**DEPARTMENT OF HEALTH & HUMAN SERVICES** **Office of Inspector General**

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

August 10, 2011

Report Number: A-01-10-00515

Ms. Melissa Halstead Rhoades
Area Director and Medicare CFO
Financial Management Operations Division
TrailBlazer Health Enterprise, LLC
8330 LBJ Freeway, 11.2402
Dallas, TX 75234

Dear Ms. Rhoades:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Outpatient Claims Processed by Trailblazer Health Enterprises, LLC That Included Procedures for the Insertion of Multiple Units of the Same Type of Medical Device for Calendar Years 2008 and 2009.* We will forward a copy of this report to the HHS action official noted on the following page for 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 this 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to call me, or contact David Lamir, Audit Manager, at (617) 565-2704 or through email at David.Lamir@oig.hhs.gov. Please refer to report number A-01-10-00515 in all correspondence.

Sincerely,

/Michael J. Armstrong/
Regional Inspector General
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Nanette Foster Reilly
Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF INSPECTOR GENERAL**

# REVIEW OF OUTPATIENT CLAIMS PROCESSED BY TRAILBLAZER HEALTH ENTERPRISES, LLC THAT INCLUDED PROCEDURES FOR THE INSERTION OF MULTIPLE UNITS OF THE SAME TYPE OF MEDICAL DEVICE IN CALENDAR YEARS 2008 AND 2009


Daniel R. Levinson
Inspector General

August 2011
A-01-10-00515

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http://oig.hhs.gov

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## OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

# EXECUTIVE SUMMARY

## BACKGROUND

The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program. CMS contracts with Medicare contractors, including TrailBlazer Health Enterprises (TrailBlazer), to process and pay hospital outpatient claims using the Fiscal Intermediary Shared System (FISS).

CMS implemented an outpatient prospective payment system (OPPS) for hospital outpatient services. Under the OPPS, Medicare pays for hospital outpatient services on a rate-per-service basis that varies according to the ambulatory payment classification group to which the service is assigned. Under the OPPS, outlier payments are available when exceptionally costly services exceed established thresholds.

### Medical Devices

Common medical devices implanted during outpatient procedures include cardiac devices, joint replacement devices, and prosthetics. Generally, a provider implants only one cardiac device during an outpatient surgical procedure. Under OPPS, payments to hospitals for medical devices are "packaged" into the payment for the procedure to insert the device. Hospitals are required to report the number of device units and related charges accurately on their claims. The failure to report device units and related charges accurately could result in incorrect outlier payments.

Our audit covered $551,979 in Medicare outlier payments to hospitals for 101 claims for outpatient procedures that included the insertion of more than 1 of the same type of medical device. The 101 claims had dates of service during calendar years (CY) 2008 and 2009.

## OBJECTIVE

Our objective was to determine whether Medicare paid hospitals correctly for outpatient claims processed by TrailBlazer that included procedures for the insertion of multiple units of the same type of medical device.

## SUMMARY OF FINDINGS

Of the 101 claims that we reviewed, Medicare paid 73 correctly for outpatient claims processed by TrailBlazer that included procedures for the insertion of multiple units of the same type of medical device. However, for the remaining 28 claims, Medicare did not pay hospitals correctly. These incorrect payments were due to hospitals overstating the number of units and related charges, resulting in excessive or unwarranted outlier payments for 25 claims; hospitals also understated the number of units and related charges, resulting in reduced outlier payments for 3 claims.

For the 28 claims, TrailBlazer made net overpayments to hospitals totaling $81,971. Incorrect payments occurred because hospitals had inadequate controls to ensure that they billed accurately for claims that included the insertion of medical devices. In addition, Medicare payment controls in the FISS were not always adequate to prevent or detect incorrect payments.

## RECOMMENDATIONS

We recommend that TrailBlazer:

- recover the $81,971 in net overpayments for 28 inaccurate claims,

- continue to alert hospitals of the importance of coding outpatient claims with the correct number of medical device units, and

- work with CMS to strengthen FISS prepayment edits by revising the unit amount thresholds for certain medical devices.

## TRAILBLAZER HEALTH ENTERPRISES COMMENTS

In written comments on our draft report, Trailblazer concurred with our findings and recommendations and outlined steps for implementing our recommendations.

Trailblazer's comments are included in their entirety as the Appendix.

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# INTRODUCTION

## BACKGROUND

The Medicare program, established by Title XVIII of the Social Security Act (the Act), provides health insurance coverage to people aged 65 and over, people with disabilities, and people with end-stage renal disease. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program. Part B of Title XVIII provides supplementary medical insurance for medical and other health services, including the coverage of hospital outpatient services.

CMS contracted with TrailBlazer Health Enterprises (TrailBlazer) to, among other things, process and pay claims submitted by hospital outpatient departments. TrailBlazer uses the Fiscal Intermediary Shared System (FISS) for processing hospital claims. TrailBlazer processes claims for Virginia, Colorado, New Mexico, Oklahoma, and Texas.

