DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

MAR 11 2008

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

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

SUBJECT: Review of Excessive Payments for Outpatient Services Processed by National Government Services in Michigan and Wisconsin for Calendar Years 2004 and 2005 (A-05-07-00066)

Attached is an advance copy of our final report on excessive payments for outpatient services processed by National Government Services in Michigan and Wisconsin for calendar years (CY) 2004 and 2005. We will issue this report to National Government Services within 5 business days. This audit was part of a nationwide review of excessive payments for outpatient services of $50,000 or more (high-dollar payments).

Our objective was to determine whether high-dollar Medicare payments that National Government Services made to hospitals for outpatient services were appropriate.

Of the 45 high-dollar payments that National Government Services made for outpatient services for CYs 2004 and 2005, only 1 was appropriate. The remaining 44 payments included overpayments totaling $2,737,857, which the hospitals had not refunded by the beginning of our audit:

- For 24 claims, National Government Services overpaid hospitals $1,729,239 because it used incorrect Healthcare Common Procedure Coding System codes during the adjustment and reprocessing of claims pursuant to Centers for Medicare & Medicaid Services Change Request 3145.

- For 20 claims, National Government Services overpaid hospitals $1,008,618 because the hospitals claimed excessive units of service.

National Government Services made the overpayments because it did not have prepayment or postpayment controls to identify aberrant payments at the claim level. In addition, neither the Fiscal Intermediary Standard System nor the Common Working File had sufficient edits in place during CYs 2004 and 2005 to detect and prevent excessive payments.

We recommend that National Government Services recover the $2,737,857 in identified overpayments.

In its comments on our draft report, National Government Services agreed with our recommendation.

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 Marc Gustafson, Regional Inspector General for Audit Services, Region V, at (312) 353-2621 or through e-mail at Marc.Gustafson@oig.hhs.gov. Please refer to report number A-05-07-00066.

Attachment

DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

MAR 13 2008

Report Number: A-05-07-00066

Ms. Sandy Miller
President
National Government Services
8115 Knue Road
Indianapolis, Indiana 46250

Dear Ms. Miller:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Excessive Payments for Outpatient Services Processed by National Government Services in Michigan and Wisconsin for 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, within 10 business days after the final report is issued, it 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, or contact Jaime Saucedo, Audit Manager, at (312) 353-8693 or through e-mail at Jaime.Saucedo@oig.hhs.gov. Please refer to report number A-05-07-00066 in all correspondence.

Sincerely,

Marc Gustafson
Regional Inspector General
for Audit Services

Enclosure

cc:
Ms. Sarah Litteral
Director, Part A/RHHI Claims
National Government Services
9901 Linn Station Road
Louisville, Kentucky 40223

Direct Reply to HHS Action Official:

Mr. Tom Lenz
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 EXCESSIVE PAYMENTS FOR OUTPATIENT SERVICES PROCESSED BY NATIONAL GOVERNMENT SERVICES IN MICHIGAN AND WISCONSIN FOR CALENDAR YEARS 2004 AND 2005

Daniel R. Levinson
Inspector General

March 2008
A-05-07-00066

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

Pursuant to Title XVIII of the Social Security Act, the Medicare program provides health insurance for people age 65 and over and those who are disabled or have permanent kidney disease. The Centers for Medicare & Medicaid Services (CMS), which administers the program, contracts with fiscal intermediaries to process and pay Medicare Part B claims submitted by hospital outpatient departments. The intermediaries use the Fiscal Intermediary Standard System and CMS's Common Working File to process claims. The Common Working File can detect certain improper payments during prepayment validation.

Medicare guidance requires hospitals to claim outpatient services using the appropriate Healthcare Common Procedure Coding System (HCPCS) codes and to report units of service as the number of times that a service or procedure was performed. Through the "Medicare Claims Processing Manual," Publication No. 100-04, Transmittal No. 113, Change Request 3145, dated February 27, 2004, CMS acknowledged that it had incorrectly stated the payment rates for certain HCPCS codes in two Federal Register publications. CMS also instructed fiscal intermediaries to adjust payments for incorrectly paid claims for services furnished from January 1 through March 31, 2004.

