



MAR 13 2006

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

Report Number: A-01-05-00520

Mr. Michael McCarron  
President  
AdminaStar Federal, Inc.  
8115 Knue Road  
Indianapolis, Indiana 46250

Dear Mr. McCarron:

Enclosed are two copies of the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG) report entitled "Review of Fiscal Year-End Billing for Inpatient Rehabilitation Claims Under the Administrative Responsibility of AdminaStar Federal for 2002." A copy of this report will be forwarded to the HHS action official noted below for her 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 to 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](mailto:Michael.Armstrong@oig.hhs.gov). To facilitate identification, please refer to report number A-01-05-00520 in all correspondence.

Sincerely yours,

  
Michael J. Armstrong  
Regional Inspector General  
for Audit Services

Enclosures – as stated

**Direct Reply to HHS Action Official:**

Jackie Garner  
Regional Administrator  
Centers for Medicare & Medicaid Services - Region V  
233 North Michigan Avenue Suite 600  
Chicago, Illinois 60601

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF FISCAL YEAR-END  
BILLING FOR INPATIENT  
REHABILITATION CLAIMS UNDER  
THE ADMINISTRATIVE  
RESPONSIBILITY OF ADMINASTAR  
FEDERAL FOR 2002**



**Daniel R. Levinson**  
Inspector General

**MARCH 2006**  
**A-01-05-00520**

# *Office of Inspector General*

<http://oig.hhs.gov>

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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 the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

## **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**

The Centers for Medicare & Medicaid Services (CMS) implemented a prospective payment system for inpatient rehabilitation facilities (IRFs) for cost-reporting periods beginning on or after January 1, 2002. The prospective payment system provides for a predetermined payment per discharge. To receive this payment, the IRF must submit a single discharge bill for an entire inpatient stay. The payment encompasses all inpatient operating and capital costs with few exceptions.

CMS instructions state that when a beneficiary's stay overlaps the time in which the IRF becomes subject to prospective payment system rules, the payment will be based on the patient's date of discharge. An IRF should not split bills for these patients into separate fiscal years.

### **OBJECTIVE**

Our objective was to determine whether IRFs under the administrative responsibility of AdminaStar Federal (AdminaStar) billed fiscal year-end inpatient rehabilitation claims in accordance with Medicare requirements during the transition to the prospective payment system in 2002.

### **SUMMARY OF FINDINGS**

Twenty IRFs did not bill 220 fiscal year-end claims in accordance with Medicare requirements. Specifically, the IRFs split claims for 110 IRF stays with discharge dates that occurred after the transition to the prospective payment system into two separate claims. As a result, the IRFs received two separate payments for each IRF stay that spanned the transition to the new system. In accordance with Medicare requirements and CMS guidelines, IRFs should have billed the entire stay as a single claim based on the date of discharge on the CMS Form 1450 (UB92). As a result, Medicare made net overpayments of \$272,564 to the 20 IRFs for claims submitted during their transition to the prospective payment system in 2002. This total reflects overpayments of \$328,220 to 14 IRFs and underpayments of \$55,656 to 6 IRFs.

The payment errors occurred because some IRFs did not have adequate controls to ensure that claims submitted at fiscal year-end were billed in accordance with Medicare requirements. Additionally, several IRFs stated that they had received inaccurate information from AdminaStar.

### **RECOMMENDATIONS**

We recommend that Adminastar:

- make the appropriate adjustments to paid claims that resulted in net overpayments of \$272,564 to the 20 IRFs, and
- continue education efforts for IRF and AdminaStar personnel to ensure compliance with Medicare requirements and CMS instructions for billing IRF services.

We will provide AdminaStar with the incorrectly billed claims identified by our review.

## **ADMINASTAR FEDERAL'S COMMENTS**

AdminaStar agreed with our findings and recommendations. In their response, AdminaStar stated that 143 participants attended the six educational seminars offered to IRFs in Illinois, Indiana, Ohio, and Kentucky and that CMS had supplied the materials used at the seminars. Additionally, AdminaStar stated that its customer service representatives were trained on the regulations and continue to receive additional training as needed. We have included AdminaStar's comments as an appendix.

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## **INTRODUCTION**

### **BACKGROUND**

The Social Security Amendments of 1983 established the prospective payment system for most inpatient services but excluded certain specialty hospitals such as inpatient rehabilitation facilities (IRFs) and distinct part rehabilitation units in hospitals.<sup>1</sup> As a result, IRFs continued to be paid pursuant to Section 1886(b) of the Social Security Act, as amended by Section 101 of the Tax Equity and Fiscal Responsibility Act of 1982. These rules based payments to IRFs on the Medicare reasonable costs per case, limited by a hospital-specific target amount per discharge.

