

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF HOSPITAL
OBSERVATION BEDS**



**JANET REHNQUIST
INSPECTOR GENERAL**

**MAY 2002
A-07-01-02631**

Office of Inspector General

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

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DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

CIN: A-07-01-02631
May 24, 2002

Mr. Scott Reynolds
Vice President of Finance
St. John's Regional Health Center
1235 East Cherokee
Springfield, MO 65804-2263

Dear Mr. Reynolds:

This report provides you with the results of our audit entitled "Review of Hospital Observation Beds." The objective of our audit was to determine whether outpatient observation services billed by St. John's Regional Health Center (Hospital) met the Medicare reimbursement requirements. Our review covered service dates between July 1, 1998 and June 30, 1999 (fiscal year 1999).

Based on the results of our sample, we questioned \$197,773 of billed Hospital observation bed services that did not meet Medicare reimbursement criteria. In our opinion, the majority of questioned charges, except for the miscoded charges, developed from misinterpretations of the Medicare reimbursement requirements.

We are recommending that the Hospital: (1) reimburse Medicare the overpayment amount for inappropriate observation billings of \$197,773 for the 1999 fiscal year; (2) develop a corrective action plan (CAP) to correct the problems; and (3) review further observation claims to determine the effectiveness of the CAP.

St. John's Regional Health Center accepted our findings and recommendations. The Hospital's response, in its entirety, is attached to this report (see Appendix B).

We will provide the results of our review to the fiscal intermediary, so that the appropriate adjustment of \$197,773 can be applied to the Hospital's Medicare cost report. We will also request that the fiscal intermediary review the Hospital's observation bed services for other cost report periods.

INTRODUCTION

Background

Outpatient observation services (revenue code 0762) are defined in 3112.8(A) of the Intermediary Manual and 230.6(A) of the Hospital Manual published by the CMS as:

Observation services are those services furnished by a hospital on the hospital's premises, including use of a bed and periodic monitoring by a hospital's nursing or other staff, which are reasonable and necessary to evaluate an outpatient's condition or determine the need for a possible admission to the hospital as an inpatient. Such services are covered only when provided by the order of a physician or another individual authorized by State licensure law and hospital staff bylaws to admit patients to the hospital or to order outpatient tests.

Additionally, subpart (E) of the Hospital Manual section referenced above defines services that are not covered as outpatient observation. These include:

- *Observation services which exceed 48 hours, unless the fiscal intermediary grants an exception based on the particular facts of the case.*
- *Services which are not reasonable or necessary for the diagnosis or treatment of the patient but are provided for the convenience of the patient, his or her family, or physician....*
- *Services which are covered under Part A, such as a medically-appropriate inpatient admission, or as part of another Part B service, such as postoperative monitoring during a standard recovery period (e.g., 4-6 hours), which should be billed as recovery room services. Similarly, in the case of patients who undergo diagnostic testing in a hospital outpatient department, routine preparation services furnished prior to the testing and recovery afterwards are included in the payment for those diagnostic services. Observation should not be billed concurrently with therapeutic services such as chemotherapy.*
- *Standing orders for observation following outpatient surgery....*
- *Services which were ordered as inpatient services by the admitting physician, but billed as outpatient by the billing office.*
- *Claims for inpatient care such as complex surgery clearly requiring an overnight stay and billed as outpatient.*

Prior to August 2000, hospitals were separately reimbursed for observation services on a cost basis. Outpatient observation services were charged by number of hours, with the first observation hour beginning when the patient is placed in the observation bed

(beginning and ending times are rounded to the nearest hour). With the start of the Outpatient Prospective Payment System (OPPS) in August 2000, payment for observation services were no longer reimbursable as separate payments, they were included as part of the OPPS payment amount for outpatient procedures.

Although CMS will continue to package observation services into surgical procedures and most clinic and emergency visits, starting January 1, 2002, CMS will separately pay for observation services involving three medical conditions. As published in the November 30, 2001, Federal Register, CMS will separately pay for observation services relating to chest pain, asthma, and congestive heart failure.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

The objective of our audit was to determine whether outpatient observation services billed by the Hospital met Medicare reimbursement requirements. Our review covered the Hospital's fiscal year 1999. The Hospital billed Medicare \$971,242 for observation bed services during fiscal year 1999.