### Hospital Outpatient Prospective Payment System

As mandated by the Balanced Budget Act of 1997, P.L. No. 105-33, together with the Medicare, Medicaid, and SCHIP (State Children's Health Insurance Program) Balanced Budget Refinement Act of 1999, P.L. No. 106-113, CMS implemented an outpatient prospective payment system (OPPS) for hospital outpatient services. The OPPS was effective for services furnished on or after August 1, 2000. Under the OPPS, Medicare pays for hospital outpatient services on a rate-per-service basis that varies according to the assigned ambulatory payment classification (APC). All services and items within an APC group are comparable clinically and require comparable resources. Under the OPPS, outlier payments are available when exceptionally costly services exceed established thresholds.

### Medical Devices

Common medical devices implanted during outpatient procedures include cardiac devices, joint replacement devices, and prosthetics. Generally, a provider implants only one cardiac device, such as a pacemaker or implantable cardioverter defibrillator (ICD), during an outpatient surgical procedure.

Under OPPS, payments to hospitals for medical devices are "packaged" into the payment for the procedure to insert the device. Although separate payment is not made for the device, hospitals are still required to report device charges on their claims. Hospitals are required to report the number of device units and related charges accurately on their claims. The failure to report device units and related charges accurately could result in incorrect outlier payments.

## OBJECTIVE, SCOPE, AND METHODOLOGY

### Objective

Our objective was to determine whether Medicare paid hospitals correctly for outpatient claims processed by TrailBlazer that included procedures for the insertion of multiple units of the same type of medical device.

### Scope

Our audit covered $551,979 in Medicare outlier payments to hospitals for 101 claims for outpatient procedures that included the insertion of more than 1 of the same type of medical device. The 101 claims had dates of service during calendar years (CY) 2008 and 2009.

Our objective did not require an understanding or assessment of the complete internal control structures of hospitals or of TrailBlazer. Therefore, we limited our review at hospitals to the controls related to preparing and submitting Medicare claims for procedures that included the insertion of selected medical devices. We limited our review at TrailBlazer to the controls related to preventing or detecting Medicare overpayments to hospitals for outpatient claims with overstated medical device units.

Our fieldwork included contacting TrailBlazer and the 50 hospitals that submitted the 101 claims in our review. We conducted our fieldwork from September 2010 through February 2011.

### Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- extracted the hospitals' outpatient paid claim data from CMS's National Claims History file for CYs 2008 and 2009;
- developed computer applications to identify outpatient claims processed by TrailBlazer that included procedures for the insertion of multiple units of the same type of medical device and identified 101 claims to review;
- reviewed the hospitals' itemized bills for 101 claims and selected beneficiaries' medical records to determine whether the hospitals submitted claims with the correct device units and associated charges;
- reviewed CMS's Common Working File claims history for the 101 claims to validate the results of our computer match and to verify that the selected claims had not been canceled;

- contacted representatives of the 50 hospitals that submitted the claims to verify whether the claims were billed correctly and to determine the causes of noncompliance with Medicare billing requirements;

- contacted TrailBlazer to obtain an understanding of edits in the FISS and other controls intended to prevent or detect overpayments to hospitals;

- calculated the correct payments for claims that needed payment adjustments; and

- discussed the results of our review with TrailBlazer.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## FINDINGS AND RECOMMENDATIONS

Of the 101 claims that we reviewed, Medicare paid 73 correctly for outpatient claims processed by TrailBlazer that included procedures for the insertion of multiple units of the same type of medical device. However, for the remaining 28 claims, Medicare did not pay hospitals correctly. These incorrect payments were due to hospitals overstating the number of units and related charges, resulting in excessive or unwarranted outlier payments for 25 claims; hospitals also understated the number of units and related charges, resulting in reduced outlier payments for 3 claims.

For the 28 claims, TrailBlazer made net overpayments to hospitals totaling $81,971. Incorrect payments occurred because hospitals had inadequate controls to ensure that they billed accurately for claims that included the insertion of medical devices. In addition, Medicare payment controls in the FISS were not always adequate to prevent or detect incorrect payments.

## PROGRAM REQUIREMENTS

Section 1862(a)(1)(A) of the Act states no payment may be made under Part A or Part B for any expenses incurred for items or services that are not reasonable and necessary for the diagnosis or treatment of illness or injury or to improve the functioning of a malformed body member.

The *Medicare Claims Processing Manual*, Pub. No. 100-04, chapter 1, section 80.3.2.2, requires that claims be completed accurately to be processed correctly and promptly.

Federal regulations (42 CFR Section 419.43(d)) provides for outlier payments for hospital outpatient services, in addition to the prospective payment, when a hospital's charges exceed certain thresholds.

## PAYMENTS BASED ON CLAIMS BILLED INCORRECTLY

Hospitals incorrectly billed medical device units for 28 of the 101 claims with net overpayments totaling $81,971. These billing errors led to overstated charges, resulting in excessive or unwarranted outlier payments for 25 claims, and understated charges, resulting in underpayments for 3 claims.

