



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

October 24, 2011

Report Number: A-01-11-00528

Mr. Paul O'Donnell
Vice President Medicare Operations
Noridian Administrative Services
900 42nd Street South
Fargo, ND 58103

Dear Mr. O'Donnell:

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 Noridian Administrative Services 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-01-11-00528 in all correspondence.

Sincerely,

/Michael 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 NORIDIAN
ADMINISTRATIVE SERVICES 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

October 2011
A-01-11-00528

Office of Inspector General

<http://oig.hhs.gov>

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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.

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 employs Medicare contractors, including Noridian Administrative Services, LLC (Noridian), 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 assigned ambulatory payment classification group. Under the OPPS, outlier payments are available when exceptionally costly services exceed established thresholds.

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 the OPPS, payments to hospitals for medical devices are “packaged” into the payments for the procedures to insert devices. 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 \$99,947 in Medicare outlier payments to hospitals for 28 claims for outpatient procedures that included the insertion of more than one of the same type of medical device. The 28 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 Noridian that included procedures for the insertion of multiple units of the same type of medical device.

SUMMARY OF FINDINGS

Of the 28 claims that we reviewed, Medicare paid 21 correctly for outpatient claims processed by Noridian that included procedures for the insertion of multiple units of the same type of medical device. However, for the remaining seven 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 seven claims, Noridian made overpayments to hospitals totaling \$38,810. 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 Noridian:

- recover the \$38,810 in overpayments for seven 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.

NORIDIAN ADMINISTRATIVE SERVICES COMMENTS

In written comments on our draft report, Noridian concurred with our recommendations and described its corrective actions. Noridian's comments are included in their entirety as the Appendix.

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NORIDIAN ADMINISTRATIVE SERVICES COMMENTS	

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 Noridian Administrative Services, LLC (Noridian), to, among other things, process and pay claims submitted by hospital outpatient departments. Noridian uses the Fiscal Intermediary Shared System (FISS) for processing hospital claims. Noridian processes claims for Arizona, Montana, North Dakota, South Dakota, Utah, and Wyoming.

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, during an outpatient surgical procedure. Under the OPPS, payments to hospitals for medical devices are "packaged" into the payments for the procedures to insert devices. Although Medicare does not pay separately for devices, 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 Noridian that included procedures for the insertion of multiple units of the same type of medical device.

Scope

Our audit covered \$99,947 in Medicare outlier payments to hospitals for 28 claims for outpatient procedures that included the insertion of more than one of the same type of medical device. The 28 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 the hospitals or Noridian. 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 Noridian to the controls related to preventing or detecting Medicare overpayments to hospitals for outpatient claims with overstated medical device units.

Our fieldwork included contacting Noridian and the 15 hospitals that submitted the 28 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 Noridian that included procedures for the insertion of multiple units of the same type of medical device and identified 28 claims to review;
- reviewed the hospitals' itemized bills for 28 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 28 claims to validate the results of our computer match and to verify that the selected claims had not been canceled;
- contacted representatives of the 15 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 Noridian 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 Noridian.

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 28 claims that we reviewed, Medicare paid 21 correctly for outpatient claims processed by Noridian that included procedures for the insertion of multiple units of the same type of medical device. However, for the remaining seven 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 seven claims, Noridian made overpayments to hospitals totaling \$38,810. 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)) provide 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 7 of the 28 claims. These billing errors led to overstated charges, resulting in excessive or unwarranted outlier payments for seven claims totaling \$38,810.

An Example of Incorrectly Billed Units

One hospital billed for two programmable infusion pumps units with charges that totaled \$53,760. However, the hospital should have billed for one unit with charges of \$24,640. The additional charges for the second unit resulted in an unwarranted outlier payment of \$7,668 to the hospital.

CAUSES OF INCORRECT PAYMENTS

Inadequate Controls at Hospitals

The four 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 Noridian 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.
- 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 (e.g., currently, there is a two-unit threshold for pacemakers).

RECOMMENDATIONS

We recommend that Noridian:

- recover the \$38,810 in overpayments for seven 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.

NORIDIAN ADMINISTRATIVE SERVICES COMMENTS

In written comments on our draft report, Noridian concurred with our recommendations and described its corrective actions. Noridian's comments are included in their entirety as the Appendix.

APPENDIX



900 42nd Street South
Fargo, ND 58103

Medicare

October 18, 2011

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

RE: Report Number A-01-11-00528

Dear Mr. Armstrong:

Thank you for the opportunity to respond to the draft report of the U.S. Department of Health & Human Services, Office of Inspector General (OIG) dated September 19, 2011, entitled, *Review of Outpatient Claims Processed by Noridian Administrative Services That Included Procedures for the Insertion of Multiple Units of the Same Type of Medical Device in Calendar Years 2008 and 2009*. We concur with the recommendations for improvement made by the OIG. Noridian Administrative Services, LLC (NAS) has provided our responses to these recommendations within the contents of this letter.

The scope of this audit resulted in the review of 28 claims, 21 of which were paid correctly. The seven (7) remaining claims involved four (4) hospitals.

OIG RECOMMENDATIONS:

Recover the \$38,810 in overpayments for seven inaccurate claims

NAS concurs with this recommendation. The NAS standard overpayment recovery process is being utilized to ensure these adjustments are submitted to NAS.

Continue to alert hospitals of the importance of coding outpatient claims with the correct number of medical device units

NAS concurs with this recommendation. NAS uses both provider specific and broad-based provider education tools (e.g. education sessions, articles, etc.). NAS will incorporate examples of the subject billing errors in future education efforts.



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

NAS concurs with this recommendation. NAS will continue to work with CMS, FISS, and the MUE Advisory Committee as to refining MUE unit of service limits that may, in some cases, be set too high. In the interim, NAS will work to implement appropriate local edits. Further, NAS' Part A Medical Review will consider the relevant HCPCs in the context of potential vulnerabilities analysis that supports review strategies.

Please advise if additional information or further clarification is needed on any of our response. Please contact Paul O'Donnell, Medicare Operations Vice President, at (701) 277-2401 or through email at Paul.O'Donnell@noridian.com

Sincerely,

/s/ Paul O'Donnell

Paul O'Donnell
Vice President
Noridian Administrative Services, LLC