

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF MEDICAID CLAIMS FOR
SERVICES IDENTIFIED AS MUTUALLY
EXCLUSIVE PROCEDURES CODES AT
THE MICHIGAN DEPARTMENT
OF COMMUNITY HEALTH**

**JANUARY 1, 1996 THROUGH
SEPTEMBER 30, 1998**



**JUNE GIBBS BROWN
Inspector General**

**JUNE 2000
A-05-00-00006**



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

June 15, 2000

Common Identification No. A-05-00-00006

James Haveman, Director
Department of Community Services
Lewis Cass Building
300 South Walnut Street
Lansing, MI 48913

Dear Mr. Haveman:

This final letter report presents the results of our Audit of Medicaid Claims for Services Identified as Mutually Exclusive Procedure Codes. The objective of our review was to determine the extent of potential overpayments or savings that could accrue to the Federal government and the State of Michigan if edits were implemented to identify and deny payments for procedure codes that the Health Care Financing Administration (HCFA) has identified as mutually exclusive.

We determined that the State agency currently has edits in place that require pre-defined combinations of procedure codes to be reviewed before payment is made. However, these combinatorial edits did not include all of the procedure codes that HCFA has identified as mutually exclusive.

We have recommended that the State agency implement appropriate edits that will identify and deny claims for procedure codes identified by HCFA as mutually exclusive. Based on our review of payments for radiology and laboratory services made during our audit period of January 1, 1996 through September 30, 1998, we found that savings of approximately \$240,000 could have been realized had these edits been in place. By implementing these edits, we believe that similar savings to Medicaid can be achieved in future periods.

INTRODUCTION

BACKGROUND

In August 1994, HCFA contracted with **AdminaStar** Federal, Inc. to develop correct coding methodologies to help control improper coding of Medicare Part B claims by health care providers. The resulting guidelines are referred to as the National Correct Coding Initiative (NCCI) and include guidelines for billing a variety of different types of services.

Included within the NCCI are edits for mutually exclusive procedure codes. These procedures represent medical services that cannot reasonably be done in the same session, to the same patient, by the same provider. The codes are mutually exclusive of one another based either on

definitions included in the Physician's Current Procedural Terminology manual or the medical impossibility/improbability that the procedure could be performed at the same session. These guidelines are frequently updated, resulting in additions and/or deletions to the list of mutually exclusive codes.

Effective January 1, 1996, HCFA required Medicare carriers to implement edits for mutually exclusive procedure codes in their claims processing systems. However, HCFA did not require Medicaid state agencies or Medicare fiscal intermediaries to implement similar controls in their claims processing systems. In response to a separate HHS Office of Inspector General audit, HCFA has indicated that it will require mutually exclusive procedure code edits for hospital outpatient services processed by fiscal intermediaries.

SCOPE

We conducted our review in accordance with generally accepted government auditing standards. The objective of our review was to determine the extent of potential overpayments or savings that could accrue to the Federal government and the State if edits were implemented to identify and deny payments for procedure codes that HCFA has identified as mutually exclusive. Our audit included the payments made for radiology and laboratory services during the period January 1, 1996 through September 30, 1998.

As part of our review, we obtained an understanding of the internal control structure relative to the processing of claims containing mutually exclusive procedure codes. However, the objective of this audit did not require an assessment of these internal controls.

To accomplish our objective, we:

- identified the mutually exclusive procedures for radiology and laboratory services,
- obtained payments for radiology and laboratory services from HCFA's Medicaid Statistical Information System (MSIS) for procedures that were included in the mutually exclusive code tables in the NCCI manual,
- selected a sample of claims from each of the categories under review to validate the accuracy of the computerized payment information that we obtained from the MSIS and to determine the dollar amount of savings for each sampled item,
- reviewed supporting documentation for the Medicaid claim and payment to the provider,
- calculated the potential savings associated with disallowed costs for mutually exclusive codes included in the sample of Medicaid payments, and

- used the sample results to project the total potential savings using a variable sample appraisal methodology.

In completing our review of the sample, we established a reasonable assurance on the reliability and accuracy of the data. Our audit was not directed towards assessing the completeness of the file from which the data was obtained.

Our extract included mutually exclusive procedure codes for only radiology and laboratory services. In addition, our extract included procedure codes that were paid (and not subsequently offset by adjustments) for services performed on the same date by the same provider on behalf of the same beneficiary.

We conducted our field work at the Michigan Department of Community Health in Lansing, Michigan. Field work was performed between December 1999 and January 2000.

