DEPARTMENT OF HEALTH & HUMAN SERVICES Office of Inspector General

Washington, D.C. 20201

JUL - 1 2008

TO: Kerry Weems
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Review of Place-of-Service Coding for Physician Services Processed by First Coast Service Options, Inc., During Calendar Years 2004 and 2005 (A-01-07-00518)

Attached is an advance copy of our final report on place-of-service coding for physician services processed by First Coast Service Options, Inc. (First Coast), during 2004 and 2005. We will issue this report to First Coast within 5 business days. First Coast is a Part B carrier that processes and pays claims submitted by providers in two States.

Although physicians routinely perform many Medicare Part B services in an outpatient hospital department or a freestanding ambulatory surgical center, some of these services may also be performed in nonfacility settings such as a physician's office. To account for the increased expense that physicians incur by performing services in their offices, Medicare reimburses physicians a higher amount for services performed in their offices rather than in an outpatient hospital or an ambulatory surgical center. Physicians are required to identify the place of service on the health insurance claim forms that they submit to Medicare Part B carriers. The correct place-of-service code ensures that Medicare does not duplicate payment to the physician and the facility.

The objective of our audit was to determine whether physicians correctly coded the place of service on claims submitted to and paid by First Coast.

Physicians did not always correctly code the place of service on claims submitted to and paid by First Coast. Physicians correctly coded the claims for 15 of the 100 sampled services. However, physicians incorrectly coded the claims for 85 sampled services by using the office place-of-service code for services that were actually performed in outpatient hospitals or ambulatory surgical centers. Of the 85 incorrectly coded services, 31 did not result in overpayments. The remaining 54 claims resulted in overpayments totaling $2,914.

Based on these sample results, we estimated that First Coast overpaid physicians $1,493,801 for incorrectly coded services provided during the 2-year period that ended December 31, 2005. We attribute the overpayments to internal control weaknesses at the physician billing level.

We recommend that First Coast:

- recover the $2,914 in overpayments for the sampled services,

- review our information on the 57,215 nonsampled services to identify services estimated at $1,490,887 that were potentially billed with incorrect place-of-service codes and work with the physicians who provided the services to recover any overpayments,

- strengthen its education process and reemphasize to physicians and their billing agents the importance of correctly coding the place of service and the need for internal controls to prevent Medicare billings with incorrect place-of-service codes, and

- work with the program safeguard contractor to (1) develop a data match that will identify physician services at high risk for place-of-service miscoding and (2) recover any identified overpayments.

In its written response to our draft report, First Coast agreed with our recommendations.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare
& Medicaid Audits, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov or Michael J. Armstrong, Regional Inspector General for Audit Services, Region I, at (617) 565-2684 or through e-mail at Michael.Armstrong@oig.hhs.gov. Please refer to report number A-01-07-00518.

Attachment

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

JUL - 8 2008

Report Number: A-01-07-00518

Ms. Sandy Coston
President
First Coast Service Options, Inc.
532 Riverside Avenue, 20T
Jacksonville, Florida 32202-5268

Dear Ms. Coston:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Place-of-Service Coding for Physician Services Processed by First Coast Service Options, Inc., During Calendar Years 2004 and 2005." 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to call me at (617) 565-2684, or contact David Lamir, Audit Manager, at (617) 565-2704 or through e-mail at David.Lamir@oig.hhs.gov. Please refer to report number A-01-07-00518 in all correspondence.

Sincerely,

Michael J. Armstrong

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nanette Foster Reilly
Consortium Administrator
Consortium for Financial Management and 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 PLACE-OF-SERVICE CODING FOR PHYSICIAN SERVICES PROCESSED BY FIRST COAST SERVICE OPTIONS, INC., DURING CALENDAR YEARS 2004 AND 2005

Daniel R. Levinson
Inspector General

July 2008
A-01-07-00518

Office of Inspector General

http://oig.hhs.gov

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

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 an outpatient hospital department or a freestanding ambulatory surgical center, some of these services may also be performed in nonfacility settings such as a physician's office. To account for the increased expense that physicians incur by performing services in their offices, Medicare reimburses physicians a higher amount for services performed in their offices rather than in an outpatient hospital or an ambulatory surgical center.