Scope

Our audit was conducted in accordance with generally accepted government auditing standards. Our audit was limited to determining the appropriateness of past pre-OPPS claims that contained observation services submitted to CMS for payment. We did not review the internal controls of the Hospital.

Methodology

We initially obtained cost report data showing hospitals in Missouri with the highest reported observation costs for calendar year 1999. The Hospital had more observation claims than any other hospital in Missouri. Based upon this analysis, we decided to audit the Hospital's claims for fiscal year 1999.

We identified an unrestricted statistical sample of 100 claims from 2,442 claims containing observation services under \$1,000 (1,951 hours totaling \$46,874), and four individual claims that were equal to or in excess of \$1,000 (4 hours totaling \$4,518) of outpatient observation bed services billed by the Hospital for fiscal year 1999. We reviewed the medical records supporting the observation services from our population audited with and without sampling to determine if they met the requirements for Medicare reimbursement. In addition, on several occasions we consulted with Mutual of Omaha's medical records review staff to help us make determinations on the more difficult billing situations.

The results of our unrestricted sample were extrapolated to the sample population to identify the Hospital's unallowable charges. We estimated the unallowable charges for the

population audited with sampling at the lower limit of the 90 percent two-sided confidence interval. Using the lower limit amount increased our confidence level in estimating the overpayment to 95 percent. We added the extrapolated amount of unallowable charges for the population audited with sampling to the result of our review of the population audited without sampling to determine the total unallowable charges. We then determined the total overpayment by applying the Hospital's cost to charges ratio for fiscal year 1999 to the total unallowable charges.

Our audit work included:

- Interviewing fiscal intermediary and hospital officials, and;
- Reviewing the medical records to determine whether the observation services met the requirements for Medicare reimbursement.

Our audit work was performed at Mutual of Omaha, St. John's Regional Health Center in Springfield, Missouri, and in our Kansas City field office during the period of October 2001 through February 2002.

RESULTS OF AUDIT

The Hospital billed Medicare for observation bed services that did not meet the requirements for Medicare reimbursement, resulting in an estimated Medicare overpayment of \$197,773 (see Appendix A) for fiscal year 1999. Total Hospital observation bed services for fiscal year 1999 was \$971,242.

Sample Results

The following chart summarizes the results from our sample (see Appendix B).

CATEGORY	HOURS QUESTIONED	AMOUNT QUESTIONED
Inpatient	310	\$6,832
Miscoded	113	\$6,391
Chemotherapy	107	\$2,358
No Observation Order	104	\$2,292
Over billed	86	\$1,899
Under Billed	(72)	(\$1,582)
Patient Convenience	19	\$419
Total Questioned	667	\$18,609

Inpatient Billed as Observation Beds

The Hospital billed 310 hours for observation beds (\$6,832) that should have been classified as inpatient services. Claims for inpatient care such as complex surgery clearly

requiring an overnight stay and billed as outpatient should not be billed as observation services. Hospital officials stated they will resubmit bills for these costs as inpatient services.

Miscoded Observation Services

We questioned 113 hours (\$6,391) miscoded as observation bed services. Hospital officials stated that these costs should have been billed to the radiology cost center instead of observation bed services.

No Physician's Order In The Medical Records

We questioned 104 of observation bed hours (\$2,292) billed to Medicare, because the supporting medical records did not contain an order for observation bed services. Medicare criteria state that observation services are allowable only when provided by the order of a physician or another individual authorized to admit patients to the hospital or to order outpatient tests.

Chemotherapy Billed as Observation Bed Services

We questioned 107 hours of chemotherapy services (\$2,358) requiring overnight therapeutic stays which were inappropriately billed as observation bed services. Observation bed services should not be billed concurrently with therapeutic services such as chemotherapy or services requiring an overnight stay.

Over and Under Billed Observation Bed Services

The Hospital over billed Medicare 86 hours (\$1,899) and under billed Medicare 72 hours (-\$1,582) for observation bed services. Over/under billed observation bed services were due to differences in the records actually supporting observation bed hours and the hours billed Medicare.

