**DEPARTMENT OF HEALTH AND 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 29, 2011

Report Number: A-01-11-00522

Ms. Sherrie D. LeMier
Chief Executive Officer
Cahaba Government Benefit Administrators, LLC
300 Corporate Parkway
Birmingham, AL 35242

Dear Ms. LeMier:

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 Cahaba Government Benefit Administrators That Included Procedures for the Insertion of Multiple Units of the Same Type of Medical Device in 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 Kimberly Rapoza, Audit Manager, at (617) 565-2695 or through email at Kimberly.Rapoza@oig.hhs.gov. Please refer to report number A-01-11-00522 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 CAHABA GOVERNMENT ADMINISTRATORS 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-01-11-00522

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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 Cahaba Government Benefit Administrators (Cahaba), 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 and joint replacement devices. 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 $122,796 in Medicare outlier payments to hospitals for 58 claims for outpatient procedures that included the insertion of more than one of the same type of medical device. The 58 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 Cahaba that included procedures for the insertion of multiple units of the same type of medical device.

## SUMMARY OF FINDINGS

Of the 58 claims that we reviewed, Medicare paid 47 correctly for outpatient claims processed by Cahaba that included procedures for the insertion of multiple units of the same type of medical device. However, for the remaining 11 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 the 11 claims, Cahaba made overpayments to hospitals totaling $29,351. 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 Cahaba:

- recover the $29,351 in overpayments for 11 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.

## CAHABA GOVERNMENT BENEFIT ADMINISTRATORS COMMENTS

In written comments on our draft report, Cahaba concurred with our recommendations and described the corrective actions it has taken or plans to take. Cahaba stated that it had adjusted 8 of the 11 claims that we identified as claims with overpayments for a recovery of $18,593. Two identified overpayment claims transitioned to Wisconsin Physician Services and are no longer recoverable by Cahaba. Cahaba stated that it has forwarded these two claims to CMS's Kansas City Regional Office for recovery. Cahaba is researching the remaining claim to determine whether, due to the age of the claim, it can make an adjustment. Cahaba'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 Cahaba Government Benefit Administrators (Cahaba) to, among other things, process and pay claims submitted by hospital outpatient departments. Cahaba uses the Fiscal Intermediary Shared System (FISS) for processing hospital claims. Cahaba processes claims for Alabama, Georgia, and Tennessee.

### 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 and joint replacement devices. 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 Cahaba that included procedures for the insertion of multiple units of the same type of medical device.

### Scope

Our audit covered $122,796 in Medicare outlier payments to hospitals for 58 claims for outpatient procedures that included the insertion of more than one of the same type of medical device. The 58 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 Cahaba. 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 Cahaba to the controls related to preventing or detecting Medicare overpayments to hospitals for outpatient claims with overstated medical device units.

Our fieldwork included contacting Cahaba and the 19 hospitals that submitted the 58 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 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 Cahaba that included procedures for the insertion of multiple units of the same type of medical device and identified 58 claims to review;
- reviewed the hospitals' itemized bills for 58 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 58 claims to validate the results of our computer match and to verify that the selected claims had not been canceled;

- contacted representatives of the 19 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 Cahaba 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 Cahaba.

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 58 claims that we reviewed, Medicare paid 47 correctly for outpatient claims processed by Cahaba that included procedures for the insertion of multiple units of the same type of medical device. However, for the remaining 11 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 the 11 claims, Cahaba made overpayments to hospitals totaling $29,351. 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 § 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 11 of the 58 claims. These billing errors led to overstated charges, resulting in excessive or unwarranted outlier payments for 11 claims totaling $29,351.

**An Example of Incorrectly Billed Units**

One hospital billed for two automatic implantable cardioverter defibrillator (AICD) units with charges that totaled $49,280. However, the hospital should have billed for one AICD unit with charges of $24,640. The additional charges for the second AICD unit resulted in an unwarranted outlier payment of $4,031 to the hospital.

## CAUSES OF INCORRECT PAYMENTS

### Inadequate Controls at Hospitals

The nine 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 Cahaba 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 Cahaba:

- recover the $29,351 in overpayments for 11 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.

## CAHABA GOVERNMENT BENEFIT ADMINISTRATORS COMMENTS

In written comments on our draft report, Cahaba concurred with our recommendations and described the corrective actions it has taken or plans to take. Cahaba stated that it had adjusted 8 of the 11 claims that we identified as claims with overpayments for a recovery of $18,593. Two identified overpayment claims transitioned to Wisconsin Physician Services and are no longer recoverable by Cahaba. Cahaba stated that it has forwarded these two claims to CMS's Kansas City Regional Office for recovery. Cahaba is researching the remaining claim to determine whether, due to the age of the claim, it can make an adjustment. Cahaba's comments are included in their entirety as the Appendix.

# APPENDIX

## APPENDIX: CAHABA GOVERNMENT BENEFIT ADMINISTRATORS COMMENTS



CAHABA GOVERNMENT BENEFIT ADMINISTRATORS, LLC

August 18, 2011

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

RE: Report Number: A-01-11-00522 Review of Outpatient Claims Processed by Cahaba Government Benefit Administrators That Included Procedures for the Insertion of Multiple Units of the Same Type of Medical Device in Calendar Years 2008 and 2009.

Dear Mr. Armstrong:

This report is in response to the draft report issued to Cahaba Government Benefit Administrators®, LLC's (Cahaba GBA) for the above mentioned audit.

**OIG Recommendations**

**We recommend that Cahaba continue to alert hospitals of the importance of coding outpatient claims with the correct number of medical device units.**

> **Cahaba's Response:** We agree with the recommendation to continue to alert hospitals of the importance of coding outpatient claims with the correct number of medical device units. Cahaba will develop an educational article and direct it to all Part A providers. It will be included in our next available Part A Medicare *Newsline*, on our website at www.cahabagba.com, and sent to Part A providers via our listserv.

**We recommend that Cahaba work with CMS to strengthen FISS prepayment edits by revising the unit amount thresholds for certain medical devices.**

> **Cahaba's Response:** We agree with the recommendation to work with CMS to strengthen FISS prepayment edits by revising the unit amount thresholds for certain medical devices. OIG should make the recommendation to CMS to issue a Change Request to have the system maintainer hardcode the edits thus ensuring all contractors have the same edits in place including the same group of HCPCS codes.

In the interim, the Medical Director will review the list of devise HCPCS. For those items where only one unit should ever be billed, a local edit can be created to RTP the claims for verification and correction. If there ever should be a need to bill more than one unit on any of the HCPCS, we can have that edit created to develop for records.

**We recommend that Cahaba recover the $29,351 in overpayments for 11 inaccurate claims.**

**Cahaba's Response:** Cahaba or its providers have adjusted 8 of 11 claims for an overpayment of $18,592.73 and is in the process of recovery. Two identified overpayment claims (sample 34 & 247) totaling $1,015.55 transitioned to WPS October 1, 2001 and are no longer recoverable by Cahaba. These claims have been referred to the Kansas City Regional Office for their referral to WPS for recovery.

The remaining sample item #289 for $9,742.11 is currently being researched to determine if the history can be pulled back for adjustment as the original claim no longer appears on the central working file or on FISS.

If you should have any questions regarding this report, please contact Molly Echols, Compliance Officer at (205) 220-1587 or via email at Mechols@cahabagba.com.

Sincerely,

Sherrie LeMier
President and Chief Operating Officer
Cahaba Government Benefit Administrators®, LLC

CC: Brandon Ward, Vice President, Cahaba GBA Operations
Ronald Whitehead, Chief Financial Officer