The Cost of Privatization: Olsten Corporation and the Crisis in American For-Profit Home Care

by Jim Silver

About the author:

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A summary of findings

Key findings about Olsten Corporation

- a U.S.-based multinational corporation
- makes extensive use of temporary employees in its health care operations
- a largely non-unionized employer
- paid its five top executives almost $5 million in salaries and bonuses in 1996
- has been charged by the State of Washington for allegedly failing to carry out physicians' instructions
- in 1997 the FBI raided Olsten's Florida offices looking for evidence regarding non-Medicare costs being improperly billed to Medicare
- employees of Olsten's New Mexico office under investigation by the New Mexico Health Care Anti-Fraud Task Force

Key findings about home care in the U.S.

The U.S. government has launched Operation Restore Trust, a multi-million dollar investigation into fraud in the U.S. home care industry in five states. As part of this investigation the U.S. government has:

- declared a moratorium on entry of new agencies in the industry
- identified $188 million to be repaid to the U.S. government.
- expanded Operation Restore Trust to more states. U.S. Secretary of Health Donna Shalala has stated that it is time to "take aim at the fraud that has become so prevalent in the home health industry."

In addition, a 1997 study concluded that for-profit home care added more than $1 billion to overall U.S. Medicare costs.

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On March 27, 1997, Manitoba Health Minister Darren Praznik announced that Olsten Health Services had been awarded a $5.6 million contract to provide home care services in portions of the City of Winnipeg. The contract, which is approximately ten percent of the Winnipeg home-care service, marked the first major expansion of private, for-profit corporations in Manitoba home care. In the spring of 1996, the Manitoba government had been forced to abandon its plans to completely privatize home care in the face of opposition from striking home-care workers and home-care clients and their families. The limited contracting out had been the compromise which ended the strike.

Praznik described Olsten Health Services as "a Canadian home care company" and "a recognized leader in the delivery of health care." He said Olsten would be able to "provide the quality service Manitobans require at a lower cost than the government."

Critics of privatized home-care identified a number of concerns. Chief among these were:

- that lower wages in the private sector would lead to high turnover and less continuity of care;
- that low wages would fail to attract qualified service deliverers;
- that money intended for health care would end up in the bank accounts of foreign corporations;
- that by privatizing home care the government would lose control over how money is spent, leaving it open for fraud and overbilling;
- that for-profit companies may try to pressure home-care clients to purchase additional, costly and unprescribed health care services; and
- that large health corporations would initially make low bids to win contracts. Once the government privatized the service, these corporations might then drastically raise the fee for the service.

Prepared for the Canadian Centre for Policy Alternatives by Jim Silver (Chair, CCPA-Manitoba)

The Canadian Centre for Policy Alternatives-Manitoba has undertaken some research into Olsten Health Services. This research suggests that even in the case of what the Manitoba Government has identified as the "recognized leader in the delivery of health care" these problems, and more, exist.

Indeed, the entire American home care system is in a state of crisis. The U.S. federal government has launched a multi-million dollar investigation into fraud in the home care sector and this year declared a moratorium on the licensing of new firms.

Olsten itself is the subject of several federal investigations, as well as charges filed by the State of Washington for failing to comply with physicians' instructions for home care patients.

Because Olsten Corporation is the leading private for-profit home care company in the United States, its history and its current problems deserve attention. It helps illuminate the problems that a move to private, for-profit home care would bring to this province.

Olsten Corporation

Olsten Health Services is the name of the Winnipeg branch of Olsten Corporation, a New York-based multinational corporation. Through its Olsten Health Services division it is the largest provider of for-profit home health care in the U.S.A. Through Olsten Staffing Services it is also one of the three largest providers of temporary employees for a variety of industries, including home health care, in the U.S.A.

Olsten is a multinational corporation. In 1996, it had 1,300 offices world-wide, with operations in Norway, Denmark, Sweden, the Netherlands, Germany, England and Wales, Argentina, Puerto Rico, Mexico, and Canada.

