



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

REGION V
OFFICE OF
INSPECTOR GENERAL

July 10, 2008

Report Number: A-05-08-00038

Ms. Sandy Coston
CEO, President
First Coast Services Options
532 Riverside Avenue – 20T
Jacksonville, Florida 32202

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 First Coast Services Options Medicare Payments to Providers Terminated from January 1, 2003, Through January 31, 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.

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, or contact David Markulin, Audit Manager, at (312) 353-1644 or through e-mail at David.Markulin@oig.hhs.gov. Please refer to report number A-05-08-00038 in all correspondence.

Sincerely,

Marc Gustafson
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. 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
rokcmora@cms.hhs.gov

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF FIRST COAST
SERVICES OPTIONS MEDICARE
PAYMENTS TO PROVIDERS
TERMINATED FROM
JANUARY 1, 2003, THROUGH
JANUARY 31, 2007**



Daniel R. Levinson
Inspector General

July 2008
A-05-08-00038

Office of Inspector General

<http://oig.hhs.gov>

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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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 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 and Medicaid Services (CMS), which administers the program, contracts with fiscal intermediaries (FIs) to process and pay Medicare claims submitted by health care providers.

The FIs must comply with Medicare regulations and policies, including those related to processing payments to terminated Medicare providers. The Medicare Intermediary Manual, Section 3700, requires FIs to maintain adequate internal controls to prevent increased program costs and erroneous payments. In addition, Section 1814(a) of the Act provides that “payment for services furnished an individual may be made only to providers of services which are eligible therefore under Section 1866 [which sets forth the requirements for provider agreements]” Pursuant to the Medicare Financial Management Manual, Chapter 3, paragraph 10.2, “An individual overpayment is an incorrect payment for provider or physician services made under Title XVIII. Examples . . . are . . . payment for items or services rendered during a period of non-entitlement [e.g. periods for which a provider agreement was not in effect].” Paragraph 20.2 states that “If the FI discovers an overpayment . . . , with respect to a provider no longer participating in Medicare, it shall immediately contact the terminated provider to obtain a refund”

First Coast Services Options, Inc. (First Coast), a FI for Florida, provides a broad range of services including claim processing and payment, customer service, education and outreach, and financial management functions. First Coast processes Medicare claims for many provider types including Comprehensive Outpatient Rehabilitation Facilities (CORFs). During our audit period January 1, 2003, through January 31, 2007, First Coast received Medicare termination notices for 276 Medicare providers.

OBJECTIVE

Our objective was to determine whether First Coast made unallowable payments for services that were furnished on or after the dates that the providers were terminated from the Medicare program.

SUMMARY OF FINDINGS

First Coast made unallowable payments totaling \$876,140 to three CORFs for 1,476 claims that were not eligible for payment because the services were provided on or after the dates that the providers were terminated from the Medicare program. Although First Coast appropriately stopped payments upon receipt of the CMS termination notices, it did not retroactively recover unallowable payments that were made prior to receipt of the notices, as required by its policies

and procedures. First Coast confirmed that the payments were unallowable and subject to recovery.

RECOMMENDATIONS

We recommend that First Coast:

- recover \$876,140 of unallowable Medicare payments made to the three terminated CORFs for services provided on or after the effective termination dates, and
- follow its procedures to identify and retroactively recover unallowable payments for claims with dates of service after the providers' effective termination dates.

FIRST COAST COMMENTS

In written comments to our draft report, First Coast agreed with the findings and recommendations. First Coast's comments are included in their entirety as the Appendix.

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INTRODUCTION

BACKGROUND

Medicare Program

Pursuant to Title XVIII of the Social Security Act (the 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 and Medicaid Services (CMS), which administers the program, contracts with fiscal intermediaries (FIs) to process and pay Medicare claims submitted by health care providers. Pursuant to Sections 1814(a) and 1866 of the Act, Medicare reimbursement is generally limited to participating providers that have entered into and maintain provider agreements, which set forth the terms and conditions for participation in the Medicare program. Terminated providers generally can not continue to participate in the Medicare program after their effective termination dates.

Medicare Payment Requirements

The Medicare Intermediary Manual, Section 3700, requires FIs to maintain adequate internal controls to prevent increased program costs and erroneous payments. In addition, Section 1814(a) of the Act provides that “payment for services furnished an individual may be made only to providers of services which are eligible therefore under Section 1866 [which sets forth the requirements for provider agreements]” Pursuant to the Medicare Financial Management Manual, Chapter 3, paragraph 10.2, “An individual overpayment is an incorrect payment for provider or physician services made under Title XVIII. Examples . . . are . . . payment for items or services rendered during a period of non-entitlement [e.g. periods for which a provider agreement was not in effect].” Paragraph 20.2 states that “If the FI discovers an overpayment . . . , with respect to a provider no longer participating in Medicare, it shall immediately contact the terminated provider to obtain a refund”

First Coast Services Options

First Coast Services Options, Inc. (First Coast) is a FI for Florida. First Coast provides a broad range of services including claim processing and payment, customer service, education and outreach, and financial management functions performed on behalf of CMS. First Coast processes Medicare claims for many provider types including Comprehensive Outpatient Rehabilitation Facilities (CORFs). During our audit period January 1, 2003, through January 31, 2007, First Coast received Medicare termination notices for 276 Medicare providers.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether First Coast made unallowable payments for services that were furnished on or after the dates that the providers were terminated from the Medicare program.

