



APR 17 2003

Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
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CIN: A-01-02-00518

Mr. Michael R. Hachey
Vice President of Finance
Mercy Hospital
144 State Street
Portland, Maine 04101

Dear Mr. Hachey:

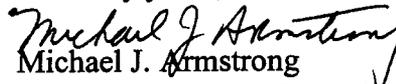
Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled, "*Review of Outlier Payments Made to Mercy Hospital Under the Outpatient Prospective Payment System for the Period August 1, 2000 Through June 30, 2001*". A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. 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, 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 Report Number A-01-02-00518 in all correspondence relating to this report.

Sincerely yours,


Michael J. Armstrong
Regional Inspector General
For Audit Services

Enclosures-as stated

Direct Reply to HHS Action Official:
Dr. Charlotte Yen, Regional Administrator
Centers for Medicare and Medicaid Services – Region I
U.S. Department of Health and Human Services
John F. Kennedy Federal Building, Room 2325
Boston, MA 02203-0003

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF OUTLIER PAYMENTS
MADE TO MERCY HOSPITAL UNDER
THE OUTPATIENT PROSPECTIVE
PAYMENT SYSTEM FOR THE PERIOD
AUGUST 1, 2000 THROUGH JUNE 30,
2001**



JANET REHNQUIST
Inspector General

APRIL 2003
A-01-02-00518

Office of Inspector General

<http://oig.hhs.gov>

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EXECUTIVE SUMMARY

Background

The Balanced Budget Act of 1997 mandated that the Centers for Medicare & Medicaid Services (CMS) implement a Medicare outpatient prospective payment system (OPPS) for hospitals effective August 1, 2000. One of the major provisions of OPPS requires that CMS make an outlier payment to hospitals to cover some of the additional cost of providing care that exceeds established thresholds.

Objective

The objective of our review was to determine whether outpatient claims with outlier payments were billed in accordance with Medicare laws and regulations. Our review included outlier payments valued at \$628,520 to Mercy Hospital for services rendered during the period August 1, 2000 through June 30, 2001.

Results of Review

The claims data submitted by providers must be accurate and supported to ensure proper Medicare reimbursement. We reviewed 35 OPPS claims with outlier payments totaling \$133,798 (21 percent of the total value of outlier payments). We found that Mercy Hospital received overpayments of \$50,280 because the hospital did not properly: (1) calculate the billable units for drugs in relation to the amount of the drug administered; and (2) identify multiple surgical procedures with specific HCFA Common Procedure Coding System (HCPCS) codes. Accordingly, we believe there is a significant risk that payment errors were made for the remaining outlier payments of \$578,240 processed during this period.

Recommendations

We recommend that Mercy Hospital: (1) improve its billing controls by ensuring that the amount of drug administered is correctly converted to billable units on the claim and that all surgical procedures performed are billed in accordance with OPPS requirements; (2) conduct an internal review of all OPPS outlier claims to ensure claims where the drug units were erroneously calculated and multiple surgical procedures were performed but not billed are resubmitted accurately for dates of service August 1, 2000 through March 31, 2002; and (3) initiate adjustments with its FI to reimburse Medicare the \$50,280 in net overpayments identified through the OIG review and any overpayments identified through Mercy Hospital's subsequent internal review.

Mercy Hospital's Comments

In its response to our draft report, Mercy Hospital agreed with our findings and recommendations.

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INTRODUCTION

BACKGROUND

The Balanced Budget Act of 1997 (BBA) mandated that the Centers for Medicare and Medicaid Services (CMS) implement a Medicare prospective payment system for hospital outpatient services. As such, CMS implemented the outpatient prospective payment system (OPPS). With the exception of certain services, payment for services under OPPS is now calculated based on grouping services into ambulatory payment classification (APC) groups. Services within an APC are clinically similar and require similar resources. In this respect, some services such as anesthesia, supplies, certain drugs, and the use of operating, recovery and observation rooms are packaged in APCs and not paid separately. The BBA also allowed for the establishment of outlier adjustments, in a budget neutral manner, to ensure “equitable payments”. The OPPS became effective for services provided on or after August 1, 2000.

The Balanced Budget Refinement Act of 1999 (BBRA) further delineated the requirements for outlier payments to hospitals to cover some of the additional cost of providing care that exceed thresholds established by the Secretary. These payments in total can be no more than 2.5 percent of total nationwide program payments for outpatient hospital services for each year before 2004. Outlier payments are determined by: (1) calculating the costs related to the OPPS services on the claim by multiplying the total charges for covered OPPS services by an outpatient cost-to-charge ratio; (2) determining whether these costs exceed 2.5 times the OPPS payments; and (3) if costs exceed 2.5 times the OPPS payments, the outlier payment is calculated as 75 percent of the amount by which the costs exceed the OPPS payments.

