

**MAY 11 2006**

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

Report Number: A-01-05-00522

Mr. Bruce W. Hughes  
President and COO  
Palmetto GBA  
PO Box 100134, Mail Code AG-A03  
Columbia, SC 29202-3134

Dear Mr. Hughes:

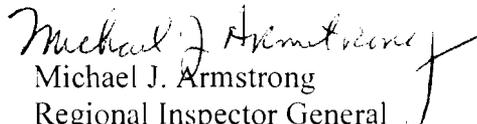
Enclosed are two copies of the U.S. Department of Health & Human Services, Office of Inspector General (OIG) report entitled "Review Of Fiscal Year-End Billing For Inpatient Rehabilitation Facility Claims Under The Administrative Responsibility Of Palmetto, GBA For 2002." A copy of this report will be forwarded to the HHS action official noted below for review.

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-01-05-00522 in all correspondence.

Sincerely yours,

  
Michael J. Armstrong  
Regional Inspector General  
for Audit Services

Enclosures – as stated

**Direct Reply to HHS Action Official:**

Roger Perez  
Acting Regional Administrator  
Department of Health and Human Services  
Centers for Medicare & Medicaid Services  
61 Forsyth Street, S.W., Suite 4T20  
Atlanta, Georgia 30303

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF FISCAL YEAR-END  
BILLING FOR INPATIENT  
REHABILITATION FACILITY  
CLAIMS UNDER THE  
ADMINISTRATIVE  
RESPONSIBILITY OF  
PALMETTO GBA FOR 2002**



Daniel R. Levinson  
Inspector General

May 2006  
A-01-05-00522

# *Office of Inspector General*

<http://oig.hhs.gov>

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# *Notices*

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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**

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 Palmetto GBA (Palmetto) 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**

Eleven IRFs did not bill 154 fiscal year-end claims in accordance with Medicare requirements. Specifically, the 11 IRFs split claims for 77 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, the entire IRF stay should have been billed as a single claim based on the date of discharge on the CMS Form 1450 (UB92). As a result, Medicare made net overpayments of \$207,289 to the 11 IRFs for claims submitted during their transition to the prospective payment system in 2002. This total reflects overpayments of \$235,207 to 9 IRFs and underpayments of \$27,918 to 2 IRFs.

Most of the payment errors occurred because the IRFs did not have adequate controls to ensure that claims submitted at fiscal year-end were billed in accordance with Medicare requirements. Additionally, some IRFs stated that they had split their claims as a result of discussions with Palmetto or in response to error messages received from the claims processing system. Because of the length of time that had passed since the errors occurred, we were unable to validate these statements with written documentation or call logs.

### **RECOMMENDATIONS**

We recommend that Palmetto:

- make the appropriate adjustments to paid claims that resulted in net overpayments of \$207,289 to the 11 IRFs and
- continue education efforts for IRF and Palmetto personnel to ensure compliance with Medicare requirements and CMS instructions for billing IRF services.

## **PALMETTO GBA'S COMMENTS**

Palmetto agreed with our findings and recommendations. In its reply to our draft report, Palmetto emphasized that it has provided comprehensive and accurate provider education and that it plans to conduct additional training. With its reply, Palmetto provided copies of its training materials. Palmetto acknowledged receipt of the claims identified by our review and anticipates that it will complete all adjustments by May 31, 2006. Palmetto expressed concern that statements made by IRF staff regarding inaccurate instructions were unsubstantiated. We have included the letter portion of their reply as an appendix.

## **OFFICE OF INSPECTOR GENERAL'S RESPONSE**

We acknowledge Palmetto's significant educational efforts both before the implementation of the payment system and since our review. During our fieldwork, several IRFs stated that they had split their claims as a result of discussions with Palmetto or in response to error messages received from the claims processing system. As we noted in the body of the draft report, because of the length of time that had passed since the errors occurred, we were unable to validate these statements with written documentation or call logs.

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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.

Palmetto GBA (Palmetto) is the Medicare Part A fiscal intermediary for IRFs in South Carolina and North Carolina. In 2002, 33 IRFs were under Palmetto's administrative responsibility. Palmetto used a comprehensive provider education and staff training strategy to communicate the new billing requirements to the IRFs. The strategy included two provider workshops, two online training sessions, and the distribution of provider education material through various means, including postings on the Palmetto Web site. CMS provided the training materials used in all education workshops and staff training.

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

#### **Objective**

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

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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.

## Scope

The audit included a review of 154 Medicare payments totaling \$1,270,493 made to 11 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.

We performed our fieldwork from September through December 2005. Our fieldwork included site visits and requests for information by mail to selected IRFs in South Carolina and North Carolina.

## 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 154 inpatient rehabilitation claims that were incorrectly billed by 11 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;
- visited two IRFs and sent inquiries to nine others to determine the cause of the incorrect billing;
- calculated the effect of incorrect billing by using CMS's Pricer Program or information from Palmetto; and
- discussed the results of our review with Palmetto.

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

## FINDINGS AND RECOMMENDATIONS

Eleven IRFs did not bill 154 fiscal year-end claims in accordance with Medicare requirements. As a result, Medicare made net overpayments of \$207,289 to the 11 IRFs for claims submitted during their transition to the prospective payment system in 2002. This total reflects overpayments of \$235,207 to nine IRFs and underpayments of \$27,918 to two IRFs.

