



JUL 19 2007

Office of Audit Services
Region I
John F. Kennedy Federal
Building
Room 2425
Boston, MA 02203
(617) 565-2684

Report Number: A-01-07-00507

Mr. Bruce Hughes
President & Chief Operating Officer
Palmetto GBA
17 Technology Circle
Columbia, South Carolina 29203

Dear Mr. Hughes,

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Review of Billing Procedures for Medicare Claims Submitted to Palmetto GBA by Inpatient Psychiatric Facilities During 2005." A copy of this report will be forwarded to the HHS action official noted on the next page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports issued to the Department's grantees and contractors are made available the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

If you have any questions or comments about this report, please do not hesitate to contact me at (617) 565-2684 or through e-mail at Michael.Armstrong@oig.hhs.gov. Please refer to report number A-01-07-00507 in all correspondence.

Sincerely,

A handwritten signature in black ink that reads "Michael J. Armstrong".

Michael J. Armstrong
Regional Inspector General
for Audit Services

Page 2 – Mr. Bruce Hughes

Direct Reply to HHS Action Official:

Thomas W. Lenz
Consortium Administrator
Consortium for Financial Management and Fee for Service Operations
Centers for Medicare & Medicaid Services
601 E. 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF BILLING
PROCEDURES FOR MEDICARE
CLAIMS SUBMITTED TO
PALMETTO GBA BY INPATIENT
PSYCHIATRIC FACILITIES
DURING 2005**



Daniel R. Levinson
Inspector General

July 2007
A-01-07-00507

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

Pursuant to sections 1886(d)(1)(B)(i) and (v) of the Social Security Act, the Centers for Medicare & Medicaid Services (CMS) implemented a prospective payment system for inpatient psychiatric facilities (IPF) for IPF cost reporting periods beginning on or after January 1, 2005. Before this date, Medicare paid IPFs for services provided to Medicare beneficiaries pursuant to section 101(a) of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Under TEFRA, Medicare based payments to IPFs on a reasonable cost per discharge, as determined by IPFs' Medicare cost reports. When fully implemented, the IPF prospective payment system will provide for a standardized Federal per diem payment per discharge.

Under the prospective payment system, IPFs must submit a single discharge bill for an entire inpatient stay. CMS instructions state that, if the beneficiary's stay begins before and ends on or after the date on which the IPF becomes subject to the prospective payment system, the fiscal intermediary should base its payments to the facility on prospective payment rates and rules. We refer to these stays as "transition stays." The instructions also state that IPFs that split the stay and submit two separate claims must cancel all split bills and then rebill the fiscal intermediary after the cancellation has been accepted.

Palmetto GBA (Palmetto) is the Medicare Part A fiscal intermediary for North and South Carolina. In 2005, 59 IPFs were under Palmetto's administrative responsibility.

OBJECTIVE

Our objective was to determine whether IPFs properly submitted Medicare claims paid by Palmetto for transition stays.

SUMMARY OF FINDINGS

IPFs did not always properly submit claims paid by Palmetto for transition stays in 2005. Specifically, for 77 of the 100 claims that we sampled (from the population of 226 claims), IPFs incorrectly split the beneficiary's stay by submitting 1 claim under the TEFRA payment period and a second claim under the prospective payment period, rather than properly submitting 1 claim for the entire inpatient stay. These 77 claims represented overpayments of \$312,516 because the prospective payment included part of the TEFRA payment. Of the remaining 23 sampled claims, 22 were correctly billed because the beneficiaries had no immediately preceding IPF stay (i.e., the IPF stay started on the same date as the IPF transition to the prospective payment system). The remaining one claim was originally split-billed, but the IPF cancelled the split bills and submitted a correct bill before our audit.

Based on our sample results, we estimate that Palmetto overpaid IPFs a total of \$706,285 for incorrectly billed Medicare claims for transition stays in 2005. The payment errors occurred because the IPFs did not have adequate controls to ensure that claims submitted during their

transition to the prospective payment system were in accordance with Medicare requirements. Additionally, Palmetto did not have procedures to identify IPF claims that were billed as two separate claims for one transition stay.

RECOMMENDATIONS

We recommend that Palmetto:

- make the appropriate adjustments to the sampled claims that resulted in overpayments of \$312,516,
- review our information on the additional 126 claims with potential overpayments estimated at \$393,769 (\$706,285 less \$312,516) and work with the IPFs that provided the services to recover any overpayments, and
- analyze postpayment data from IPF claims submitted after our review to ensure that the claims were billed properly and paid correctly by Palmetto.