Mercy Hospital, located in Portland, Maine with locations throughout greater Portland, provides a broad spectrum of services to the people of Southern Maine. Mercy Hospital was reimbursed \$850,071 for 1,114 outpatient claims with outlier payments that totaled \$628,520 for services provided from August 1, 2000 through June 30, 2001.

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 outpatient claims with outlier payments were billed in accordance with Medicare laws and regulations. Our review included OPPS outlier payments to Mercy Hospital for services rendered during the period August 1, 2000 through June 30, 2001.

To accomplish our objective, we:

- Used CMS’s National Claims History file to identify 1,114 paid outpatient claims with outlier payments totaling \$628,520 made to Mercy Hospital for services rendered during the period August 1, 2000 through June 30, 2001.
- Analyzed each of Mercy Hospital’s outlier claims for our audit period to identify high-risk claims, such as those where the outlier payment represented a significant percentage of the total payment of the claim. On this basis, we selected a judgmental sample of 35 claims with outlier payments totaling \$133,798 out of a total paid amount of \$150,892 for review.

- Held discussion with Mercy Hospital’s billing and compliance personnel to obtain an understanding of Mercy Hospital’s procedures for accumulating charges, creating outpatient bills, and submitting Medicare claims.
- Utilized medical review staff from the Office of Inspector General (OIG) – Office of Audit Services (OAS) to review medical records in order to determine whether services were medically necessary and appropriate.

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

We conducted our audit during the period of March 2002 through May 2002 at the Mercy Hospital in Portland, Maine and the Boston Regional Office of the OIG. On February 24, 2003, we provided Mercy Hospital with a copy of our draft report. The hospital’s written comments are included as an appendix to this report.

FINDINGS AND RECOMMENDATIONS

We reviewed a judgmental sample of 35 OPPS claims with outlier payments totaling \$133,798 and found that Mercy Hospital billed all 35 claims incorrectly resulting in incorrect Medicare reimbursement totaling \$50,241. For 33 of the 35 selected claims, we found that Mercy Hospital received overpayments of \$50,280 because the hospital did not properly: (1) calculate the billable units for drugs in relation to the amount of the drug administered; and (2) identify multiple surgical procedures with specific HCFA Common Procedure Coding System codes. For these 33 claims, the reduction to the outlier payment received exceeded the increased APC reimbursement Mercy Hospital would have received had it billed properly. We did not separately quantify the overpayments related to the issues above because some claims contained both types of errors and the nature of the outlier calculation did not support this level of analysis. For the remaining 2 claims, we determined Mercy Hospital was underpaid \$39 because the additional APC reimbursement due exceeded the reduction to the outlier payments if the claims were billed properly.

Billing Errors For Drugs Result in Incorrect Payments

With respect to drugs and biologicals, Medicare requires providers to bill the number of units that reflect the actual dosage of the drug furnished to the patient. The following example illustrates the effect on the APC and outlier reimbursement due to under billing the number of units of a drug furnished to a patient.

For Medicare reimbursement, the administration of 1000 I.U.s of Procrit is equivalent to 1 billable unit of Procrit. For 1 claim, Mercy Hospital billed for 2 units of Procrit although the medical records indicated that 120,000 I.U.s of the drug were actually provided to the beneficiary. Accordingly, the hospital should have billed for 120 units rather than 2 units. As a result of under billing the number of units of Procrit, the hospital received an APC reimbursement of \$22.80 instead of \$1,368. There were also other drugs on this claim for which the number of units were under billed resulting in the loss of APC

reimbursement. As shown in the calculation below, the correct billing for Procrit and the other drugs results in a considerably higher APC payment and, as a result, elimination of the outlier payment.

	Drug Units	
	Original	Revised
OPPS OUTLIER CALCULATION		
Total Charges for all OPSS Services:	\$11,652.15	\$11,652.15
OPPS Cost to Charge Ratio	54.01%	54.01%
Adjusted Cost of OPSS Services	6,293.09	6,293.09
Procrit APC Payments	22.80	1,368.00
Other Drug APC Payments	576.74	2,241.06
Total APC Payments:	599.54	3,609.06
2.5 times the APC payments	1,498.85	9,022.65
(Adjusted Cost) Less (2.5 x APC Payment)	4,794.24	0
Outlier Payment (75% of the difference)	3,595.68	0
REIMBURSEMENT CALCULATION		
APC Payment	599.54	3,609.06
Coinsurance	(122.67)	(601.06)
Outlier Payment	3,595.68	0.00
Total Provider Reimbursement	4,072.55	3,008.00
	Overpayment	\$1064.55

As discussed, outlier payments to hospitals were established to cover some of the additional cost of providing care that exceeds established thresholds. These payments are based on a comparison of the charges for OPSS services to the total APC payments for the claim. When the hospital does not bill the correct units of drugs eligible for APC reimbursement on the claim excessive or unwarranted outlier payments could result. As shown above, the incorrect billing of the number of units for Procrit and other drugs for this claim results in an overpayment of \$1064.55 to Mercy Hospital.