In Canada, as of December 29, 1996, Olsten operated 25 offices providing "assignment" employees and 20 offices — including the Winnipeg office — providing health-related care givers. These offices are operated as branches of Olsten Corporation.[1]

Olsten is a $3.4 billion corporation. Of this annual revenue, $1.65 billion comes from home health-care. Olsten Corporation owns 500 home health-care agencies and manages 450 more in the United States.[2] As of December 29, 1996, Olsten Corporation employed 11,000 regular full-time employees and throughout 1996 it employed 560,000 "assignment employees and caregivers".[3]

The Olsten Corporation executives are extremely well paid. As the following table shows, the Chairman of Olsten Corporation, Frank Liguori, made $1,882,692 last year while Vice-Chairman Stuart Olsten made $1,062,019. In both 1996 and 1995, Olsten Corporation's five top executives received salaries

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Olsten senior executive salaries and bonuses

Name and Principal Position	1996	1995	1994
Frank Liguori, Chairman and CEO	$1,882,692.00	2,075,000.00	$1,661,538.00
Stuart Olsten, Vice Chm and President	$1,062,019.00	$1,040,865.00	$682,500.00
Robert A. Fusco, Executive V.P., and President, Olsten Health Services	$827,019.00	$814,904.00	$671,923.00
Richard A. Piske, III, Executive V.P., and President, Olsten Staffing Services	$591,827.00	$585,835.00	$492,045.00
Anthony J. Puglisi, Senior V.P., and Chief Financial Officer	$444,231.00	$385,288.00	$293,654.00
Totals	**$4,807,788.00**	**$4,901,892.00**	**$3,801,660.00**

Source: Olsten Corporation's Schedule 14A, filed with the U.S. Securities and Exchange Commission (SEC) on March 31, 1997.

and bonuses totalling almost $5 million per year. At the Company's 1996 Annual Meeting Mr. Liguori was voted a "performance award" of up to 150,000 restricted shares of the Company's common stock. At November 1997 market prices the total value of this award was approximately $2,175,000.

The pension plan is similarly lucrative. If Mr. Liguori were now at retirement age he would qualify for an annual company pension of approximately $750,000. Each of Olsten Corporation's nine directors is paid an annual "retainer" of $30,000 plus $1,500 for each of the six board meetings per year that they attend. The total cost of this package is $351,000 if each director attends every meeting.[4]

Olsten employees have not been as fortunate. According to the *Chicago Tribune*, about 95 percent of Olsten employees receive no benefits. "Mainly they are part-time, per diem employees," Jim Wyckoff, an Olsten representative, told the *Tribune* . The newspaper reported that Olsten had "constant turnover among its employees." In the United States the average hourly earnings for personal care attendants is $5.70, while the rate for home health-care aides is $8.00.[5]

The very structure of the Olsten Corporation suggests that worries over high staff turnover and low levels of continuity accompanying privatization of home-care are justified. In her study, *The Cost of Privatization : A Case Study of Home Care in Manitoba*, prepared for the Manitoba branch of the Canadian Centre for Policy Alternatives, Professor Evelyn Shapiro points to the dangers associated with the tendency to higher staff turnover when home health care is provided on a for-profit basis. This problem appears to be built into the Olsten corporate structure. One division, Olsten Staffing Services, provides temporary employees to the home-care division, Olsten Health Services.

Olsten's Troubles

The State of Washington Department of Health Charges Against Olsten Health Services

On July 31, 1997, the State of Washington Department of Health, via the Department's Director of Facilities and Services Licensing, instituted legal charges against Olsten Health Services pertaining to the Company's operations in the State of Washington. The Department alleges in its Statement of Charges that Olsten is in violation of various statutes by failing repeatedly to comply with physicians' instructions for patient care.

Department of Health spokesperson James Brusselback told the *Seattle Times* of "situations where doctor's orders said one thing and the documentation and patients' records didn't correspond to what was ordered."[6]

The Statement of Charges provides, in considerable detail, 56 instances of such problems pertaining to 32 home health care patients. These problems include failure to provide particular services — physical, occupational and speech therapy, skilled nursing visits, insulin injections and blood pressure readings, for example — as frequently as instructed by physicians.