Physicians are required to identify the place of service on the health insurance claim forms that they submit to Medicare Part B carriers. The correct place-of-service code ensures that Medicare does not duplicate payment to the physician and the facility. First Coast Service Options, Inc. (First Coast), is a Part B carrier that processes and pays claims submitted by providers in two States.

OBJECTIVE

The objective of our audit was to determine whether physicians correctly coded the place of service on claims submitted to and paid by First Coast.

SUMMARY OF FINDING

Physicians did not always correctly code the place of service on claims submitted to and paid by First Coast. Physicians correctly coded the claims for 15 of the 100 sampled services. However, physicians incorrectly coded the claims for 85 sampled services by using the office place-of-service code for services that were actually performed in outpatient hospitals or ambulatory surgical centers. Of the 85 incorrectly coded services, 31 did not result in overpayments. The remaining 54 claims resulted in overpayments totaling $2,914.

Based on these sample results, we estimated that First Coast overpaid physicians $1,493,801 for incorrectly coded services provided during the 2-year period that ended December 31, 2005. We attribute the overpayments to internal control weaknesses at the physician billing level.

RECOMMENDATIONS

We recommend that First Coast:

- recover the $2,914 in overpayments for the sampled services,

- review our information on the 57,215 nonsampled services to identify services estimated at $1,490,887 that were potentially billed with incorrect place-of-service codes and work with the physicians who provided the services to recover any overpayments,

- strengthen its education process and reemphasize to physicians and their billing agents the importance of correctly coding the place of service and the need for internal controls to prevent Medicare billings with incorrect place-of-service codes, and

- work with the program safeguard contractor to (1) develop a data match that will identify physician services at high risk for place-of-service miscoding and (2) recover any identified overpayments.

FIRST COAST SERVICE OPTIONS, INC., COMMENTS

In its written comments on our draft report, First Coast agreed with our recommendations. We have included First Coast's comments in their entirety as Appendix D.

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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 outpatient hospital departments and freestanding ambulatory surgical centers (ASC), or in physician offices.

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 incur by performing services in their offices, Medicare reimburses physicians a higher amount for services performed in their offices rather than in an outpatient hospital or an ASC. Physicians are required to identify the place of service by using codes on the health insurance claim forms that they submit to Medicare Part B carriers. The correct place-of-service code ensures that Medicare does not duplicate payment to the physician and the facility.

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.

Medicare Contractors

Medicare Part B carriers, under contract with the Centers for Medicare & Medicaid Services (CMS), process and pay claims submitted by physicians, clinical laboratories, suppliers, and ASCs. First Coast Service Options, Inc. (First Coast), is the carrier for Part B providers in Connecticut and Florida.

As authorized by the Health Insurance Portability and Accountability Act of 1996, CMS contracts with program safeguard contractors to perform Medicare program integrity activities. Under CMS's Umbrella Statement of Work, these contractors conduct medical reviews, cost report audits, data analyses, provider education, and fraud detection and prevention.

Prior Office of Inspector General Reports

Our previous reviews found that several carriers overpaid physicians who did not correctly identify the place of service on their billings. (See Appendix A.) Our recommendations in those

reports called for the carriers to educate physicians regarding proper billing, recover identified overpayments, and analyze postpayment data to detect and recover overpayments for improperly billed claims. The carriers generally concurred with our recommendations.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether physicians correctly coded the place of service on claims submitted to and paid by First Coast.

Scope

Our audit covered physician services provided from January 1, 2004, through December 31, 2005. We analyzed a stratified random sample of 100 services selected from a population of 57,315 physician services totaling $5,030,991 that First Coast had paid and that our computer match had identified as potentially billed with incorrect place-of-service codes. (See Appendix B for our sampling methodology.)