Mercy Hospital did not properly calculate the billable units for drugs in relation to the amount of drug administered. In the case of Procrit, it appears Mercy Hospital considered each administration of the drug as a billing unit in its entirety. The charges from the pharmacy on the claim represented the complete administration of the drug whereas the number of billable units was significantly understated.

Billing Errors For Multiple Surgical Procedures

With regards to multiple surgical procedures, CMS requires hospitals to separately identify on the claim each surgical procedure with its specific HCPCS code. The following example illustrates the effect on the APC and outlier reimbursement of not separately identifying all surgical procedures.

For one claim, Mercy Hospital performed seven distinct, separately billable, and reimbursable procedures on the patient, including the placement of stents and performance of angiograms. However, because of a lack of understanding of the new OPSS billing

procedures, Mercy Hospital believed only one procedure could be claimed for reimbursement. Mercy Hospital's charges for these procedures reflected the total charges for the use of the operating room (OR), as they should. However, because the hospital did not separately identify the other six procedures it received only \$2.94 in APC reimbursement rather than \$4,293.77. As shown in the calculation below, the loss of significant APC reimbursement resulted in generation of an outlier overpayment in excess of the total reimbursement to which the hospital was entitled.

	Surgical Procedures	
	Original	Revised
OPPS OUTLIER CALCULATION		
Total Charges for all OPSS Services:	\$12,775.14	\$12,775.14
OPPS Cost to Charge Ratio	55.00%	55.00%
Adjusted Cost of OPSS Services	7,026.33	7,026.33
APC Payments for 1 Procedure	2.94	
APC Payments for 7 Procedures		4,293.77
2.5 times the APC payments	7.35	10,734.43
(Adjusted Cost) Less (2.5 x APC Payment)	7,018.98	0
Outlier Payment (75% of the difference)	5,264.23	0
REIMBURSEMENT CALCULATION		
APC Payment	2.94	4,293.77
Coinsurance	(0.39)	(2,430.12)
Outlier Payment	5,264.23	0.00
Total Provider Reimbursement	5,266.78	1,863.65
	Overpayment	\$3403.13

Because payments for OPSS outliers are based on a comparison of the charges for OPSS services to the total APC payments for the claim, the omission of surgical procedures eligible for APC reimbursement on the claim results in excessive or unwarranted outlier payments. As shown in the above example, the incorrect billing of surgical procedures resulted in an overpayment of \$3,403 to Mercy Hospital.

Prior to OPSS, Mercy Hospital recorded units of services for the use of the OR based on a fixed interval and applied its standard OR charge to the number of units to determine total charges. With the start of OPSS, Mercy Hospital continued to enter OR charges in full, on a single line of the claim, consistent with the new OPSS regulations and the prior policies. However, under OPSS, CMS now requires hospitals to report all significant surgical procedures on individual lines of the claim but to enter \$0 for charges for these additional procedures. Mercy Hospital informed us they interpreted this to mean only one surgical procedure could be claimed each time an OR was used. Consequently, each time multiple surgical procedures were performed during a single session in the OR, Mercy Hospital claimed and received APC reimbursement for only one procedure.

Conclusion

As discussed, we identified weaknesses in Mercy Hospital's billing controls that resulted in excessive or unwarranted outlier payments to the hospital. Although our review was limited to 35 OPSS claims with outlier payments, our analysis of claims and discussions with Mercy Hospital officials

demonstrated the billing weaknesses affected other OPPS claims with multiple surgical procedures and drugs. From August 2000 through June 2001, Mercy Hospital received payment for 1,114 OPPS claims that included outliers valued at \$628,520. Due to the high risk of incorrectly billed claims, we believe additional outlier overpayments have occurred. In addition, although non-outlier OPPS claims were outside the scope of our review, it is possible these claims also contained billing errors related to the conditions stated in our report. If so, Mercy Hospital may not have received APC reimbursement to which it is entitled.

RECOMMENDATIONS

We recommend that Mercy Hospital:

- Improve its billing controls by ensuring that the amount of drug administered is correctly converted to billable units on the claim and that all surgical procedures performed are billed in accordance with OPPS requirements.
- Conduct an internal review of all OPPS outlier claims to ensure cases where the drug units were erroneously calculated and multiple surgical procedures were performed but not billed are resubmitted accurately for dates of service August 1, 2000 through March 31, 2002.¹
- Initiate adjustments with its FI to reimburse Medicare for (1) the \$50,280 in overpayments identified through the OIG review; and (2) any overpayments identified through Mercy Hospital's subsequent internal review.

