

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF OUTPATIENT OBSERVATION
SERVICES BILLED TO MEDICARE BY
EXEMPLA LUTHERAN MEDICAL CENTER
WHEAT RIDGE, COLORADO**

JANUARY 1996 THROUGH DECEMBER 1999



**JANET REHNQUIST
INSPECTOR GENERAL**

**OCTOBER 2002
A-07-01-02094**

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-07-01-02094
October 31, 2002

Mr. H.E. Borgstrom Jr.
Sr. Vice President Finance and Planning
Exempla Healthcare, Inc.
600 Grant St., Suite 700
Denver, CO 80203

Dear Mr. Borgstrom:

This report provides you with the results of our review of outpatient observation services billed by Exempla Lutheran Medical Center (the "Hospital") in Wheat Ridge, Colorado. The objective of our review was to determine whether outpatient observation services billed by the Hospital met the Medicare reimbursement requirements. Our review covered service dates from January 1, 1996 to December 31, 1999. During the period, the Hospital submitted charges for observation services (revenue code 0762) totaling \$1,323,568 on 2,637 claims.

The Hospital billed Medicare for observation services that did not meet Medicare criteria, resulting in an estimated overpayment of \$165,125. We reviewed a statistical sample of 100 claims containing observation services and determined that 63 claims did not meet Medicare requirements. Primarily these services were unallowable because:

- physicians' orders were not documented in the medical records,
- inpatient services were billed as outpatient services,
- a need for services was not documented in the medical record, or
- the medical records were not found.

We are recommending the Hospital reimburse Medicare the overpayment amount for inappropriate observation services billings of \$165,125 during the fiscal years 1996 through 1999.

INTRODUCTION

Background

Outpatient observation services (revenue code 0762) are defined as those services furnished by a hospital on its premises to evaluate an outpatient's condition or determine the need for possible admission to the hospital as an inpatient. According to Section 230.6 (A) of the Hospital Manual and 3112.8 (A) of the Intermediary Manual published by the Centers for Medicare and Medicaid Services (CMS):

Observation services are allowable "... 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 both manual sections referenced above defines services that are not covered as outpatient observation. These include:

- services which are not reasonable or necessary for the diagnosis or treatment of the patient (e.g., following an uncomplicated treatment or procedure),
- services which are the result of a standing order for observation following outpatient surgery, and
- services which are ordered as inpatient services by the admitting physician, but 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, payments for observation services were no longer reimbursable separately. Payments 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 and Scope

The objective of our review was to determine whether outpatient observation services billed by the Hospital met the Medicare reimbursement requirements at the previously cited sections of the Hospital Manual and the Intermediary Manual. Our review covered service dates from January 1, 1996 to December 31, 1999. The Hospital submitted 2,637

claims containing charges totaling \$1,323,568 for observation services billed as revenue code 0762.

Our review work included:

- interviewing Hospital and fiscal intermediary officials,
- reviewing medical records to determine whether the observation services met the requirements for Medicare reimbursement, and
- projecting the results of our random sample.

We chose a statistically random sample of 100 claims from the population of 2,637 Medicare claims containing outpatient observation services billed by the Hospital over the four fiscal years (See Appendix A). We reviewed the sample of medical records to determine whether the observation services were unallowable under Medicare requirements. We tested the records for presence of a physician's order, appropriate outpatient billing of services, and documentation of need for observation services.

Sample exceptions noted were reviewed and validated by fiscal intermediary (FI) staff. With assistance from FI personnel, we determined the amount Medicare reimbursed for observation services on each claim in the sample. The results of our sample were projected to the universe to identify the Hospital's unallowable charges and Medicare overpayment. We estimated the unallowable charges and overpayment at the lower limit of the 90 percent two-sided confidence interval (See Appendix A).

Our review was conducted in accordance with generally accepted government auditing standards. Our review was limited to determining the appropriateness of pre-OPPS claims that contained observation services submitted to CMS for payment. We did not review the internal controls of the Hospital. Our review work was performed at the fiscal intermediary, Exempla Lutheran Medical Center in Wheat Ridge, Colorado, and in our Denver field office during the period of September 2001 through April 2002.

RESULTS OF REVIEW

The Hospital billed Medicare for observation services that did not meet the requirements for Medicare reimbursement, resulting in Medicare overpayments of \$165,125 for calendar years 1996 through 1999. Sixty-three of the 100 claims in our statistical sample did not meet Medicare reimbursement criteria. Appendix A to this report details the sample methodology and results. The observation services did not meet the Medicare requirements because a physician's order was not documented in the medical records, the medical records did not support claims made for outpatient services, or other reasons detailed below.

