**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**

November 3, 2010

Report Number: A-01-10-00523

Ms. Jennifer Otten
Audit and Controls Manager
National Heritage Insurance Corporation
402 Otterson Drive
Chico, CA 95928

Dear Ms. Otten:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Verification of Mid Coast Hospital's Refund of Place-of-Service Overpayments for Calendar Years 2004-2007*. 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-01-10-00523 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 and Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health & Human Services

**OFFICE OF INSPECTOR GENERAL**

# VERIFICATION OF MID COAST HOSPITAL'S REFUND OF PLACE-OF-SERVICE OVERPAYMENTS FOR CALENDAR YEARS 2004-2007

Daniel R. Levinson
Inspector General

November 2010
A-01-10-00523

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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

Medicare Part B pays for services that physicians provide to program beneficiaries. Although physicians routinely perform many of these services in a hospital outpatient department or a freestanding ambulatory surgical center (ASC), some of these services may also be performed in nonfacility settings, such as a physician's office, an urgent care center, or an independent clinic. To account for the increased overhead expense that physicians incur by performing services in nonfacility locations, Medicare reimburses physicians at a higher rate for certain services performed in these locations. However, when physicians perform these same services in facility settings, such as hospital outpatient departments or ASCs, Medicare reimburses the overhead expenses to the facility and the physician receives a lower reimbursement rate.

Physicians are required to identify the place of service on the health insurance claim forms that they submit to Medicare contractors. The correct place-of-service code ensures that Medicare does not incorrectly reimburse the physician for the overhead portion of the payment if the service was performed in a facility setting.

Our previous nationwide reviews found that several contractors overpaid physicians who did not correctly identify the place of service on their claims. These audits identified over a million nonfacility-coded physician services that matched outpatient hospital claims for the same type of service provided to the same beneficiary on the same day. These reviews identified numerous instances of Mid Coast Hospital's physicians being overpaid by NHIC because claims submitted contained an incorrect place-of-service code.

Mid Coast Hospital (the Hospital) submits claims for the overhead expenses of medical services performed at the Hospital. In addition, the Hospital also bills on behalf of its physicians, for their Part B physician services. As the Medicare contractor for hospital and physicians in Maine, National Heritage Insurance Corporation (NHIC) processes and pays the Hospital's claims for Medicare outpatient services and its claims for physician services.

## OBJECTIVE

The objective of our audit was to determine the amount of overpayments for claims with place-of-service coding errors submitted by the Hospital to NHIC for calendar years (CYs) 2004 through 2007.

## SUMMARY OF FINDING

We determined that the Hospital submitted claims with overpayments totaling $208,486 for physician services for CYs 2004 through 2007. The Hospital, billing on behalf of its physicians, incorrectly coded these claims by using nonfacility place-of-service codes for services that were actually performed in one of the Hospital's outpatient facilities. To date, the Hospital has made refunds to NHIC for overpayments totaling $146,125.

## RECOMMENDATIONS

We recommend that NHIC:

- accept the Hospital's final payment of $62,361 to complete its refund of $208,486 for overpayments resulting from coding errors on claims submitted on behalf of Hospital physicians for CYs 2004 through 2007.

## NATIONAL HERITAGE INSURANCE CORPORATION COMMENTS

NHIC concurred with our recommendation and accepted the agreed upon final payment of $62,361. NHIC's comments are included in their entirety as the Appendix.

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# INTRODUCTION

## BACKGROUND

### Medicare Part B Payments for Physician Services

Medicare Part B pays for services that physicians provide to program beneficiaries. Physician services include medical and surgical procedures, office visits, and medical consultations. These services may be provided in facility settings, such as hospital outpatient departments and freestanding ambulatory surgical centers (ASC), or in nonfacility locations, such as physician offices, urgent care centers, and independent clinics.

Physicians are paid for services according to the Medicare physician fee schedule. This schedule is based on a payment system that includes three major categories of costs required to provide physician services: practice expense, physician work, and malpractice insurance.

### Medicare Reimbursement for Practice Expense

Practice expense reflects the overhead costs involved in providing a service. To account for the increased practice expense that physicians generally incur by performing services in their offices and other nonfacility locations, Medicare reimburses physicians at a higher rate for certain services performed in these locations rather than in a hospital outpatient department or an ASC. Physicians are required to identify the place of service on the health insurance claim forms that they submit to Medicare contractors. The correct place-of-service code ensures that Medicare does not incorrectly reimburse the physician for the overhead portion of the service if the service was performed in a facility setting.