The following examples are all drawn from patient records cited in the Statement of Charges:

- One patient was to receive daily glucose and insulin injections for a two month period. On four days, three of them successive, no visits were made by Olsten staff.
- A patient who was to receive skilled

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nursing visits once a week for six weeks, received only two such visits.
- Although the physician was to be notified if the patient's blood pressure fell outside specified parameters, the patient's blood pressure was recorded on only five of fourteen visits over a two week period.
- Where a physician ordered daily skilled nursing visits for one week, on one of the days no such visit was made "due to staffing nurse shortages."

These instances are typical of the 56 examples of the home care delivery and coordination problems cited by the State Department of Health in the Statement of Charges.

The Department alleges that their investigation of Olsten's home health care operations reveals:

> (A) discrepancies in patient lists and schedules, (B) lack of knowledge about who provides care and when and whether care is provided, (C) inability to produce a patient schedule and to maintain visit verification, and (D) difficulties with staffing.

The State Department of Health alleges, in one of several similarly serious examples, that Olsten's "...management and supervisory staff did not know which patients had been seen on 05-01-97 and 05-02-97 and did not know which patients were to be seen the remainder of the month."

The Statement of Charges concludes that the charges against Olsten Health Services "constitute grounds for the suspension or revocation of respondent's [Olsten's] licence to operate a home health agency in the State of Washington", and that if Olsten "fails to defend against these allegations, an order will be entered revoking its license."[7]

The New Mexico Health Care Anti-Fraud Task Force

In June 1996 Olsten Corporation purchased the Indianapolis-based Quantum Health Resources. This gave Olsten an entrance into "infusion therapy" — the at-home, intravenous treatment of critically ill patients. Since then the new subsidiary, Olsten Health Services Infusion Therapy, has come under investigation for its operations in the state of New Mexico.

According to a search warrant filed in the United States District Court, District of New Mexico, on May 5, 1997, the New Mexico Health Care Anti-Fraud Task Force was investigating two employees of Olsten Health Services Infusion Therapy. A sworn statement filed by John E. Lake, Special Agent, Defence Criminal Investigative Services, in support of a search warrant authorizing a search of the employees' homes and of the Olsten Health Services Infusion Therapy offices, describes "kickbacks" to hemophilia patients in the following terms:

> This investigation was initiated by New Mexico Attorney General's Office, Medicaid Fraud Unit. This matter then became part of an investigation by the New Mexico Health Care Anti-Fraud Task Force in late 1996. The allegation stated that QHR (Quantum Health Resources) and its successor company OHSIT (Olsten Health Services Infusion Therapy) wrongfully engaged in the practice of providing inducements and gifts to hemophilia patients, relatives, and their physicians to accept delivery of more Blood Factor than required for the treatment of the patients' medical condition. These inducements caused QHR/OHSIT customers to purchase or accept expensive hemophilia and related drugs in excess of patients' needs. The

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investigation has disclosed that QHR/OHSIT billed New Mexico Medicaid for these drugs and Blood Factor products which were intentionally provided beyond the patients' medical needs. These claims resulted in substantial over billing, and fraudulent billings of New Mexico Medicaid policy.[8]

The affidavit describes inducements including airline tickets, computers, clothing and other consumer goods, and asserts that one of the employees described severe hemophilia patients as "million-dollar kids because they regularly required large doses of very expensive blood factor and drugs which (this company) provided".

The affidavit refers to one witness in the case — a hemophilia patient — who claims that one of the Olsten employees now complains of no longer being able to offer large financial inducements to patients because of the tighter regulations used by Olsten — his employer since Olsten's June 1996 acquisition of Quantum. However, the Affidavit describes two instances since June 1996 when inducements were offered to hemophilia patients to encourage them to order more Blood Factor than they needed.[9]

The investigation documents also allege that gifts were made to Dr. T. John Gribble, the head of hematology at the University of New Mexico hospital. Days after this office was searched Dr. Gribble committed suicide.[10]

The investigation apparently covers the period from January 1992 to April 1997. Until June 1996, the two employees being investigated were employed by Quantum Health Resources, which was acquired by Olsten and folded into Olsten Health Services Infusion Therapy in June, 1996. From June, 1996 to May 1997, the two were employed by Olsten Health Services Infusion Therapy.