Scope

We reviewed First Coast payments for services provided by three CORFs that CMS terminated from the Medicare program during the period from January 1, 2003, through January 31, 2007. We limited our review of internal controls to discussions regarding the procedures used by First Coast to identify and recover unallowable payments to Medicare-terminated providers.

Our fieldwork was performed between November 2007 and March 2008.

Methodology

To accomplish the objective we:

- obtained a CMS nationwide listing of 4,647 Medicare providers that were terminated during the review period,
- queried the National Claims History File (NCH) to identify potentially unallowable Medicare payments made by First Coast to terminated providers for services that were provided on or after the providers' effective termination dates, and
- identified three CORFs that each received \$5,000 or more in potentially unallowable payments and obtained additional information from First Coast to
 - confirm that the payments were unallowable and subject to recovery, and
 - quantify the unallowable payments.

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

First Coast made unallowable payments totaling \$876,140 to three CORFs for 1,476 claims that were not eligible for payment because the services were provided on or after the dates that the providers were terminated from the Medicare program. Although First Coast appropriately stopped payments upon receipt of the CMS termination notices, it did not retroactively recover unallowable payments that were made prior to receipt of the notices, as required by its policies and procedures. First Coast confirmed that the payments were unallowable and subject to recovery.

MEDICARE PAYMENTS TO TERMINATED PROVIDERS

First Coast paid \$876,140 to three CORFs for 1,476 claims that were not eligible for payment because the services were provided on or after the effective date that the providers were terminated from the Medicare program.

Federal Requirements

Pursuant to Section 1866 of the Act, Medicare reimbursement is generally limited to participating providers that have entered into and maintain provider agreements, which set forth the terms and conditions for participation in the Medicare program. Section 1814(a) of the Act provides that “payment for services furnished an individual may be made only to providers of services which are eligible therefore under Section 1866”

Section 3700 of the Medicare Intermediary Manual requires FIs to maintain adequate internal controls to prevent increased program costs and erroneous payments. Pursuant to the Medicare Financial Management Manual, Chapter 3, paragraph 10.2, “An individual overpayment is an incorrect payment for provider or physician services made under title XVIII. Examples . . . are . . . payment for items or services rendered during a period of non-entitlement [e.g. periods for which a provider agreement was not in effect].” Paragraph 20.2 states that “If the FI discovers an overpayment . . . , with respect to a provider no longer participating in Medicare, it shall immediately contact the terminated provider to obtain a refund”

Unallowable Payments

Three CORFs received unallowable Medicare payments for services that were performed on or after the effective dates that the providers were terminated from the Medicare program.

Table 1 – Unallowable Claims and Payments

	Unallowable Claims	Unallowable Payments
Provider A	1,406	\$858,263
Provider B	56	7,907
Provider C	14	9,970
Total	1,476	\$876,140

First Coast did not recover the identified payments prior to our audit. According to First Coast’s documentation, providers A and B were terminated from the Medicare program upon receipt of termination notices from CMS indicating that the providers had ceased operations. Provider C was terminated from the program upon receipt of a CMS termination notice indicating that the provider requested to withdraw from the Medicare program. All of the unallowable payments were for services provided on dates that preceded the dates of the CMS termination notices.¹

¹The CMS termination notices were dated about 5 weeks to 41 months after the effective termination dates.

Payments Not Recovered

Although First Coast appropriately stopped making payments upon receipt of the CMS termination notices, it did not retroactively recover unallowable payments for services performed on or after the effective termination dates, as required by its policies and procedures.

RECOMMENDATIONS

We recommend that First Coast:

- recover \$876,140 of unallowable Medicare payments made to the three terminated CORFs for services provided on or after the effective termination dates, and
- follow its procedures to identify and retroactively recover unallowable payments for claims with dates of service after the providers' effective termination dates.

FIRST COAST COMMENTS

In written comments to our draft report, First Coast agreed with the findings and recommendations. First Coast's comments are included in their entirety as the Appendix.

APPENDIX



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

June 27, 2008

Mr. Marc Gustafson
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-05-08-00038

Dear Mr. Gustafson:

We received the U.S. Department of Health & Human Services, Office of Inspector General (OIG) draft report entitled, "Review of First Coast Service Options Medicare Payments to Providers Terminated from January 1, 2003, through January 31, 2007" and reviewed the findings and recommendations. We appreciate the opportunity to provide comments prior to release of the final report.

First Coast Service Options, Inc. (FCSO) strives to safeguard against inappropriate Medicare Trust Fund expenditures. During the audit, FCSO reviewed its procedures to ensure recoveries are initiated timely upon receipt of a Medicare program provider termination notification.

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

Recommendation 1:

Recover \$876,140 of unallowable Medicare payments made to the three terminated Comprehensive Outpatient Rehabilitation Facilities for services provided on or after the effective termination dates.

Response:

FCSO will initiate its standard procedures to recover overpayments identified by the OIG.

Mr. Marc Gustafson
June 27, 2008
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Recommendation 2:

Follow its procedures to identify and retroactively recover unallowable payments for claims with dates of service after the providers' effective termination dates.

Response:

FCSO will continue to follow its procedures to identify and retroactively recover unallowable claims payments after providers' terminate from the Medicare program.

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