To control escalating costs, section 1886(j) of the Social Security Act established a prospective payment system for IRFs that the Centers for Medicare & Medicaid Services (CMS) implemented for cost-reporting periods beginning on or after January 1, 2002.

The payment system provides for a predetermined payment per discharge. To receive this payment, the IRF must submit a single discharge bill for an entire inpatient stay. CMS instructions state that when a beneficiary's stay overlaps the time in which the IRF becomes subject to the prospective payment system rules, the payment will be based on the patient's date of discharge. Further, provider instructions in the "Medicare Inpatient Rehabilitation Facility Prospective Payment System Training Manual"(the Manual) state that a facility should not split bills that overlap the start of the fiscal year in which the IRF becomes subject to the prospective payment system.

AdminaStar Federal (AdminaStar) is the Medicare Part A fiscal intermediary for Illinois, Indiana, Ohio, and Kentucky. In 2002, 148 IRFs were under AdminaStar's administrative responsibility.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

#### **Objective**

Our objective was to determine whether IRFs under the administrative responsibility of AdminaStar billed fiscal year-end inpatient rehabilitation claims in accordance with Medicare requirements during the transition to the prospective payment system in 2002.

#### **Scope**

The audit included a review of 220 Medicare payments totaling \$1,773,560 made to 20 IRFs for inpatient stays that spanned the hospital's fiscal year-end during the transition to the prospective payment system in 2002.

We limited our review of internal controls to obtaining an understanding of the selected IRFs' internal control structure for submitting claims that spanned the hospital's fiscal year-end.

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<sup>1</sup> We refer to these inpatient rehabilitation facilities and distinct part rehabilitation units collectively as IRFs throughout the report.

We performed our fieldwork from September through December 2005. Our fieldwork included visiting or telephoning the selected IRFs in Illinois, Indiana, and Ohio. Although AdminaStar also has administrative responsibility for a small number of IRFs in Kentucky, we found no incorrect transition payments to those IRFs.

## **Methodology**

To accomplish our objective, we:

- reviewed applicable Medicare requirements and CMS guidance;
- extracted paid claims data for December 2001<sup>2</sup> and calendar year 2002 from CMS's National Claims History and identified a universe of 220 inpatient rehabilitation claims that were incorrectly billed by 20 IRFs during the transition to the prospective payment system for cost reporting years beginning or after January 1, 2002;
- reviewed the applicable detailed records for the claims from CMS's Common Working File to verify that the claims represented a single inpatient rehabilitation stay;
- performed on-site visits to two IRFs in Illinois and sent inquiries to 11 others to determine the cause of the incorrect billing;
- calculated the effect of incorrect billing by using CMS's Pricer Program or information from AdminaStar; and
- discussed the results of our review with AdminaStar.

We performed our review in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

Twenty IRFs did not bill 220 claims in accordance with Medicare requirements. As a result, Medicare made net overpayments of \$272,564 to the 20 IRFs for inpatient stays with discharge dates that occurred after the transition to the prospective payment system in 2002. This total reflects overpayments of \$328,220 to 14 IRFs and underpayments of \$55,656 to 6 IRFs.

The payment errors occurred because some IRFs did not have adequate controls to ensure that claims submitted at fiscal year-end were billed in accordance with Medicare requirements. Additionally, several IRFs stated that they received inaccurate information from AdminaStar.

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<sup>2</sup> Since several IRFs transitioned to the prospective payment system on their cost reporting date of January 1, 2002, we extracted claims data for December 31, 2001, to identify the first of the two payments made to those IRFs.

## **INTERIM BILLING REQUIREMENTS**

Pursuant to 42 CFR § 412.600(b), the IRF prospective payment system provides for a predetermined per-discharge payment. To receive this payment, an IRF must submit a single discharge bill for an entire inpatient stay. The payment encompasses all inpatient operating and capital costs with few exceptions. CMS guidance states that when a beneficiary's stay overlaps the time in which the IRF becomes subject to the prospective payment system rules, the payment will be based on the patient's date of discharge. Furthermore, provider instructions contained in the Manual state that an IRF should not split bills that overlap the start of the fiscal year in which the IRF becomes subject to the prospective payment system.

## **FISCAL YEAR-END CLAIMS SPLIT**

Twenty IRFs did not bill 220 fiscal year-end claims in accordance with Medicare requirements. Specifically, the IRFs split claims for 110 IRF stays with discharge dates that occurred after the transition to the prospective payment system into two separate claims. As a result, the IRFs received two separate payments for each IRF stay that spanned the transition period. In accordance with Medicare requirements and CMS guidelines, the entire IRF stay should have been billed as a single claim based on the date of discharge on the CMS Form 1450 (UB92).