No criminal charges have yet been filed in this case. However, it underscores the ways in which the private, for-profit delivery of health care creates the possibility of the bilking of the public purse by private corporations and individuals.

The Florida Investigation

In 1994 Olsten Corporation sold its 22 Florida home health care agencies to Columbia/HCA Healthcare Corporation, one of the largest private hospital corporations in the United States. Under the terms of the agreement Olsten would continue to manage these agencies, 15 agencies already owned by Columbia/HCA and any other agencies Columbia would purchase in the future. According to *Business Week* Olsten was managing 150 agencies for Columbia by the fall of 1997.

On July 16, 1997, FBI agents raided Florida offices that Olsten manages for Columbia. They seized hundreds of documents, computer discs, memoranda and training manuals. According to *Business Week*

> ... investigators want to know whether Olsten and other home-care providers shifted non-Medicare overhead to the government's tab. Former Olsten executives acknowledge it was common industry practice. "It wasn't illegal; it was a loophole," said Linda Duval, a former assistant vice-president of Olsten's health division and now a partner in a Washington pediatric home health agency. They're a very ethical and moral company. But to make money, they had to push the envelope."[11]

The Florida investigation is ongoing at this point. However, in August, 1997, Columbia/HCA was indicted for Medicare fraud and announced its intention to sell its home care division.[12]

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AN INDUSTRY IN TROUBLE

Olsten's problems are not unique. The American home-care system, about half of which is comprised of private, for-profit companies, is in a state of crisis. In September 1997 American President Bill Clinton declared a moratorium on the entrance of new home care providers. In making the announcement Clinton said that the Medicare rip-offs that are suspected to have taken place in the industry amount to "a fraud on all the taxpayers of the country."[13] According to Health and Human Services Secretary Donna E. Shalala: "During the time-out, regulations will be written to take aim at the fraud that has become so prevalent in the home health industry."[14]

In 1995 the federal government was so alarmed by fraud in the health care system that it launched Operation Restore Trust. Operating in only five states, Operation Restore Trust focused on fraud and overbilling in home health agencies, nursing homes, and durable medical equipment suppliers. According to Health and Human Services Secretary Shalala, Operation Restore Trust has identified almost $188 million owed to the federal government. As a result, in the spring of 1997, the Operation was expanded into 12 more states. Total Health and Human Services spending for anti-fraud, waste and abuse efforts in Medicare and Medicaid is $599 million in fiscal year 1997, up from $452 million five years earlier.[15] A recent Operation Restore Trust audit by the Office of Inspector General found 40 percent of home care billings to Medicare in California, Illinois, New York, and Texas for the 15 month period ending March 31, 1996, did not qualify for reimbursement.[16]

On June 26, 1997, Bruce Vladeck, the administrator of the Health Care Financing Administration spoke to a Senate Committee on the "Prevalence of Health Care Fraud and Abuse." He made the following comments on home care health fraud.

> The "invisibility" of the home health setting invites profiteers to prey on disabled and elderly patients who may often be isolated, uninformed, and lacking the support of friends and family. We are finding continuous problems with unnecessary home health services".
>
> In home health settings the physical isolation of the beneficiary is often an open invitation to unethical providers seeking ways to provide care based on financial incentives, rather than care that is actually needed ... There is evidence that wherever there are concentrations of the frail elderly, there are providers seeking to provide unnecessary services."[17]

Recent evidence in the USA suggests that this is most likely when home care services are provided by for-profit companies. A 1997 study by the Henry J. Kaiser Family Foundation found that "...the average home health cost per beneficiary ($4,442 in 1994) was $1064 higher for those receiving care from for-profit home health agencies," and that the higher per-patient cost that results from home care being delivered by for-profit agencies "...added more than $1 billion to overall Medicare home health expenditures that cannot be explained by other factors."[18]

The entire system by which home health care services are delivered in the U.S.A. appears deeply flawed. According to U.S. government officials this system is affected by widespread fraud. As a result the government has been forced to

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spend millions of dollars investigating, auditing and prosecuting private health care firms. There are many examples of poor service, high staff turnover, and low wages.