Medicare claim form instructions specifically state that each provider or practitioner is responsible for becoming familiar with Medicare coverage and billing requirements. Some physician offices submit their own claims to Medicare; other offices hire billing agents to submit their claims. Physicians are responsible for any Medicare claims submitted by billing agents.

### Prior Office of Inspector General Reports

Our previous nationwide reviews (A-01-08-00528 and A-01-09-00503) found that several contractors overpaid physicians who did not correctly identify the place of service on their claims. These audits identified over a million nonfacility-coded physician services that matched outpatient hospital claims for the same type of service provided to the same beneficiary on the same day. Our recommendations in those reports called for the Medicare contractors to educate physicians regarding proper billing, recover identified overpayments, and analyze postpayment data to detect and recover

overpayments for improperly billed claims. The Medicare contractors and CMS generally concurred with our recommendations.

### Mid Coast Hospital

Mid Coast Hospital (the Hospital) is a 92 bed acute-care hospital located in Brunswick, Maine. The Hospital submits claims for the overhead expenses of medical services performed at the hospital. In addition, the Hospital also bills on behalf of its physicians, for their Part B physician services. As the Medicare contractor for hospitals and physicians in Maine, National Heritage Insurance Corporation (NHIC) processes and pays the Hospital's claims for Medicare outpatient services and its claims for physician services.

Our nationwide reviews identified numerous instances of overpayments by NHIC to the Hospital for physician claims that contained an incorrect place-of-service code in calendar years (CYs) 2005 through 2007. The Hospital's officials insisted on refunding all overpayments received resulting from these place-of-service coding errors. Based on its own overpayment calculations, the Hospital to date has sent NHIC refund checks totaling $146,125 for the period April 2004 through December 2007.[1] NHIC adjusted the 2007 claims in its active data files. However, NHIC was unable, without our audit verification, to accept refunds for Hospital determined overpayments related to the 2004 through 2006 claims that were archived and no longer available in NHIC's active data files.

## OBJECTIVE, SCOPE, AND METHODOLOGY

### Objective

The objective of our audit was to determine the amount of overpayments for claims with place-of-service coding errors submitted by the Hospital to NHIC for CYs 2004 through 2007.

### Scope

Based on NHIC's request, we performed a limited scope review to determine the accuracy of overpayments to be refunded by the Hospital for claims with physician place-of-service coding errors for CYs 2004 through 2007.

Our audit covered 19,129 nonfacility-coded physician services valued at $827,882 that were provided in CYs 2004 through 2007 and that matched hospital outpatient claims for the same type of service provided to the same beneficiary on the same day.

[1] The Hospital refunded $48,664 in July 2008, for the 2007 claims, and then in 2010, sent refund checks totaling $97,461 for earlier years pending our determination of the total overpayment amounts (total refunds to date of $146,125).

The objective of our audit did not require an understanding or assessment of the complete internal control structure at the Hospital. Therefore, we limited our review of internal controls to the billing controls in place at the Hospital to prevent future program overpayments resulting from place-of-service billing errors.

We conducted our fieldwork from July through August 2010.

**Methodology**

To accomplish our objective, we:

- reviewed applicable Medicare laws and regulations;
- used data from our prior place-of-service reviews for CYs 2005-2007 to identify all office-coded physician claims that matched claims submitted by the Hospital for the same service performed for the same beneficiary on the same date;
- calculated the difference for each of these claims between the amount paid and the amount that would have been paid had the place-of-service been coded correctly;
- estimated CY 2004 overpayment amounts using our data files from CYs 2005 and 2006;
- obtained support for the Hospital-calculated overpayments on claims with place-of-service errors in CYs 2004 through 2007 and Hospital refunds made;
- compared our data with the Hospital's support to verify the accuracy of the overpayments determined and the completeness of the refund; and
- discussed the results of our review with officials of both the Hospital and NHIC.

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

We determined that the Hospital submitted claims with overpayments totaling $208,486 for physician services for CYs 2004 through 2007. The Hospital, billing on behalf of its physicians, incorrectly coded these claims by using nonfacility place-of-service codes for services that were actually performed in one of the Hospital's outpatient facilities. To date, the Hospital has made refunds to NHIC for overpayments totaling $146,125.

## PAYMENTS BASED ON INCORRECT PLACE OF SERVICE

### Medicare Requirements

Medicare payment for physician services is based on the lower of the actual charge or the physician fee schedule amount.[2]

For a physician to receive the higher nonfacility practice expense payment for a service, the service must meet the requirements of 42 CFR § 414.22(b)(5)(i)(B), which, during the audit period, provided: "The higher non-facility practice expense RVUs [relative value units] apply to services performed in a physician's office, a patient's home, a nursing facility, or a facility or institution other than a hospital or skilled nursing facility, community mental health center, or ASC performing an ASC approved procedure." CMS publishes a quarterly physician fee schedule in the Federal Register showing those services that have a higher payment rate if performed in a nonfacility setting.