AUDITEE'S COMMENTS

In its comments on our draft report, Palmetto agreed with our findings and recommendations and stated that it was taking appropriate action. We have included Palmetto's comments in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

The Prospective Payment System for Inpatient Psychiatric Facilities

Pursuant to sections 1886(d)(1)(B)(i) and (v) of the Social Security Act, the Centers for Medicare & Medicaid Services (CMS) implemented a prospective payment system for inpatient psychiatric facilities (IPF) for IPF cost reporting periods beginning on or after January 1, 2005. Before this date, Medicare paid IPFs for services provided to Medicare beneficiaries pursuant to section 101(a) of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Under TEFRA, Medicare based payments to IPFs on a reasonable cost per discharge, as determined by IPFs' Medicare cost reports. These fixed payments did not vary from day to day or from patient to patient.

For IPF cost-reporting periods from January 1, 2005, to January 1, 2008, while the new prospective payment system is being phased in, Medicare payments will comprise a blend of the estimated payment under the new system and the fixed TEFRA payment. When fully implemented, the IPF prospective payment system will provide for a standardized Federal per diem payment per discharge. The amount of this payment is based on several factors, including the patient's age and diagnosis and the hospital's characteristics. The prospective payment represents reimbursement in full for the inpatient operating and capital-related costs of furnishing Medicare-covered services in an IPF.

Under the prospective payment system, IPFs must submit a single discharge bill for an entire inpatient stay. CMS instructions issued in Transmittal 384 state that, if the beneficiary's stay begins before and ends on or after the date on which the IPF becomes subject to the prospective payment system, the fiscal intermediary should base its payments to the facility on prospective payment rates and rules. We refer to these stays as "transition stays." The CMS instructions also state that IPFs that split the stay and submit two separate claims must cancel the split bills and then rebill the fiscal intermediary after the cancellation has been accepted.

Palmetto GBA

Palmetto GBA is the Medicare Part A fiscal intermediary for North and South Carolina. In 2005, 59 IPFs were under Palmetto's administrative responsibility.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether IPFs properly submitted Medicare claims paid by Palmetto for transition stays.

Scope

We reviewed Medicare claims that Palmetto paid for inpatient stays that started on or overlapped each IPF's transition date to the prospective payment system.

Our objective did not require an understanding or assessment of the complete internal control structure of the selected IPFs or Palmetto. We limited our review of internal controls to obtaining an understanding of (1) IPFs' procedures for submitting claims that spanned the transition from payments under TEFRA to payments under the prospective payment system and (2) Palmetto's policies and procedures for paying IPF claims during this transition.

We performed our fieldwork from December 2006 through February 2007. Our fieldwork included site visits to IPFs in North and South Carolina.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare requirements and CMS guidance regarding IPF billing and fiscal intermediary payments for transition stays;
- used IPFs' cost report start dates to identify the date on which each IPF began implementing the prospective payment system;
- reviewed CMS's Standard Analytical File for the period January 1 through October 1, 2005, and identified 226 paid claims totaling \$1,204,486 from 45 IPFs that had a claim "from date" that matched their IPF transition date;
- reviewed CMS's Common Working File information for 100 randomly sampled claims totaling \$523,264 from the population of 226 IPF claims paid by Palmetto to determine whether the beneficiary's stay was immediately preceded by a stay at the same IPF (i.e., whether the beneficiary had a stay that overlapped the IPF's transition to the new payment system);
- reviewed the overlapping claims that we had identified to determine whether Palmetto had reimbursed IPFs under both TEFRA and the prospective payment system for the same stay;
- contacted seven IPFs to determine the cause of the incorrect billing;
- calculated the effect of the incorrect billing by using CMS's Pricer Program and Palmetto's provider-specific information;
- used a variable appraisal program, as detailed in Appendix A, to estimate the total value of overpayments based on our sample results; and

-
- discussed the results of our review with Palmetto officials.