Observation Bed Services Billed for the Convenience of the Patient

We questioned 19 hours of observation bed services (\$419) billed for the convenience of the patient. Services not reasonable or necessary for the diagnosis or treatment of the patient but are provided for the convenience of the patient, his or her family, or physician are unallowable.

The majority of questioned charges, except for the miscoded charges, developed from misinterpretations of the Medicare reimbursement requirements. We had several meetings with Mutual of Omaha's billing processing staff to address the Hospital's concerns and help make our final determinations.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Medicare reimbursed the Hospital for outpatient observation services that did not meet the requirements for Medicare reimbursement during the Hospital's 1999 fiscal year.

Recommendation

We are recommending that the Hospital: (1) reimburse Medicare the overpayment amount for inappropriate observation billings of \$197,773 for the 1999 fiscal year; (2) develop a corrective action plan (CAP) to correct the problems; and (3) review further observation claims to determine the effectiveness of the CAP.

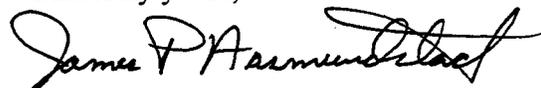
St. John's Regional Health Center accepted our findings and recommendations. The Hospital's response, in its entirety, is attached to this report (see Appendix B).

Final determinations as to the actions taken on all matters reported will be made by the HHS official named below. We request you respond to the 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, Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent information contained therein is not subject to exemptions of the Act (see 45 CFR Part 5). As such, within ten business days after the final report is issued, it will be posted on the world-wide-web at <http://oig.hhs.gov/>.

To facilitate identification, please refer to the referenced Common Identification Number A-07-01-02631 in all correspondence relating to this report.

Sincerely yours,



James P. Aasmundstad
Regional Inspector General
For Audit Services

Enclosure

HHS Action Official

Joe L. Tilghman

Regional Administrator

CMS Region VII

601 E 12th Street, Room 235

Kansas City, Missouri 64106

St. John's Regional Health Center
CIN: A-07-01-02631
Sample Methodology Results and Projection

Objective:

The objective of our review was to determine whether observation services billed by the hospital met the requirements for Medicare reimbursement.

Population:

The population consisted of all paid claims for observation services (revenue code 0762) provided during the hospital's 1999 fiscal year. The total number of claims with revenue code 0762 was 2,446.

Population audited with sampling

The sampling population consists of 2442 claims with hourly rates that are less than \$1000.

Population audited without sampling

The population audited without sampling consists of four claims with hourly rates greater than or equal to \$1000.

Sampling Unit:

The sample unit is a paid claim that includes revenue code 0762. One claim might have multiple units of revenue code 0762 as the code is billed per hour of service (one unit equals one hour).

Sample Design:

A simple random sample was used for reporting the results of our review.

Sample Size:

A sample size of 100 units was used.

St. John's Regional Health Center
CIN: A-07-01-02631
Sample Methodology Results and Projection

Estimation Methodology:

We used the Office of Audit Services statistical software for unrestricted variable appraisal sampling to project the overpayment associated with the unallowable services. We estimated the overpayment and recommend recovery at the lower limit of the 90 percent two-sided confidence interval.

<u>Variable Projection:</u>	<u>Overpayment</u>
Point Estimate	\$388,702
90% Confidence Interval	
Lower Limit	\$287,702
Upper Limit	\$489,702
Total from 100 percent review (4 additional claims)	\$2,693
Total from sample of 100 at 90 percent lower limit	<u>\$287,702</u>
Total questioned charge to apply towards cost to charge ratio	\$290,395
Cost to charge ratio for 1999	<u>.68105</u>
Total Questioned Charges	<u>\$197,773</u>

**ST. JOHN'S
HEALTH SYSTEM**

May 16, 2002

Mr. James P. Aasmundstad
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of the Inspector General
Region VII
601 East 12th Street
Kansas City, Missouri 64106

Re: CIN: A-07-01-02631

Dear Mr. Aasmundstad:

This is a response to your letter dated March 25, 2002 regarding the draft report titled "Review of Hospital Observation Beds", published in March of 2002. The draft outlines the results of your audit, performed October 2001 through February 2002, during which you reviewed observation services billed to Medicare by St. John's Regional Health Center. The service dates reviewed were between July 1, 1998 and June 30, 1999.