During our audit period (calendar years (CY) 2004 and 2005), United Government Services was the fiscal intermediary for Wisconsin and Michigan. United Government Services processed approximately 13.9 million outpatient claims during this period, 45 of which resulted in payments of $50,000 or more (high-dollar payments). In January 2007, National Government Services assumed the business operations of United Government Services.

OBJECTIVE

Our objective was to determine whether high-dollar Medicare payments that National Government Services made to hospitals for outpatient services were appropriate.

SUMMARY OF FINDINGS

Of the 45 high-dollar payments that National Government Services made for outpatient services for CYs 2004 and 2005, only 1 was appropriate. The remaining 44 payments included overpayments totaling $2,737,857, which the hospitals had not refunded by the beginning of our audit:

- For 24 claims, National Government Services overpaid hospitals $1,729,239 because it used incorrect HCPCS codes during the adjustment and reprocessing of claims pursuant to CMS Change Request 3145.

- For 20 claims, National Government Services overpaid hospitals $1,008,618 because the hospitals claimed excessive units of service.

National Government Services made the overpayments because it did not have prepayment or postpayment controls to identify aberrant payments at the claim level. In addition, neither the Fiscal Intermediary Standard System nor the Common Working File had sufficient edits in place during CYs 2004 and 2005 to detect and prevent excessive payments.

RECOMMENDATION

We recommend that National Government Services recover the $2,737,857 in identified overpayments.

AUDITEE'S COMMENTS

In written comments on our draft report, National Government Services agreed with the recommendation. National Government Services's comments are included in their entirety as the Appendix.

TABLE OF CONTENTS

INTRODUCTION

BACKGROUND

Pursuant to Title XVIII of the Social Security Act, the Medicare program provides health insurance for people age 65 and over and those who are disabled or have permanent kidney disease. The Centers for Medicare & Medicaid Services (CMS) administers the program.

Medicare Fiscal Intermediaries

CMS contracts with fiscal intermediaries to, among other things, process and pay Medicare Part B claims submitted by hospital outpatient departments. The intermediaries' responsibilities include determining reimbursement amounts, conducting reviews and audits, and safeguarding against fraud and abuse. Federal guidance provides that intermediaries must maintain adequate internal controls over automatic data processing systems to prevent increased program costs and erroneous or delayed payments.

To process hospitals' outpatient claims, the intermediaries use the Fiscal Intermediary Standard System and CMS's Common Working File. The Common Working File can detect certain improper payments during prepayment validation.

In calendar years (CY) 2004 and 2005, fiscal intermediaries processed and paid approximately 278 million outpatient claims, 989 of which resulted in payments of $50,000 or more (high-dollar payments).

Claims for Outpatient Services

Medicare guidance requires hospitals to submit accurate claims for outpatient services. Hospitals should use the appropriate Healthcare Common Procedure Coding System (HCPCS) codes and report units of service as the number of times that a service or procedure was performed.

Through the "Medicare Claims Processing Manual," Publication No. 100-04, Transmittal No. 113, Change Request 3145, dated February 27, 2004, CMS acknowledged that it had incorrectly stated the payment rates for certain HCPCS codes in two Federal Register publications.[1] CMS also instructed fiscal intermediaries to adjust payments for incorrectly paid claims for services furnished from January 1 through March 31, 2004. The adjustments applied only to services furnished in outpatient departments of hospitals paid under the outpatient prospective payment system.

[1]In a December 31, 2003, Correction Notice, 68 FR 75442, CMS incorrectly stated the payment rate for ambulatory payment classification 0384, which affected payments for the related HCPCS codes. In a January 6, 2004, Interim Final Rule with comment period, 69 FR 820, which described changes made pursuant to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P. L. No. 108-173, CMS incorrectly stated the payment rate for certain drug codes.