We conducted our audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

IPFs did not always properly submit Medicare claims paid by Palmetto for transition stays in 2005. Specifically, for 77 of the 100 claims that we sampled, IPFs incorrectly split the beneficiary's stay by submitting 1 claim under the TEFRA payment period and a second claim under the prospective payment period, rather than properly submitting 1 claim for the entire inpatient stay. These 77 claims represented overpayments of \$312,516 because the prospective payment included part of the TEFRA payment. Of the remaining 23 sampled claims, 22 were correctly billed because the beneficiaries had no immediately preceding IPF stay (i.e., the IPF stay started on the same date as the IPF transition to the prospective payment system). The remaining one claim was originally split-billed, but the IPF cancelled the split bills and submitted a correct bill before our audit.

Based on our sample results, we estimate that Palmetto overpaid IPFs a total of \$706,285 for incorrectly billed Medicare claims for transition stays in 2005. The payment errors occurred because the IPFs did not have adequate controls to ensure that claims submitted during their transition to the prospective payment system were in accordance with Medicare requirements. Additionally, Palmetto did not have procedures to identify IPF claims that were billed as two separate claims for one transition stay.

PROGRAM REQUIREMENTS

Pursuant to 42 CFR § 412.422, when the IPF prospective payment system is fully implemented, it will provide for a standardized Federal per diem payment-per-discharge. To receive this payment, an IPF must submit a single discharge bill for an entire inpatient stay.

CMS guidance as set forth in Transmittal 384, dated December 1, 2004, states that when a beneficiary's stay overlaps the time in which the IPF becomes subject to the prospective payment system rules, the payment will be based on the prospective payment system rates and rules. This guidance also states that IPFs should not split the stay and submit two separate claims. IPFs that do so must cancel all split bills and then rebill the fiscal intermediary after the cancellation has been accepted.

SPLIT BILLING DURING THE TRANSITION TO THE PROSPECTIVE PAYMENT SYSTEM

We identified 226 claims paid to 45 IPFs for stays that were at high risk of being incorrectly billed because they started on or overlapped the IPF transition date to the prospective payment system. Our sample of 100 of these claims identified 77 claims from 28 IPFs for beneficiaries who had an immediately preceding stay in the same IPF. Thus, these claims were for

beneficiaries who had a single stay that overlapped the IPF transition to the prospective payment system. The IPFs incorrectly billed these 77 claims by splitting them into 154 separate claims.

As a result of the incorrect billing, Palmetto paid the IPFs two separate payments, one under the TEFRA payment period and one under the prospective payment period, for each transition stay. In accordance with Medicare requirements, the IPFs should have billed each stay as a single claim under the prospective payment system. The 28 IPFs that submitted split bills received overpayments because the prospective payment included part of the TEFRA payment. Palmetto overpaid the 28 IPFs \$312,516 for the 77 claims.

For example, an IPF that transitioned to the prospective payment system on July 1, 2005, incorrectly billed two separate claims for one patient discharge instead of correctly billing one claim for the entire stay. The IPF billed one claim of \$49,097 for May 3 through June 30, 2005, and the other claim of \$11,314 for July 1 through July 19, 2005. The total split reimbursement amount was \$60,411. The IPF should have billed one claim for one inpatient stay totaling \$21,106. Because the IPF split the stay into two claims, Medicare overpaid the IPF \$39,305.

PAYMENT ERRORS RESULTING FROM INCORRECT BILLING

Based on our sample results, we estimate that Palmetto overpaid IPFs a total of \$706,285 for incorrectly billed claims for transition stays in 2005.

INTERNAL CONTROL WEAKNESSES

Controls at the seven IPFs that we contacted were inadequate to facilitate proper billing during the transition to the prospective payment system. Specifically, these IPFs either were not aware of or did not follow CMS's final billing requirements and therefore had not established the necessary controls to ensure that they submitted claims correctly for transition stays. Palmetto paid the incorrectly billed IPF claims because it had not established procedures to identify IPF claims that were billed as two separate claims for one transition stay.

RECOMMENDATIONS

We recommend that Palmetto:

- make the appropriate adjustments to the sampled claims that resulted in overpayments of \$312,516,
- review our information on the additional 126 claims with potential overpayments estimated at \$393,769 (\$706,285 less \$312,516) and work with the IPFs that provided the services to recover any overpayments, and
- analyze postpayment data from IPF claims submitted after our review to ensure that the claims were billed properly and paid correctly by Palmetto.

AUDITEE'S COMMENTS

In its comments on our draft report, Palmetto agreed with our findings and recommendations and stated that it was taking appropriate action. We have included Palmetto's comments in their entirety as Appendix B.

