



DEC 19 2001

CIN: A-01-01-00551

Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

Mr. William Boettcher
Chief Executive Officer
Fletcher Allen Health Care
111 Colchester Ave.
Burlington, Vermont 05401

Dear Mr. Boettcher:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OAS) report entitled "Review of Transitional Pass-Through Payments Made Under the Hospital Outpatient Prospective Payment System for Drugs, Biologicals, and Medical Devices at Fletcher Allen Health Center for the Period August 1, 2000 through June 30, 2001." Should you have any questions or comments concerning the matters commented on in this report, please direct them to the HHS official named below.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (See 45 CFR Part 5).

To facilitate identification, please refer to Common Identification Number A-01-01-00551 in all correspondence relating to this report.

Sincerely yours,

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures – as stated

Directly Reply to HHS Action Official:

Mr. George F. Jacobs, II
Regional Administrator
Centers for Medicare & Medicaid Services - Region I
U.S. Department of Health & Human Services
Room 2325, JFK Federal Building
Boston, Massachusetts 02203

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF TRANSITIONAL
PASS-THROUGH PAYMENTS AT
FLETCHER ALLEN HEALTH CARE
FOR THE PERIOD
AUGUST 1, 2000 THROUGH JUNE 30, 2001**



JANET REHNQUIST
Inspector General

DECEMBER 2001
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Office of Inspector General

<http://oig.hhs.gov/>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

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The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

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Mr. William Boettcher
Chief Executive Officer
Fletcher Allen Health Care
111 Colchester Ave.
Burlington, VT 05401

Office of Audit Services Region I
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

Dear Mr. Boettcher:

This report presents the results of our review of Medicare Transitional Pass-Through Payments Made Under the Hospital Outpatient Prospective Payment System for Drugs, Biologicals, and Medical Devices at Fletcher Allen Health Care for the period August 1, 2000 through June 30, 2001. The objective of our review was to determine whether transitional pass-through payments for drugs, biologicals, and medical devices were reimbursed in accordance with Medicare laws and regulations. Based on our review of payments to the hospital for 100 sample pass-through items, we determined that the hospital was reimbursed for pass-through drugs, biologicals, and medical devices in accordance with Medicare laws and regulations. In this respect, we found that all sample items were eligible for transitional pass-through payments and were billed properly by the hospital.

BACKGROUND

In August 2000, the Centers for Medicare and Medicaid Services (CMS) implemented the new prospective payment system for hospital outpatient services (OPPS). The Balanced Budget Act of 1997 amended section 1833(t) of the Social Security Act (the Act) authorizing the implementation of OPPS. The Congress enacted major changes to OPPS in 1999 under the Balanced Budget Refinement Act adding section 1833(t)(6) to the Act. Section 1833(t)(6) provides for temporary additional payments or "transitional pass-through payments" for certain innovative medical devices, drugs, and biologicals for Medicare beneficiaries. The Congress intended these items to be available to Medicare beneficiaries, even if the price for these new and innovative items exceeded Medicare's regular scheduled OPPS payment amount. As a result, beginning in August 2000, when OPPS was implemented, Medicare began paying for qualified transitional pass-through items above and beyond OPPS payment rates. For drugs and biologicals, the pass-through payment is the amount by which 95 percent of the average wholesale price exceeds the applicable fee scheduled amount associated with the drug or biological. For devices, the pass-through payment equals the amount by which the hospital's charges, adjusted to cost, exceeds the OPPS payment rate associated with the device.

Fletcher Allen Health Care was created on January 1, 1995 by the integration of the Medical Center Hospital of Vermont, Fanny Allen Hospital, and the University Health Center. Fletcher Allen Health Care is an integration of an 83-bed institution. The hospital is a level 1 Trauma Center for both adult and pediatric.

OBJECTIVE, SCOPE AND METHODOLOGY

Our review was conducted in accordance with generally accepted government auditing standards. The objective of our review was to determine whether transitional pass-through payments for drugs, biologicals, and medical devices were reimbursed in accordance with Medicare laws and regulations. Based on our analysis of the CMS National Claims History File, we judgmentally selected Fletcher Allen Health Care for review. To accomplish our objective we:

- Used the CMS National Claims History file to identify pass-through payments made to the hospital.
- Generated a stratified statistical sample of 100 items (drugs, biologicals, or medical devices as identified by status code indicators “G” & “H”) that represent one line item of service from a paid hospital claim.
- Obtained an understanding of the hospital’s billing process through meetings with hospital personnel.
- Reviewed the hospital’s itemized bill, Medicare UB-92 claim submission, and remittance advice to ensure the sample item was billed appropriately and paid correctly by Medicare.
- Reviewed applicable Federal Registers and CMS Program Memorandum to determine the eligibility of devices for pass-through payments.

We limited our consideration of the internal control structure to those controls concerning the accumulation of charges, creation of outpatient bills, and submission of Medicare claims because the objective of our review did not require an understanding or assessment of the complete internal control structure at the hospital.

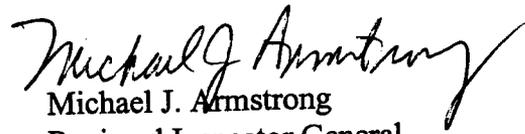
We conducted our review at the Boston Regional Office of the Office of Inspector General of Audit Services and Fletcher Allen Health Center in Burlington, Vermont during the period September 2001 through November 2001.

RESULTS OF REVIEW

Medicare reimbursed the hospital \$51,784 for our statistical selection of 100 sample items - \$25,663 for the 70 pass-through drugs and \$26,122 for the 30 pass-through medical devices. We determined that the hospital was reimbursed for pass-through items in accordance with Medicare laws and regulations. Specifically, we found that all sample items were eligible for transitional pass-through payments and were billed properly by the hospital.

We appreciate the cooperation extended to us by Fletcher Allen Health Center personnel during our review.

Sincerely,

A handwritten signature in black ink that reads "Michael J. Armstrong". The signature is written in a cursive style with a large, sweeping flourish at the end.

Michael J. Armstrong
Regional Inspector General
for Audit Services