It would appear that the Manitoba government is adopting a health care delivery model that even the U.S. Government may soon abandon.

Conclusions

Our research into the Olsten Corporation and U.S. home care system suggests that the concerns raised by opponents of home care privatization in 1996 were fully justified. The problems which they were predicting are common throughout the American private, for-profit system.

Manitoba's system of publicly delivered home care has won international recognition for its high quality and low cost. Indeed when Health Minister Praznik announced that Olsten had been awarded the home care contract in 1997 he admitted that several of the companies that bid on the job "weren't able to give us any cost-saving, they were actually higher cost than our own estimates on our own cost of service."[19] He went so far as to say, "One of the things this has demonstrated is that generally speaking our home-care system is fairly well run on the cost side across the province."[20] According to Praznik Olsten would be providing service at a saving of $500,000 a year to the government. Given the well-known practice of large, well-financed companies underbidding to win contracts and/or eliminate competitors[21] we are skeptical as to whether this is a real cost figure.

There would appear to be only one simple conclusion to be reached. The U.S. experience demonstrates the risk of private, for profit care; the Manitoba experience underlines the many benefits of publicly administered and delivered care.

As the result of our investigation of Olsten Corporation and the U.S. home care system, we believe the following recommendations are warranted:

1. That at the end of the one-year contract with Olsten Corporation, the Manitoba government abandon its experiment with private for-profit home care.

2. That the government publicly commit itself to strengthening and improving one of the best home care services in the world and renounce any intention to turn it into a profit centre for multinational corporations.

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Notes

[1] U.S. Securities Exchange Commission, Form 10-K, filed by Olsten Corporation, March 27, 1997.

[2] *Business Week*, September 22, 1997.

[3] U.S. Securities Exchange Commission, Form 10-K, filed by Olsten Corporation, March 27, 1997.

[4] Securities and Exchange Commission (SEC) Form 10-K and DEF 14A, filed by Olsten Corporation, March 27, 1997 and March 31, 1997, respectively.

[5] *Chicago Tribune*, May 27, 1997.

[6] *Seattle Times*, August 28, 1997.

[7] State of Washington, Department of Health, Statement of Charges in the Matter of the Licensure as a Home Health Agency of Olsten Health Services (Seattle) July 31, 1997.

[8] Affidavit in Support of Search Warrant, made by J. E. Lake, Special Agent Defence Criminal Investigative Service, in the United States District Court, District of New Mexico, Case Number 97-1244M, May 5, 1997.

[9] Affidavit in Support of Search Warrant, made by J. E. Lake, Special Agent Defence Criminal Investigative Service, in the United States District Court, District of New Mexico, Case Number 97-1244M, May 5, 1997.

[10] *Business Week*, September 22, 1997.

[11] *Business Week*, September 22, 1997.

[12] *USA Today*, August 11, 1997.

[13] *Newsday*, September 16, 1997.

[14] Health Care Financing Administration, News Release, September 15, 1997.

[15] News release: Secretary Shalala Launches New "Operation Restore Trust," May 20, 1997.

[16] Department of Health and Human Services, Office of Inspector General, *Results of the Operation Restore Trust Audit of Medicare Home Health Services in California, Illinois, New York and Texas*, July 1997.

[17] Bruce Vladeck, "Prevalence of Health Care Fraud and Abuse," Senate Committee on Government Affairs, Permanent Subcommittee on Investigation, United States Senate, June 26, 1997.

[18] Joel Leon, Patricia Neuman, and Stephen Parente, *Understanding the Growth in Medicare's Home Health Expenditures*, prepared for the Henry J. Kaiser Family Foundation, June 1997, p.3.

[19] Darren Praznik, CJOB Radio, Newsbeat, March 27, 1997.

[20] Darren Praznik, CBC Radio News, March 27, 1997.

[21] Evelyn Shapiro, *The Cost of Privatization: A Case Study of Home Care in Manitoba* (Winnipeg: Canadian Centre for Policy Alternatives-Manitoba, 1997), p. 8.