cardiologist there said, 'Excuse me, what are we bypassing?' " said Father Corapi, who, like Dr. Campbell, has filed a whistle-blower suit.

Back in Redding, Father Corapi and Mr. Zerga met with hospital officials, who said that two cardiologists had reviewed the records and agreed with Dr. Moon's findings, though they declined to name the doctors. "I expected the hospital to be extremely concerned over this situation," Mr. Zerga said. "But they weren't."

When further discussions with the hospital proved unsatisfactory, Mr. Zerga contacted the Federal Bureau of Investigation. Within days, agents found their way to Robert G. Simpson, a lawyer in Redding for whom Dr. Moon had recommended a four-way bypass last summer. Mr. Simpson had challenged Dr. Moon's diagnosis after getting a second and a third opinion. Mr. Simpson has since been interviewed by federal investigators and is now representing numerous patients suing Redding.

Four months after being contacted about Father Corapi, federal agents raided the hospital.

For Tenet, it was as if the roof were suddenly falling in.

Near the time of the Redding raids, the company was hit with other financial body blows that raised the same question: Was Tenet really as successful as it had long appeared? Or had it just profited from multiple methods -- including unnecessary surgery at Redding -- of gaming the Medicare system?

On Oct. 28, Kenneth Weakley, an analyst with UBS Warburg, reported that Tenet was heavily dependent on special Medicare payments for particularly sick patients. These "outlier" payments accounted for about 24 percent of Tenet's base Medicare payments for overnight stays, Mr. Weakley wrote, triple the amount three years earlier.

That same day, the federal Department of Health and Human Services notified Tenet that it would be auditing its hospitals to see if the company had been improperly manipulating its outlier payments. The company failed to disclose the information publicly for more than a week, later saying it had waited until it had more specifics. (The overpayment allegations were not covered by the \$54 million settlement.)

As the events unfolded, the nature of the outlier problem became clear. Tenet hospitals had been rapidly increasing their retail charges -- amounts actually paid by very few people who have procedures without insurance. But those numbers are used in determining outlier amounts. In essence, Medicare was paying Tenet more for treating sicker people, when in fact all Tenet was doing was charging higher prices.

Under pressure from investors, Tenet in early November disclosed that it received \$763 million in outlier payments in the 2002 fiscal year, much of it from 11 hospitals that had ramped up retail charges. Seven of those 11 hospitals are in California.

Among that group is Redding Medical Center. According to federal data, outlier payments to Redding were off the charts. Medicare projected that it would pay 5.1 percent of its total standard payments for inpatient care at all hospitals to outliers. At Redding, in fiscal 2002, the payments instead reached 118.6 percent, or \$55.7 million.

Indeed, the problems at Redding seem to infuse the repeated scandals at Tenet. Two of the company's biggest allies of Dr. Moon and Dr. Realyvasquez were soon gone. Mr. Mackey, the company's chief operating officer, left in November amid reports that he was an architect of the company's pricing strategy. Then, in March, Mr. Sorrentino, head of the company's California hospital operation, also departed.

As the scandals unwound, with pricing strategies changing and the cardiac program suspended, Redding's finances fell apart.

According to data filed with the State of California, total net patient revenue at Redding for the first quarter of this year (the latest data available) dropped almost in half from the period last year, falling from \$61.1 million to \$31.2 million. All told, more than 75 percent of that decline came from the drop in Medicare payments, which fell by \$23 million.

Indeed, the numbers at Redding raise questions about how problems at the hospital could have been missed. The state filings show, in the 12 months ended June 30, 2002, Redding Medical Center generated pretax net income of \$94 million, more than any other of Tenet's 40 hospitals in California. Just down the street, the larger Mercy Medical Center reported pretax net income of about \$5 million in the same period.

"When those types of numbers get reported back to the home office, does everyone stay willfully blind and declare a holiday, or does someone say, 'Let's postpone the celebration and take a hard look at these,' " said Neil Getnick of Getnick & Getnick, which specializes in business integrity counseling. "Part of business integrity is creating reasonable expectations amongst shareholders of what kind of profits you can achieve, and what we have seen with Tenet indicates that the company departed from that basic model."

In that, analysts say, is the essence of the problem. Different hospitals can be run more efficiently, but ultimately, health care is a commodity; the science available at one hospital is the same across the street. The industry itself is more than a century old. Yet Wall Street expects and rewards double-digit earnings growth from hospital companies, something analysts say is unsustainable.

"The hospital industry is by its very nature a mature industry," said Mr. Reinhardt, the Princeton economist. "It is not a high-margin business. It can't be a growth industry like some Internet company. That is just unreasonable."

Correction: August 15, 2003, Friday A front-page article on Tuesday about accusations of unnecessary heart procedures and surgery at Redding Medical Center in California misidentified the surgeon who performed an operation on Shirley B. Wooten, a former patient who has filed a lawsuit. The surgeon was a partner of Fidel Realyvasquez, not Dr. Realyvasquez himself. Federal investigators are examining the practices of several heart specialists at the hospital.