The following chart summarizes the results from our sample (see Appendix A, p. 2):

Reason Claim not Accepted	No. of Claims not Accepted	Reimbursed Amount for Claims not Accepted
No Physician's Order in Medical Record	41	\$4,322.84
Inpatient Services Billed as Outpatient	15	2,224.18
Need for Observation Services not Documented	4	744.08
Pre-op Order for Convenience	1	171.87
Medical Records not Provided	2	177.56
Total Not Accepted	63	\$7,640.53

No Physician's Order In The Medical Records

The supporting medical records for 41 of the 63 unallowable claims did not include a physician's order for observation. 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.

Inpatient Services Billed as Outpatient

Fifteen claims were billed for outpatient services, but the services were provided as inpatient. For example, the patient in our sample claim number 18 was originally admitted as an inpatient, but an observation order was written at discharge, thus changing the billing to outpatient.

Need for Observation Services Not Documented

Four claims were determined to include orders for observation services which were unnecessary. For example, the patient in our sample claim number 31 was given an observation order for her convenience as she had no family member to pick her up from the hospital.

Pre-Op Order for Convenience

The supporting medical records for one of the 63 unallowable claims included a pre-op order for observation. Medicare criteria state that standing orders for observation services following outpatient surgery are unallowable.

Medical Records Not Provided

The supporting medical records for two of the claims were not found. These claims were determined to be unallowable due to lack of documentation for the services billed.

Conclusions and Recommendations

Medicare reimbursed the Hospital for outpatient observation services that did not meet the requirements for Medicare reimbursement during the Hospital's fiscal years 1996 through 1999. Sixty-three percent of the observation services in our sample were not allowable under Medicare criteria.

We recommend that the Hospital refund the overpayment amount of \$165,125 during its fiscal years 1996 through 1999.

Hospital's Response

The Hospital agreed with our conclusions and recommendations. The response stated in part, "We have no additional comments or changes to submit and are willing to accept the recommendations in the report." A complete copy of the response is made a part of this report at Appendix B.

Final determinations as to the actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the 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, 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 in the Act (see 45 CFR part 5). As such, within 10 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 Common Identification Number A-07-01-02094 in all correspondence to this report.

Sincerely,



James P. Aasmundstad
Regional Inspector General
for Audit Services

Appendices

Direct Reply to HHS Action Official:

Mr. Alex Trujillo, Regional Administrator
Centers for Medicare & Medicaid Services
1600 Broadway, Suite 700
Denver, Co. 80202-4367

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 fiscal years 1996 to 1999. The total number of claims with revenue code 0762 was 2,637.

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.

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.

SAMPLE METHODOLOGY RESULTS AND PROJECTION

Sample Results: The results of our review of 100 sample items are as follows:

Sample Size: **100**

Number of Non-Zero Errors: **63**

Value of Reimbursement Errors (Overpayment): **\$7,640.53**

<u>Variable Projection:</u>	<u>Overpayment</u>
Point Estimate	<i>\$201,481</i>
90% Confidence Interval	
Lower Limit	<i>\$165,125</i>
Upper Limit	<i>\$237,836</i>



**EXEMPLA
CORPORATE OFFICES**

600 Grant Street, Suite 700
Denver, Colorado 80203-3525
303-813-5000

October 28, 2002

Mr. James Aasmundstad
Regional Inspector General For Audit Services
Office of Inspector General — Region VII
Department of Health & Human Services
601 East 12th Street, Room 284A
Kansas City, Missouri 64106

Re: Draft Report (CIN) A-07-01-02094

Dear Mr. Aasmundstad,

We have reviewed the draft report, (CIN) A-07-01-02094, forwarded to Exempla, Inc. on September 30, 2002. We have no additional comments or changes to submit and are willing to accept the recommendations in the report. As we understand your instructions, the report will now be finalized and we will then be required to reimburse Medicare \$165,125.00 for observation services billed during the fiscal years 1996 through 1999.

We will await notification regarding finalization of the report and instructions on repayment of \$165,125.00 by Exempla. We appreciate the courtesy of your department throughout this audit process.

Sincerely,

A handwritten signature in black ink, appearing to read "H. E. Borgstrom, Jr.", written over a large, stylized flourish.

H. E. Borgstrom, Jr.
Senior Vice President
Finance and Planning