## **PAYMENT ERRORS RESULTING FROM INCORRECT BILLING**

Medicare made net overpayments of \$272,564 to the 20 IRFs for claims that spanned the IRFs transition to the prospective payment system in 2002. This total reflects overpayments of \$328,220 to 14 facilities and underpayments of \$55,656 to 6 facilities. Underpayments occurred when the combining of two claims into a single claim caused certain thresholds to be exceeded. When these thresholds were exceeded, outlier payments were due or full payments were warranted instead of reduced transfer or short stay payments. An IRF's prospective payment is adjusted to account for situations such as transfers to other facilities and short stays of 3 days or less.

## **CAUSES OF INCORRECT BILLING**

Our fieldwork at 13 of the 20 IRFs found that controls at some IRFs were inadequate to facilitate proper billing during the transition to the prospective payment system. Of the 13 IRFs that we surveyed, 8 had billing staff that were not aware of the change in billing requirements and therefore had not established the necessary controls to ensure that claims submitted at fiscal year-end were billed in accordance with Medicare requirements. The remaining five IRFs stated that they had received inaccurate information from AdminaStar.

At 8 of the 13 IRFs surveyed, some or all of the billing staff were unaware that a single bill should have been submitted for those patients in the IRF during the transition to the prospective payment system. As a result, some transition stays may have been billed correctly while others were billed incorrectly from the same IRF. Training records from AdminaStar showed that staff at six of the eight IRFs had received training from AdminaStar, and seven of the eight IRFs had received a copy of the Manual.

The remaining 5 of the 13 IRFs surveyed stated that AdminaStar had instructed them to split-bill the transition claims as they had done under the previous payment system. These providers said they sought billing guidance from AdminaStar after transition IRF stays that had been billed as a single claim were either rejected or suspended by the claims processing system. AdminaStar representatives stated that their personnel had received both training and a copy of the Manual.

## **RECOMMENDATIONS**

We recommend that AdminaStar:

- make the appropriate adjustments to paid claims that resulted in net overpayments of \$272,564 to the 20 IRFs, and
- continue education efforts for IRF and AdminaStar personnel to ensure compliance with Medicare requirements and CMS instructions for billing IRF services.

We will provide AdminaStar with the incorrectly billed claims identified by our review.

## **ADMINASTAR FEDERAL'S COMMENTS**

AdminaStar agreed with our findings and recommendations. In their response, AdminaStar stated that 143 participants attended the six educational seminars offered to IRFs in Illinois, Indiana, Ohio, and Kentucky and that CMS had supplied the materials used at the seminars. Additionally, AdminaStar stated that customer service representatives were trained on the regulations and continue to receive additional training as needed. We have included AdminaStar's comments as an appendix.

# APPENDIX



## Medicare

A Medicare Carrier & Intermediary  
(317) 841-4510  
Michael McCarron  
President

March 3, 2006

Mr. Michael J. Armstrong  
Regional Inspector General  
Office of Inspector General  
Region I, Room 2425  
John F. Kennedy Federal Building  
Boston, MA 02203

Re: Report Number: A-01-05-00520

Dear Mr. Armstrong:

AdminaStar Federal (ASF) has reviewed your report "Review of Fiscal Year-end Billing for Inpatient Rehabilitation Claims Under the Administrative Responsibility of AdminaStar Federal, Inc, for 2002" in which you identified overpayments of \$272,564 for 20 Inpatient Rehabilitation Facilities (IRFs), and we concur with your findings.

We would like to offer the following information to be included in your report:

- ASF will work with providers to correct billing errors and recover overpayments once the OIG provides the listing of providers and claims in question.
- There were six (6) educational seminars offered to all IRFs in states where ASF has jurisdiction.
- 143 participants attended the IRF training in Illinois, Indiana, Kentucky, and Ohio.
- The educational materials utilized at the seminars were supplied by CMS.
- Customer Service representatives were trained on the regulations and continue to receive additional training as needed.

In order for us to collect the overpayments, please submit the provider listing of claims which needs to be corrected to the following address:

AdminaStar Federal  
Attn: Ms. Sarah Litteral  
9901 Linn Station Road, Suite 300  
Louisville, KY 40223

Should you have further comments and/or questions, please contact Sarah Litteral at 502-329-8584.

Sincerely,

A handwritten signature in black ink that reads "Michael McCarron". The signature is written in a cursive style with a large, stylized "M" and "C".

Michael McCarron

MM:ju

AdminaStar Federal

A CMS Contracted Carrier & Intermediary