We appreciate this opportunity to provide comment regarding our views related to the findings of this audit. Please see the following comments as they correlate with each issue listed on the draft report:

Inpatient Billed as Observation Beds**Audit Result:**

"The hospital billed 310 hours for observation beds (\$6,832) that should have been classified as inpatient services. Claims for inpatient care such as complex surgery clearly requiring an overnight stay and billed as outpatient should not be billed as observation services. Hospital officials stated they will resubmit bills for these costs as inpatient services."

Comment:

We accept your determination and recommendation. We will coordinate the re-submission of the bills for inpatient services with the Medicare Fiscal Intermediary, Mutual of Omaha. It should be noted that the majority of the cases reviewed were, in our opinion, qualified for observation status as defined by the regulations. Hospital Manual, Chapter II, Section 230.6 defines observation services as those that "are reasonable and necessary to evaluate an outpatient's condition or determine the need for a possible admission to the hospital as an inpatient." Since this determination can be subjective in some cases, we will accept your determination.

1235 EAST CHEROKEE ■ SPRINGFIELD, MISSOURI 65804-2263 ■ 417-885-2000 ph.

Miscoded Observation Services**Audit Result:**

"We questioned 113 hours (\$6,391) miscoded as observation bed services. Hospital officials stated that these costs should have been billed to the radiology cost center instead of observation bed services."

Comment:

We accept this determination and recommendation.

No Physician's Order In the Medical Record**Audit Results:**

"We questioned 104 observation bed hours (\$2,292) billed to Medicare, because the supporting medical records did not contain an order for observation bed services. Medicare criteria state that observation services are allowable only when provided by the order of a physician or another individual authorized to admit patients to the hospital or to order outpatient tests."

Comment:

We accept your determination and recommendations. Hospital Manual, Chapter II, Section 230.6 provides for observation services "when provided by the order of a physician." Several of the charts reviewed clearly did indicate the physician's desire and intent to have their patient in observation status, but specific physician orders were not present in the patient medical record and we therefore accept the OIG determination.

Chemotherapy Billed as Observation Bed Services**Audit Results:**

"We questioned 107 hrs of chemotherapy services (\$2,358) requiring overnight therapeutic stays which were inappropriately billed as observation bed services. Observation bed services should not be billed concurrently with therapeutic services such as chemotherapy or services requiring an overnight stay."

Comment:

We accept your determination and recommendations.

Over and Under-Billed Observation Bed Services**Audit Results:**

"The hospital over billed Medicare 86 hours (\$1,899) and under billed Medicare 72 hours (\$-1,582) for observation services. Over/under billed observation bed services were due to differences in the records actually supporting observation bed hours and the hours billed Medicare."

Comment:

We accept this determination and recommendation.

Observation Bed Services Billed for the Convenience of the Patient

Audit Results:

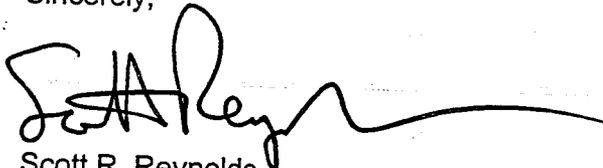
"We questioned 19 hours of observation bed services (\$419) billed for the convenience of the patient. Services not reasonable or necessary for the diagnosis or treatment of the patient but are provided for the convenience of the patient, his or her family, or physician are unallowable."

Comment:

We accept this determination and recommendation.

Upon issuance of the final report we will develop specific corrective action plans for each issue outlined in the report. We will also contact Mutual of Omaha for resolution of the overpayment amount. The fiscal year ended June 30, 1999, is scheduled for audit by Mutual of Omaha later this calendar year and we will recommend that this issue be handled as part of that audit. Please do not hesitate to contact me at (417) 885-2818 if you have any questions or concerns regarding this correspondence.

Sincerely,



Scott R. Reynolds
Vice-President, Finance
St. John's Health System