APPENDIXES

SAMPLING METHODOLOGY, RESULTS, AND PROJECTIONS

OBJECTIVE

Our objective was to determine whether inpatient psychiatric facilities (IPFs) properly submitted Medicare claims paid by Palmetto GBA for transition stays.

POPULATION

The population included 226 paid claims from the Centers for Medicare & Medicaid Services Standard Analytical File for the period January 1 through October 1, 2005, from 45 IPFs that had a paid claim “from date” that matched the IPF’s transition date.

SAMPLE DESIGN

We designed a simple random sample.

SAMPLE SIZE

The sample consisted of 100 claims that had a paid claim “from date” that matched the IPFs’ transition date.

SAMPLE RESULTS

For 77 of the 100 sampled claims, the IPFs had incorrectly split the beneficiary’s stay into 2 claims and received overpayments totaling \$312,516.

SAMPLE PROJECTIONS

Point estimate	\$706,285
Confidence level	90%
Lower confidence limit	\$556,038
Upper confidence limit	\$856,533
Sample precision	21.27%



Palmetto GBA

Post Office Box 100134
Columbia, South Carolina 29202-3134

June 20, 2007

Michael J. Armstrong
Regional Inspector General for Audit Services
DHHS/Office of Inspector General
Office of Audit Services, Region I
John F. Kennedy Federal Building
Boston, MA 02203

Subject: Palmetto GBA Comments to Draft Report Entitled "Review of Billing Procedures for Medicare Claims Submitted to Palmetto GBA by Inpatient Psychiatric Facilities (IPFs) During 2005"

Reference: Case No. A-01-07-00507

Dear Mr. Armstrong:

This letter is in response to the recent Office of Inspector General (OIG) draft report for the review of billing procedures for Medicare claims submitted to Palmetto GBA by inpatient psychiatric facilities (IPF) during 2005. We appreciate the feedback that your review provided and are committed to continuously improving our service to the Medicare beneficiaries and providers we serve.

As stated in the draft report, overall it was found that 77 of the 100 claims sampled, the IPFs incorrectly split the beneficiary's stay by submitting one claim under the TEFRA payment period and a second claim under the prospective payment period. In addition, it was stated that the IPFs had inadequate controls in place to facilitate proper billing during the transition to the prospective payment system.

Recommendations included making appropriate adjustments, review of additional claims information for potential overpayments, analyze post payment data from IPF claims submitted after OIG review for accuracy, and strengthen the education of personnel at IPFs and Palmetto GBA to prevent and detect incorrect Medicare billing. Palmetto GBA will comply with appropriate adjustment and review actions upon receipt of claims listing.

We note the acknowledgement of our education efforts in the recommendation section. In addition, we submit the following information that supports the fact we provided comprehensive and accurate education on this topic:

- We administered a comprehensive provider education and staff training strategy. The majority of the provider education material was developed by the Centers for
-

Medicare and Medicaid Services (CMS). As required, Palmetto GBA used this material in all education workshops and staff training.

- May 2007- Updates made to our website with the IPF Fact Sheet (<http://www.cms.hhs.gov/MLNProducts/downloads/InpatientPsychFac.pdf>)
- June 13, 2006 - Hosted the Contractor Teleconference (ACT) call. During this call, participants will have the opportunity to review and discuss upcoming changes that impact specific facilities and or services rendered under IPF PPS.
- April 19, 2006 Workshop - The Palmetto GBA NC and SC Medicare Part A IPF PPS April 19, 2006 workshop material is available online, too.
- December 19, 2005 - Hosted the Contractor Teleconference (ACT) call. During this call, participants will have the opportunity to review and discuss upcoming changes that impact specific facilities and or services rendered under IPF PPS.
- September 8, 2005 - Hosted the Contractor Teleconference (ACT) call. During this call, participants will have the opportunity to review and discuss upcoming changes that impact specific facilities and or services rendered under IPF PPS.
- March 29, 2005 - Hosted IPF workshop and material is available online
- We continue to make site visits available as an option if requested by providers.

Thank you for providing Palmetto GBA with the opportunity to provide feedback regarding your review. If you have any questions, please do not hesitate to contact me at (803) 763-5545.

Sincerely,



Sheri Thompson
AVP Medicare Part A Operations
Palmetto GBA

cc: Bruce Hughes, COO/President, Palmetto GBA
Neal Burkhead, VP Medicare Part A & MIP Operations
Ann Archibald, Compliance Officer, Palmetto GBA