National Government Services

During our audit period (CYs 2004 and 2005), United Government Services was the fiscal intermediary in Wisconsin and Michigan. United Government Services processed approximately 13.9 million outpatient claims during this period, 45 of which resulted in high-dollar payments. In January 2007, National Government Services assumed the business operations of United Government Services.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether high-dollar Medicare payments that National Government Services made to hospitals for outpatient services were appropriate.

Scope

We reviewed the 45 high-dollar payments for outpatient claims that National Government Services processed during CYs 2004 and 2005. We limited our review of National Government Services's internal controls to those applicable to the 45 payments because our objective did not require an understanding of all internal controls over the submission and processing of claims. Our review allowed us to establish reasonable assurance of the authenticity and accuracy of the data obtained from the National Claims History file, but we did not assess the completeness of the file.

We conducted fieldwork from May through August 2007. Our fieldwork included contacting National Government Services, located in Milwaukee, Wisconsin, and the hospitals that received the high-dollar payments.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;

- used CMS's National Claims History file to identify outpatient claims with high-dollar payments;

- reviewed available Common Working File claim histories for claims with high-dollar payments to determine whether the claims had been canceled and superseded by revised claims or whether payments remained outstanding at the time of our fieldwork;

- contacted the hospitals that received the high-dollar payments to determine whether the information on the claims was correct and, if not, why the claims were incorrect and whether the hospitals agreed that refunds were appropriate; and

- validated with National Government Services that overpayments occurred and refunds were appropriate.

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 RECOMMENDATION

Of the 45 high-dollar payments that National Government Services made for outpatient services for CYs 2004 and 2005, only 1 was appropriate. The remaining 44 payments included overpayments totaling $2,737,857, which the hospitals had not refunded by the beginning of our audit:

- For 24 claims, National Government Services overpaid hospitals $1,729,239 because it used incorrect HCPCS codes during the adjustment and reprocessing of claims pursuant to CMS Change Request 3145.

- For 20 claims, National Government Services overpaid hospitals $1,008,618 because the hospitals claimed excessive units of service.

National Government Services made the overpayments because it did not have prepayment or postpayment controls to identify aberrant payments at the claim level. In addition, neither the Fiscal Intermediary Standard System nor the Common Working File had sufficient edits in place during CYs 2004 and 2005 to detect and prevent excessive payments.

FEDERAL REQUIREMENTS

Section 9343(g) of the Omnibus Budget Reconciliation Act of 1986, P. L. No. 99-509, requires hospitals to report claims for outpatient services using HCPCS codes. CMS's "Medicare Claims Processing Manual," Publication No. 100-04, Chapter 4, section 20.4, states: "The definition of service units . . . is the number of times the service or procedure being reported was performed." In addition, Chapter 1, section 80.3.2.2, of this manual states: "In order to be processed correctly and promptly, a bill must be completed accurately."

Section 3700 of the "Medicare Intermediary Manual" states: "It is essential that you [the fiscal intermediary] maintain adequate internal controls over Title XVIII [Medicare] automatic data processing systems to preclude increased program costs and erroneous and/or delayed payments."

INAPPROPRIATE HIGH-DOLLAR PAYMENTS

National Government Services made 44 overpayments totaling $2,737,857 as a result of claim adjustment processing errors and hospital reporting of excessive units of service.

Claim Adjustment Processing Errors

National Government Services incorrectly adjusted and reprocessed 24 claims based on CMS Change Request 3145, resulting in overpayments totaling $1,729,239. The change request instructed fiscal intermediaries to adjust claims with HCPCS codes that were affected by the incorrect payment rates published in the Federal Register. After the incorrect adjustments, the 24 payments became high-dollar payments. The following examples illustrate the incorrect adjustments:

- National Government Services adjusted an original claim of $2,551 to $98,357. The adjusted claim should have amounted to $953. The resulting overpayment was $97,404.