### Results of Review

The Hospital submitted 19,129 incorrectly coded claims for physician services for CYs 2004 through 2007. The Hospital, billing on behalf of its physicians, incorrectly coded these claims by using nonfacility place-of-service codes for services that were actually performed in one of the Hospital's outpatient facilities. When these services were billed with the incorrect office place-of-service code, the physicians were paid the higher nonfacility practice expense payment, to which they were not entitled. As a result, NHIC incorrectly reimbursed the Hospital on behalf of its physicians for the overhead portion of their services.

By repricing claims using the correct place-of-service code, we determined that NHIC overpaid the Hospital, on behalf of its physicians, $208,486 for the 19,129 services that the Hospital had billed incorrectly from April 2004 through December 2007.

### Inadequate Billing Controls

Sample items from our prior nationwide reviews identified that the Hospital did not have adequate controls to ensure that its physician services claims were billed in accordance with Medicare regulations during CYs 2005 through 2007. At that time, the Hospital identified that these coding errors resulted from a software change that occurred in April 2004. Specifically, an undetected flaw in the design or implementation of the software used for billing physician services claims caused all physician services claims to be submitted with a nonfacility location as the place of service.

We verified that the Hospital had corrected the cause of the coding errors in December 2007 by correcting its billing software for physician services performed at the hospital to correctly reflect the facility place-of-service code.

[2]Section 1848(a)(1) of the Social Security Act, 42 U.S.C. § 1395w-4(a)(1).

### Conclusion

As the Hospital has refunded $146,125 to NHIC of the $208,486 overpayment total that we determined, the Hospital still owes $62,361 to complete the refund of its overpayments.

## RECOMMENDATION

We recommend that NHIC:

- accept the Hospital's final payment of $62,361 to complete its refund of $208,486 for overpayments resulting from coding errors on claims submitted on behalf of Hospital physicians for CYs 2004 through 2007.

## NATIONAL HERITAGE INSURANCE CORPORATION COMMENTS

NHIC concurred with our recommendation and accepted the agreed upon final payment of $62,361. NHIC's comments are included in their entirety as the Appendix.

# APPENDIX

NHIC, Corp.
MEDICARE ADMINISTRATIVE CONTRACTOR
JURISDICTION 14 A/B MAC

October 20, 2010

Department of Health and Human Services
Office of the Inspector General
Region I
John F Kennedy Federal Building
Room 2425
Boston, MA 02203

RE: OIG Audit: "Verification of Mid Coast Hospital's Refund of Place of Service Overpayments for Calendar Years 2004-2007 (A-01-10-00523)"- DRAFT REPORT

Dear Mr. Armstrong:
NHIC has reviewed the draft report provided to us by the OIG, and we concur with the OIG's recommendation. As noted in your report, NHIC was unable to formally demand refunds from Mid Coast Hospital as it was determined that overpayments related to the 2004 through 2006 claims were archived and no longer available in our active files. Additionally, the majority of the claims for the period April 1, 2004 to December 2006 were not within the required 4 year reopening period. Therefore, collections on claims prior to December 2006 could not occur.

Since June 15, 2010, NHIC has been working with Andrea J. Rousseau of the OIG to accept Mid Coast Hospital's offer to repay the overpayments. The OIG determined the total Medicare overpayments resulting from place-of-service coding errors was $208,486 for the period April 2004 through December 31, 2007. As Mid Coast had already paid NHIC six checks totaling $146,125, the remaining amount to be refunded to NHIC was $62,361.

On September 7, 2010, NHIC deposited the agreed upon final payment of $62,361 from Mid Coast Hospital. It posted to the account on September 14, 2010. This completes the refund of overpayments resulting from coding errors on claims submitted on behalf of Mid Coast Hospital physicians for calendar years 2004 through 2007.

If you have any questions or comments, please contact me at 530-332-1169 or via email at jennifer.otten@hp.com, or the assigned project leader, Dorothy Auriemma at (781) 741-3163 (dorothy.auriemma@hp.com).

Sincerely,

Jennifer Otten

s/Jennifer Otten
NHIC Audit & Controls Manager

cc: Robert Harrington, NHIC, Corp.
Lindsey Kittrell, CMS