The following examples illustrate incorrectly billed units:

- One hospital billed for two automatic implantable cardioverter defibrillator (AICD) units with charges that totaled $100,020. However, the hospital should have billed for one AICD unit with charges of $50,010. The additional charges for the second AICD unit resulted in an unwarranted outlier payment of $6,199 to the hospital.

- One hospital billed for two units of neurostimulator leads with charges that totaled $8,160, but it should have billed for three units with charges of $12,240. The omission of the charge for the additional unit resulted in the hospital receiving an outlier payment that was $867 less than it was entitled.

## CAUSES OF INCORRECT PAYMENTS

### Inadequate Controls at Hospitals

The 18 hospitals that received incorrect payments had not established the necessary controls to ensure that they billed the correct device units for outpatient claims processed by TrailBlazer that included procedures for the insertion of medical devices. Officials of these hospitals stated that their billing personnel had billed units incorrectly for one or more of the following reasons:

- personnel made isolated data entry errors,

- multiple personnel mistakenly entered the same device charges on the same claim, and

- undetected flaws in the design or implementation of some billing systems caused some claims to be submitted with multiple medical device units.

### Inadequate Medicare Payment Controls

Medicare payment controls were not always adequate to prevent or detect incorrect payments. Specifically, CMS established, as part of its FISS prepayment controls, unit amount thresholds for medically unlikely edits that are too high for certain medical devices (i.e., currently, there is a two-unit threshold for pacemakers).

## RECOMMENDATIONS

We recommend that TrailBlazer:

- recover the $81,971 in net overpayments for 28 inaccurate claims,
- continue to alert hospitals of the importance of coding outpatient claims with the correct number of medical device units, and
- work with CMS to strengthen FISS prepayment edits by revising the unit amount thresholds for certain medical devices.

## TRAILBLAZER HEALTH ENTERPRISES COMMENTS

In written comments on our draft report, Trailblazer concurred with our findings and recommendations and outlined steps for implementing our recommendations.

Trailblazer's comments are included in their entirety as the Appendix.

# APPENDIX

July 13, 2011

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

Report Number: A-01-10-00515

Dear Mr. Armstrong:

We received the June 13, 2011, draft report entitled "Review of Outpatient Claims Processed by TrailBlazer Health Enterprises, LLC That Included Procedures for the Insertion of Multiple Units of the Same Type of Medical Device for Calendar Years 2008 and 2009." In the draft report, the OIG recommended that TrailBlazer:

- Recover the $81,971 in net overpayments for 28 inaccurate claims;
- Continue to alert hospitals of the importance of coding outpatient claims with the correct number of medical device units; and
- Work with CMS to strengthen FISS prepayment edits by revising the unit amount thresholds for certain medical devices.

Please consider the following responses to these recommendations for inclusion in the final report:

**Recovery of Net Overpayments**: As a result of this audit, TrailBlazer recovered a net overpayment of $69,164 on 23 inaccurate claims prior to the issuance of the draft audit report. We found that the impacted providers submitted adjustment bills related to the OIG audit findings for the 23 claims. The remaining five claims were not adjusted by the impacted providers. TrailBlazer has taken action to adjust these claims based on the OIG audit determined adjustment. The adjustments are currently processing in the standard system, but have not finalized. We anticipate recovering the remaining net overpayment of $12,807, when these claims have finalized.

**Provider Education Activities**: TrailBlazer provides a Part A Beginner's Guide to Medicare to assist providers with basic Part A information to help ensure Part A claims are submitted properly.
http://www.trailblazerhealth.com/Publications/Training%20Manual/MedicareBasicsManual.pdf

TrailBlazer also offers the TrailBlazer Outpatient Prospective Payment System (OPPS) manual, which includes policies, billing information, billing examples, requirements, revenue codes, form locators, initiatives and significant changes to the Medicare program.
http://www.trailblazerhealth.com/Publications/Training%20Manual/HosptialOutpatientManual.pdf

Part A Beginner's Guide to Medicare and OPPS training are routinely offered through Web-based training events. The PowerPoint presentations are available for download and, upon completion of these events, the recorded training sessions are posted on the TrailBlazer Web site for reference.
http://www.trailblazerhealth.com/Education/EncoreWBTs.aspx?DomainID=1

TrailBlazer will develop an article highlighting these OIG findings. This article will be placed on the TrailBlazer Web site, sent in listserv and added to the TrailBlazer e*Bulletin* for further exposure. In addition, these findings will be addressed in future online training sessions when appropriate.

**FISS Prepayment Edits:** TrailBlazer Part A Claims staff will work with the Medical Review unit and CMS to identify issues with the incorrect medical device units billed by providers and to implement pre-payment edits to prevent payment when provider billing errors occur.

If you have any questions regarding our response, please contact me.

Sincerely,

*/s/ Melissa Halstead Rhoades*

Melissa Halstead Rhoades
Area Director & Medicare CFO

cc: Terry Bird, Contracting Officer Technical Rep. Southern MAC Program Mgmt. Division
Gil R. Glover, President & Chief Operating Officer
Scott J. Manning, Vice President, Financial Mgt. Operations & J4 MAC Project Manager
Kevin Bidwell, Vice President & Compliance Officer