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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.

Most of the payment errors occurred because the IRFs did not have adequate controls to ensure that claims submitted at fiscal year-end were billed in accordance with Medicare requirements. Additionally, some IRFs stated that they had split their claims as a result of discussions with Palmetto or in response to error messages received from the claims processing system.

## **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**

Eleven IRFs did not bill 154 fiscal year-end claims in accordance with Medicare requirements. Specifically, the 11 IRFs split claims for 77 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, IRFs should have billed the entire stay 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 \$207,289 to the 11 IRFs for claims submitted during their transition to the prospective payment system in 2002. This total reflects overpayments of \$235,207 to nine IRFs and underpayments of \$27,918 to two IRFs. 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 11 of the IRFs found that controls at some IRFs were inadequate to facilitate proper billing during the transition to the prospective payment system. Of the 11 IRFs surveyed, 7 had billing staff who 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.

At these seven IRFs, some or all of the billing staff were unaware that the IRF should have submitted a single bill for each patient in the IRF during the transition to the prospective

payment system. As a result, some transition stays may have been billed correctly, while others at the same IRF were billed incorrectly.

The remaining 4 of the 11 IRFs surveyed stated that they had initially billed their transition stays as single claims but that the fiscal intermediary's claims processing system had rejected these claims. These four IRFs stated that they had ultimately split their claims as a result of discussions with Palmetto or in response to error messages received from the claims processing system. Because of the length of time that had passed since the errors occurred, we were unable to validate these statements with written documentation or call logs.

## **RECOMMENDATIONS**

We recommend that Palmetto:

- make the appropriate adjustments to paid claims that resulted in net overpayments of \$207,289 to the 11 IRFs and
- continue education efforts for IRF and Palmetto personnel to ensure compliance with Medicare requirements and CMS instructions for billing IRF services.

## **PALMETTO GBA'S COMMENTS**

Palmetto agreed with our findings and recommendations. In its reply to our draft report, Palmetto emphasized that it has provided comprehensive and accurate provider education and that it plans to conduct additional training. With its reply, Palmetto provided copies of its training materials. Palmetto acknowledged receipt of the claims identified by our review and anticipates that it will complete all adjustments by May 31, 2006. Palmetto expressed concern that statements made by IRF staff regarding inaccurate instructions were unsubstantiated. We have included the letter portion of their reply as an appendix.

## **OFFICE OF INSPECTOR GENERAL'S RESPONSE**

We acknowledge Palmetto's significant educational efforts both before the implementation of the payment system and since our review. During our fieldwork, several IRFs stated that they had split their claims as a result of discussions with Palmetto or in response to error messages received from the claims processing system. As we noted in the body of the draft report, because of the length of time that had passed since the errors occurred, we were unable to validate these statements with written documentation or call logs.

# **APPENDIX**



**Palmetto GBA**

Post Office Box 100134  
Columbia, South Carolina 29202-3134

May 2, 2006

To: Michael J. Armstrong, DHHS/Office of Inspector General

From: Sheri Thompson, Palmetto GBA

Subject: Palmetto GBA Comments to Draft Report Entitled "Review of Fiscal Year-End Billing for Inpatient Rehabilitation Claims Under the Administrative Responsibility of Palmetto GBA for 2002"

Reference: Case No. A-01-05-00522

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This letter is in response to the recent Office of Inspector General (OIG) draft report for fiscal year end billing for inpatient rehabilitation facility (IRF) claims under the administrative responsibility of Palmetto GBA for the year 2002. 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 some IRFs had inadequate controls in place to facilitate proper billing during the transition to the prospective payment system. Of the 11 IRFs surveyed, seven had billing staff that were not aware of the change in billing requirements; and three stated that Palmetto GBA inaccurately instructed them to split-bill the transition claims as they had done under the previous payment system.

Palmetto GBA is concerned that the statements alleging inaccurate instructions are unsubstantiated. We note the acknowledgement of our education efforts in the background 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.
  - We conducted two provider workshops, one held in each state, North Carolina (11/14/2001) and South Carolina (10/10/2001). These workshops were publicized and over 40 attendees registered for each workshop.
  - We conducted two online training sessions, which were held on April 25, 2002 and June 20, 2002.
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- We presented and distributed provider education material in accordance with Medicare rules, including postings to our web site. (Copies previously submitted during review).
- We made site visits available as an option if requested by providers.

Since the OIG review, we submit the following information that supports our continued efforts to provide comprehensive and accurate education on this topic:

- We administered an additional provider education and staff training strategy in April 2006. Follow up training for staff is scheduled for June 2006. Palmetto GBA used consistent material in all education workshops and staff training. (Copies of training material enclosed).
- Of the eleven IRFs reviewed, eight attended the April 2006 IRF Workshop held in Charlotte, North Carolina.
- We conducted one-to-one provider education sessions for three of the eleven IRFs reviewed: two from North Carolina and one from South Carolina.

In addition, On April 24, 2006 we received all claims adjustments related to this review. We anticipate completion of all adjustments no later than May 31, 2006. A provider notification will be sent to all providers informing them of the anticipated adjustment.

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: Sandra Brown, Contract Manager, CMS  
Bruce Hughes, COO/President, Palmetto GBA  
Neal Burkhead, VP Medicare Part A & MIP Operations  
Ann Archibald, Compliance Officer, Palmetto GBA

Enclosures