- National Government Services adjusted an original claim of $2,575 to $66,228. The adjusted claim should have amounted to $2,099. The resulting overpayment was $64,129.

National Government Services made the adjustments using incorrect HCPCS codes with significantly higher payment rates than the correct HCPCS codes. National Government Services and the hospitals agreed that the codes were incorrect and that overpayments occurred.

Excessive Units of Service

Hospitals reported excessive units of service on 20 claims, resulting in overpayments totaling $1,008,618. The following examples illustrate the overstated units of service:

- A hospital billed 300 units of the drug Filgrastim for 1 unit delivered because of a software multiplication error that occurred when the hospital pharmacy's electronic billing system changed. As a result, National Government Services paid the hospital $87,662 when it should have paid $1,397, an overpayment of $86,265.

- A hospital billed 400 units of the drug Oxaliplatin for 40 units delivered because of a data entry error. As a result, National Government Services paid the hospital $78,402 when it should have paid $17,015, an overpayment of $61,387.

The hospitals attributed the incorrect claims to clerical errors or to billing systems that could not detect and prevent the errors. The hospitals agreed that overpayments occurred and that refunds were due.

CAUSES OF OVERPAYMENTS

During CYs 2004 and 2005, National Government Services did not have prepayment or postpayment controls to identify aberrant payments at the claim level, and the Common Working File lacked prepayment edits to detect and prevent excessive payments. In effect, CMS relied on

hospitals to notify the fiscal intermediaries of excessive payments and on beneficiaries to review their "Explanation of Medicare Benefits" and disclose any overpayments.[1]

FISCAL INTERMEDIARY PREPAYMENT EDIT

On January 3, 2006, after our audit period, CMS required intermediaries to implement a Fiscal Intermediary Standard System edit to suspend potentially excessive Medicare payments for prepayment review. The edit suspends high-dollar outpatient claims and requires intermediaries to determine the legitimacy of the claims.

RECOMMENDATION

We recommend that National Government Services recover the $2,737,857 in identified overpayments.

AUDITEE'S COMMENTS

In written comments on our draft report, National Government Services agreed with the audit recommendation and indicated that it had already taken corrective action. National Government Services's comments are included in their entirety as the Appendix.

[1]The fiscal intermediary sends an "Explanation of Medicare Benefits" notice to the beneficiary after the hospital files a claim for Part B service(s). The notice explains the service(s) billed, the approved amount, the Medicare payment, and the amount due from the beneficiary.

APPENDIX

National Government Services

National Government Services, Inc.
9901 Linn Station Road
Louisville, Kentucky 40223-3808
A CMS Contracted Agent

Medicare

January 28, 2008

Mr. Marc Gustafson
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Audit Services
233 North Michigan Avenue
Chicago, IL 60601

Report Number: A-05-07-00066

Dear Mr. Gustafson:

This letter is in response to the draft report, dated January 4, 2008 entitled "Review of Excessive Payments for Outpatient Services Processed by National Government Services in Michigan and Wisconsin for Calendar Years 2004 and 2005."

National Government Services (NGS) agrees with the audit recommendations noted in the draft report. The following is a brief summary of the actions taken and results:

- NGS adjusted the 24 claims which were processed incorrectly as a result of Change Request 3145 in July 2007. As a result of our actions $1,729,239 was recovered through the provider off-set process. In addition, NGS reviewed all claims adjusted as a result of CR 3145 and found two additional claims that needed correction. These were completed in September 2007.

- The 20 claims overpaid due to incorrect provider submission for units of service were adjusted in August 2007 and $1,008,618 was also recovered.

Thank you for the opportunity to respond to the draft report. Should you have any additional questions, please feel free to contact Sarah Litteral, Part A /RHHI Claims Director, at 502-329-8584.

Sincerely,

Christine Beard

Christine Beard
Regional Vice President, Claims and Operations

Cc: Jim Elmore
Wendy Perkins
Sarah Litteral

CMS
CENTERS for MEDICARE & MEDICAID SERVICES