Mercy Hospital's Response To Draft Report

Mercy Hospital agreed with our findings and recommendations. Since the error was identified, Mercy Hospital has enhanced its education for billing personnel to ensure claims are billed properly and will review all the selected claims as well as all other claims possibly affected to ensure the appropriate billing. Mercy Hospital will contact the Fiscal Intermediary to arrange repayment of the \$50,280 in overpayments associated with the selected claims when the review is complete. The full text of Mercy Hospital's comments is included as the appendix to this report.

¹ Beginning April 1, 2002, CMS revised calculations for determining outlier reimbursement.

APPENDIX

March 26, 2003

Mr. Michael Armstrong
Regional Inspector for Audit Services
Office of Audit Services – Region 1
John F. Kennedy Federal Building
Boston, MA 02203

RE: Report #A-01-02-00518

Dear Mr. Armstrong:

This letter is the response of Mercy Hospital to the draft report of the U.S. Department of Health and Human Services, Office of Inspector General entitled "**Review of Outlier Payments made to Mercy Hospital under the Outpatient Prospective Payment System (OPPS) for the Period August 1, 2000 - through June 30, 2001, Report #A-01-02-00518.**" We appreciate the opportunity to offer the following comments on this report.

Findings and Recommendations

The report indicated that as a result of a review of 35 OPPS claims with outlier payments totaling \$133,798, Mercy Hospital received overpayments of \$50,280. According to the report, the overpayments were the result of calculation errors in the number of billable units for drugs in relation to the amount of the drug administered and failure to identify multiple surgical procedures with specific HCFA Common Procedure Coding System (HCPCS) codes.

The report also indicated a belief that there was a significant risk that payment errors were made for the remaining outlier payments of \$578,240 processed during the period – August 1, 2000 through June 30, 2001.

Procedures Undertaken by Mercy Hospital to Review Audit Findings

To validate the findings of the report, Mercy Hospital, through its internal audit department conducted a review of 40 OPPS claims involving drugs and biologicals, primarily the drug Procrit, and 80 OPPS claims involving multiple surgical procedures. The time span involved for this study was August 2000 through January 2003.

Based on this internal review, we concur with the report findings that the Hospital has not been billing correctly for the drug Procrit and for OPPS claims where multiple surgical procedures were involved and as a result received incorrect outlier payments. While we agree with the findings of the report regarding our billing procedures for these services, our study leads us to believe that the financial outcome of correcting these billing errors may very well result in additional reimbursement due Mercy Hospital instead of a \$50,280 liability to the Medicare Program.

Plans to Correct and Improve OPPS Hospital Billing

Our immediate plans are to resubmit all OPPS claims where the drug Procrit and multiple surgical procedures have not been billed correctly. In addition, we plan to review all outlier payments received from the inception of the OPPS program to identify if there are any additional over or under payments for such claims. As a result of these steps, we feel we will appropriately address all the payment issues related to the billing problems identified in your

Michael Armstrong
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March 26, 2003

report. This process should be completed by April 30, 2003. We will be in contact with the Medical Fiscal Intermediary to coordinate the reconciliation of any amounts due to/from the Medicare Program.

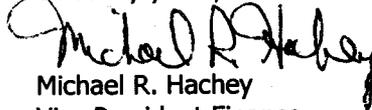
Further, as a result of your report and our subsequent internal review, the following changes in our OPPS billing procedures will be made.

1. Effective in December 2002, the Hospital began listing all surgical procedures with specific HCPCS codes on bills submitted to the Medicare Program. This, we believe, puts us in compliance with OPPS billing regulations when an operative session involves several surgical procedures.
2. Effective March 22, 2003, the number of billing units used for billing the drug Procrit has been changed from a quantity of 1 to the number of units that reflect the actual dosage of the drug furnished the patient. Again, we believe this puts us in compliance with current OPPS billing regulations.
3. To ensure that the Hospital is billing the Medicare Program correctly for OPPS services, we will be engaging the services of an external consultant to perform an audit of OPPS billing procedures. This audit will be performed within the next 90 days.
4. The Hospital's Internal Audit Department will periodically perform reviews of OPPS billing procedures, including claims and remittances to ensure continued compliance with Medicare OPPS billing regulations.

We feel the steps indicated above are consistent with and should adequately address the findings and recommendations in your Report #A-01-02-00518.

Please let us know if there is anything further you feel we need to do to respond to your report.

Sincerely yours,



Michael R. Hachey
Vice President Finance

MRH/jfb
Enclosures