The objective of our audit did not require an understanding or assessment of the complete internal control structure at First Coast or the physicians' offices. Therefore, we limited our review of internal controls at First Coast to the payment controls in place to prevent overpayments resulting from place-of-service billing errors. We limited our review of internal controls at physicians' offices to obtaining an understanding of controls related to developing and submitting Medicare claims.

We performed fieldwork at First Coast in Meriden, Connecticut, in May 2007 and in Jacksonville, Florida, in January 2008.

Methodology

To accomplish our objective, we:

- reviewed applicable Medicare laws and regulations;

- identified physician services that had varying payment levels depending on the place of service;

- matched physician claims for services with varying payment levels to claims from outpatient hospitals or ASCs for the same service provided to the same beneficiary on the same date and obtained a population of 57,315 physician services;

- selected a stratified random sample of 100 paid services from the population of services that were potentially billed with incorrect place-of-service codes;

- reviewed Common Working File and National Claims History File paid claim data for each sampled service to validate the payment amount and to determine the place of service identified on the claim;

- sent detailed internal control questionnaires and requests for medical and billing records to, and received responses from, the 81 physicians who provided the 100 sampled services;

- reviewed questionnaire responses and medical and billing records and, if necessary, followed up with physicians or their billing agents to request additional information to confirm the correct place of service, identify coding discrepancies, and identify the causes of incorrect coding;

- followed up with outpatient hospitals and ASCs, when necessary, to determine whether the sampled services were performed at the facilities;

- calculated any Medicare overpayments for the sampled services;

- reviewed Common Working File data to determine whether claims for the sampled services had subsequently been adjusted;

- estimated the total value of erroneous claims in the population, as described in Appendix C; and

- discussed the results of our review with First Coast officials.

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 audit finding and conclusions based on our audit objective.

FINDING AND RECOMMENDATIONS

Physicians did not always correctly code the place of service on claims submitted to and paid by First Coast. Physicians correctly coded the claims for 15 of the 100 sampled services. However, physicians incorrectly coded the claims for 85 sampled services by using the office place-of-service code for services that were actually performed in outpatient hospitals or ASCs. Of the 85 incorrectly coded services, 31 did not result in overpayments. The remaining 54 incorrectly coded claims resulted in overpayments totaling $2,914.

Based on these sample results, we estimated that First Coast overpaid physicians $1,493,801 for incorrectly coded services provided during the 2-year period that ended December 31, 2005. We attribute the overpayments to internal control weaknesses at the physician billing level.

PAYMENTS BASED ON INCORRECT PLACE OF SERVICE

Medicare Requirements

Medicare payment for physicians' services is based on the lower of the actual charge or the physician fee schedule amount.[1]

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 that:[2]

> The higher non-facility practice expense RVUs [relative value units] apply to services performed in a physician's office, a patient's home, an ASC if the physician is performing a procedure not on the ASC approved procedures list, 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 physician's office.

Results of Sample

For 85 of the 100 sampled services, physicians incorrectly used the office place-of-service code associated with the higher nonfacility practice expense payment. Of the 85 incorrectly coded services, 31 did not result in overpayments because the physicians' billings (i.e., their actual charges) did not exceed the Medicare fee schedule amount that would have applied if they had used the correct facility place-of-service code. For each of the remaining 54 services, the physicians' actual charges exceeded the Medicare fee schedule amount associated with the facility place-of-service code. Therefore, when those 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. Thirty-seven of the services were actually performed in outpatient hospital settings, and 17 were ASC-approved procedures performed in ASCs.

Example of Incorrect Coding

A physician was paid $289 for a spinal pain injection coded as having been performed in his office. Our analysis showed that the physician actually performed the ASC-approved procedure in an ASC and should have received a payment of $112. As a result, the physician was overpaid $177.

[1] 42 U.S.C. § 1848(a)(1).