FINDINGS AND RECOMMENDATIONS

We found that, while HCFA established edits to preclude payments for certain mutually exclusive procedure codes, the State agency was not provided written instructions to implement these edits which would preclude payment to Medicaid providers for mutually exclusive procedures. We determined that the State agency currently has edits in place that required pre-defined combinations of procedure codes to be reviewed before payment was made. However, these combinatorial edits did not include all of the procedure codes that HCFA had identified as mutually exclusive. We recommended that the State agency implement appropriate edits that will identify and deny claims for procedure codes identified by HCFA as mutually exclusive. Based on our review of payments for radiology and laboratory services made during the period January 1, 1996 through September 30, 1998, we found that savings of approximately \$240,000 could have been realized had these edits been in place. By implementing these edits, we believe that similar savings to Medicaid can be achieved in future periods. In addition, the Medicaid program will obtain additional savings when fiscal intermediaries install mutually exclusive procedure code edits for hospital outpatient services, thereby reducing the number of Medicare co-payments incurred by Medicaid recipients.

Potential Savings

To estimate potential savings, we obtained claims which had radiology and laboratory mutually exclusive procedure codes from HCFA's MSIS. For each of the claims we compared the mutually exclusive codes to one another using the mutually exclusive code guidelines contained in the NCCI manual. There were 1,946 different code pairs representing a mutually exclusive procedure for radiology services. For laboratory services, there were 234 different mutually exclusive code pairs. Our review identified 5,273 claims for radiology services and 1,264 claims for laboratory services.

We selected a sample of 100 claims from the two categories, radiology and laboratory services. For each sampled claim, we computed the amount that would have been saved if an edit had been implemented to identify and deny claims for mutually exclusive procedures. The procedure with the lowest work relative value unit was allowed and the matching procedure was denied. We then projected the average savings per claim to the population. As a result, we estimated that the Medicaid program could have saved \$230,114 over the 33 month audit period for radiology services if payment had been denied for mutually exclusive procedure codes. The savings attributable to the laboratory services amounted to only \$9,745 over the same audit period (see Appendix). Therefore, the State agency should consider the cost of administering the edits for laboratory services versus the potential savings.

We also determined that the Medicaid program will obtain additional savings when fiscal intermediaries install edits for hospital outpatient services. We estimated that the Medicaid program would not have paid \$91,276 in Medicare co-payments if fiscal intermediaries had the mutually exclusive procedure code edits in place.

RECOMMENDATIONS

We recommend that the State agency implement appropriate edits that will identify and deny claims for procedure codes identified by HCFA as mutually exclusive. Based on our review of payments for radiology and laboratory services made during the period January 1, 1996 through September 30, 1998, we believe these edits could result in savings to Medicaid of approximately \$240,000 over a similar, future period of time.

In a written response dated May 22, 2000, State agency officials agreed to implement edits to deny claims for radiology services identified as mutually exclusive codes. However, they did not believe it would be cost effective to implement edits for laboratory services. Their response is included as an Attachment to this report.

If you have additional comments or concerns, please address them to the HHS Action Official shown on the Report Distribution List. To facilitate identification, refer to Common Identification Number A-05-00006 in all correspondence related to this report.



Paul Swanson
Regional Inspector General
for Audit Services

POTENTIAL SAVINGS

CODE PAIRS AUDITED			
	Radiology	Laboratory	Total
Number of Code Pairs Audited	100	100	200
Number of Claims Containing a Code Pair	5,273	1,264	6,537
Potential Savings by Implementing Code Edits	\$230,114	\$9,745	\$239,859
Sample Precision (90 percent confidence interval)	23.32	17.32	

STATE OF MICHIGAN



JOHN ENGLER, Governor

DEPARTMENT OF COMMUNITY HEALTH

LEWIS CASS BUILDING

LANSING, MICHIGAN 48913

JAMES K. HAVEMAN, JR., Director

May 22, 2000

Mr. Paul Swanson
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Audit Services
233 North Michigan Avenue
Chicago, Illinois 60601

Subject: A-05-00-00006

Dear Mr. Swanson:

Enclosed is a copy of our response to the recommendation contained in the audit report titled Audit of Medicaid Claims for Services Identified as Mutually Exclusive Procedures Codes at the Michigan Department of Community Health for the period January 1, 1996 through September 30, 1998.

Please let me know if you have any questions.

Cordially,

A handwritten signature in black ink, appearing to be "J. Haveman, Jr.", written over the word "Cordially,".

James K. Haveman, Jr.

PM:tk

Enclosure

cc: David Viele
James Hennessey
Pam Myers-Orozco



**Office of Inspector General
Audit of Medicaid Claims for Services Identified
As Mutually Exclusive Procedure Codes at the
Michigan Department of Community Health
January 1, 1996 through September 30, 1998
Identification No. A-05-00-00006**

OIG Recommendation

We recommend that the State agency implement appropriate edits that will identify and deny claims for procedure codes identified by HCFA as mutually exclusive: Based on our review of payments for radiology and laboratory services made during the period January 1, 1996 through September 30, 1998, we believe these edits could result in savings to Medicaid of approximately \$240,000 over a similar, future period of time.

Department of Community Health Response

The Department agrees with the recommendation to implement edits that will identify and deny claims for procedure codes identified by HCFA as mutually exclusive for radiology services. The Department does not believe that it would be cost effective to implement edits for laboratory services. The edits pertaining to radiology codes will be implemented as part of the next annual HCPCS update.