[2] Effective January 1, 2008, CMS revised 42 CFR § 414.22(b)(5)(i)(A) and (B) to provide that no facility practice expense payment will be made to physicians for procedures that are performed in an ASC but are not on the ASC approved procedures list.

By repricing claims using the correct place-of-service code, we determined that First Coast overpaid physicians $2,914 for the 54 services that physicians had billed incorrectly.

Estimate of Overpayments

Based on these sample results, we estimated that First Coast overpaid physicians $1,493,801 for services provided in 2004 and 2005 that were billed using incorrect place-of-service codes. (See Appendix C.)

Internal Control Weaknesses at Physician Offices

Many physicians had not implemented internal controls to prevent billings with incorrect place-of-service codes. Physicians and their billing personnel or billing agents told us that they had coded the place of service incorrectly for one or more of the following reasons:

- Physicians' billing personnel or billing agents were confused about the precise definition of a "physician's office" or were simply following established practice in applying the office place-of-service code.

- Physicians' billing agents were unaware that an incorrect place-of-service code could change the Medicare payment for a specific service.

- Personnel made isolated data entry errors.

- Undetected flaws in the design or implementation of some billing systems caused all claims to be submitted with "physician's office" as the place of service.

Physicians and their staff used the office place-of-service code even though they knew, or should have known, that the service was not performed in the physician's office. Medicare claim form instructions specifically state that each provider or practitioner who submits claims to Medicare is responsible for becoming familiar with Medicare coverage and billing requirements.

RECOMMENDATIONS

We recommend that First Coast:

- recover the $2,914 in overpayments for the sampled services,

- review our information on the 57,215 nonsampled services to identify services estimated at $1,490,887 that were potentially billed with incorrect place-of-service codes and work with the physicians who provided the services to recover any overpayments,

- strengthen its education process and reemphasize to physicians and their billing agents the importance of correctly coding the place of service and the need for internal controls to prevent Medicare billings with incorrect place-of-service codes, and

- work with the program safeguard contractor to (1) develop a data match that will identify physician services at high risk for place-of-service miscoding and (2) recover any identified overpayments.

FIRST COAST SERVICE OPTIONS, INC., COMMENTS

In its written comments on our draft report, First Coast agreed with our recommendations. We have included First Coast's comments in their entirety as Appendix D.

APPENDIXES

APPENDIX A

PRIOR OFFICE OF INSPECTOR GENERAL REPORTS

Report Title and Number	Issue Date
"Review of Payments Made by National Heritage Insurance Company for Ambulatory Surgical Procedures for Calendar Year 2001" (A-01-02-00524)	July 23, 2003
"Review of Place of Service Coding for Physician Services - Wisconsin Physician Services, Madison, Wisconsin" (A-05-04-00025)	October 5, 2004
"Review of Place of Service Coding for Physician Services - Trailblazer Health Enterprises, LLC, for the Period January 1, 2001, Through December 31, 2002" (A-06-04-00046)	January 21, 2005
"Review of Place of Service Coding for Physician Services" (A-02-04-01010)	January 26, 2005
"Review of Place of Service Coding for Physician Services Processed by National Heritage Insurance Company During Calendar Years 2002 and 2003" (A-01-06-00502)	December 7, 2006

SAMPLING METHODOLOGY

OBJECTIVE

The objective of our audit was to determine whether physicians correctly coded the place of service on claims submitted to and paid by First Coast Service Options, Inc. (First Coast).

POPULATION

The population consisted of 57,315 services that were provided from January 1, 2004, to December 31, 2005, and billed to Medicare Part B by physicians who may have used incorrect nonfacility place-of-service codes. First Coast processed and paid these services. These services, although coded as having been performed in nonfacility settings, were matched with data that indicated that the services might have been performed in outpatient hospitals or ambulatory surgical centers.

SAMPLE DESIGN

We designed a random sample by dividing our population into two strata. The first stratum consisted of services billed as having been performed in physicians' offices that might have been performed in outpatient hospitals. The second stratum consisted of services billed as having been performed in physicians' offices that might have been performed in ambulatory surgical centers.

Stratum	Description	Number of Population Services	Payment Amounts
1	Outpatient hospital	46,302	$2,909,588
2	Ambulatory surgical center	11,013	2,121,403
Total		**57,315**	**$5,030,991**

SAMPLE SIZE

The sample consisted of 100 services totaling $12,089. We selected 70 services from stratum 1 and 30 services from stratum 2.

SAMPLE RESULTS AND ESTIMATES

Sample Results

Stratum	Sample Size	Value of Sample	Number of Miscoded Services	Value of Miscoded Services
Outpatient hospital	70	$4,751.85	37	$1,440.07
Ambulatory surgical center	30	7,337.21	17	1,474.41
Total	**100**	**$12,089.06**	**54**	**$2,914.48**

Estimated Value of Erroneous Claims
(*Limits Calculated for a 90-Percent Confidence Interval*)

Point estimate	$1,493,801
Lower limit	$1,125,932
Upper limit	$1,861,670

FIRST COAST
SERVICE OPTIONS, INC.
WHEN EXPERIENCE COUNTS & QUALITY MATTERS

Sandy Coston
CEO & President
First Coast Service Options, Inc.
Sandy.Coston@fcso.com

May 28, 2008

Mr. Michael J. Armstrong
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region I
John F. Kennedy Federal Building
Boston, MA 02203

Reference: A-01-07-00518

Dear Mr. Armstrong:

We received the U.S. Department of Health & Human Services, Office of Inspector General draft report entitled, "Review of Place-of-Service Coding for Physician Claims Processed by First Coast Service Options, Inc." and reviewed the findings and recommendations. We appreciate the opportunity to review and provide comments prior to release of the final report.

First Coast Service Options, Inc. (FCSO) strives to safeguard against inappropriate Medicare Trust Fund expenditures. The claims in question were paid as submitted by the provider with place-of-service *office* instead of place-of-service *outpatient hospital* or *ambulatory surgical center (ASC).* As the FISS and MCS systems do not interface, FCSO is unable to edit the physician claim against a Part A facility claim to identify a potential conflict in place-of-service coding. Even with the ASC claims, if the physician bills his/her claim before the ASC, there would not be a claim against which the physician claim would validate.

In the draft report, you outlined four recommendations that we have addressed as follows:

Recommendation 1:

Recover the $2,914 in overpayments for the sampled services.

Response:
FCSO will initiate its standard overpayment recovery procedures to recover the 54 services identified by the OIG.

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Recommendation 2:

Review our information on the 57,215 non-sampled services to identify services estimated at $1,490,887 that were potentially billed with incorrect place-of-service codes and work with the physicians who provided the services to recover any overpayments.

Response:
FCSO will analyze and evaluate the non-sampled services for potential overpayments. Where appropriate, FCSO will notify the physicians identified in the universe of non-sampled services, request they assess identified claims for place-of-service coding errors, and request they refund any overpayments identified during their reviews.

Recommendation 3:

Strengthen its education process, re-emphasize to physicians and their billing agents the importance of correctly coding the place-of-service, and need for internal controls to prevent Medicare billings with incorrect place-of-service codes.

Response:
Educational materials have been identified and redesigned to strengthen educational and training material for providers. We have already taken actions to update our website and provider outreach publications.

Recommendation #4:

Work with program safeguard contractor to: (1) develop a data match that will identify physician services at high risk for place-of-service miscoding, and (2) recover any identified overpayments.

Response:
FCSO will advise the program safeguard contractor (PSC) of the OIG's recommendation to develop a data match that will identify physician services at high risk for place-of-service miscoding. As overpayments are identified by the PSC, FCSO will initiate standard overpayment recovery procedures.

Again, we appreciate the opportunity to review and provide comments prior to release of the final report. If you have any questions regarding our response, please contact Mr. Gregory W. England at (904) 791-8364.

Sincerely,

Sandy Coston

Sandy Coston