

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF PAYMENTS MADE  
BY NATIONAL HERITAGE  
INSURANCE COMPANY FOR  
AMBULATORY SURGICAL  
PROCEDURES FOR CALENDAR  
YEAR 2001**



**JULY 2003  
CIN: A-01-02-00524**

# *Office of Inspector General*

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The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



## **EXECUTIVE SUMMARY**

### **OBJECTIVE**

The objective of our review was to determine whether physicians' claims identified the proper location of service for ambulatory surgical procedures (ASPs) rendered to New England beneficiaries during calendar year (CY) 2001.

### **FINDINGS**

Medicare regulations provide for a higher payment to physicians for ASPs performed in non-facility settings (i.e., physicians' offices) to compensate them for the increased costs normally incurred by a facility. However, we identified 7,451 ASPs rendered to New England beneficiaries in facility settings (i.e., outpatient hospitals) for which physicians incorrectly billed the location of the service as their offices. Based on a statistical sample of 100 ASPs billed incorrectly, we estimate that carriers overpaid physicians \$250,000 for ASPs rendered to New England beneficiaries during CY 2001.

Of the 100 sampled ASPs, 63 represent payments made by National Heritage Insurance Company (NHIC). For these ASPs, we found that NHIC made payments to physicians that, on average, were about 20 percent higher than the appropriate fee schedule payments. In total, NHIC processed 5,373 claims with potential overpayments estimated at over \$146,000.

In our opinion, these overpayments occurred because:

- physician-billing personnel had not established adequate controls to prevent the incorrect billing of the place of service code for ASPs; and
- NHIC had not established the payment controls necessary to detect billing errors for ASPs and recover overpayments.

### **RECOMMENDATIONS**

We recommend that NHIC:

- Utilize our file containing 5,373 ASPs with probable billing errors to identify and recover overpayments estimated at over \$146,000, and report the results to the Office of Inspector General.
- Issue to its physicians guidelines that emphasize billing the correct place of service code for ASPs.

- Subsequent to the period of our review, conduct post payment data analysis to detect ASP claims billed incorrectly and use the results of that data analysis to recover overpayments and take additional appropriate corrective actions, as necessary.

### **NHIC's COMMENTS**

In its response to our draft report, NHIC generally agreed with our finding and recommendations. In total NHIC will implement an adjustment for 503 physician records related to Part B ambulatory surgical center facilities out of the reported 5,373 cases identified. NHIC states that it will not adjust the remaining physician claims because they relate to services performed at outpatient hospitals and NHIC does not have access to outpatient hospital claims billing information.

### **ADDITIONAL OIG COMMENTS**

We acknowledge that NHIC does not have access to outpatient hospital claims billing information. However, our computer application and subsequent validation work has determined these physician claims contain overpayments. Therefore, we believe NHIC should initiate overpayment recoveries for the remaining physician claims.

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## **INTRODUCTION**

### **BACKGROUND**

#### ***Ambulatory Surgical Procedures***

Medicare helps pay for ambulatory surgical procedures (ASPs) provided by physicians to beneficiaries. Physicians normally perform ASPs in a facility such as a hospital or freestanding ambulatory surgical center (ASC) facility. However, certain ASPs may be performed in a non-facility setting, including the physician's office.

#### ***Medicare Payment Regulations***

The Medicare physician fee schedule calculates reimbursement for physicians for ASPs based on: (1) the relative value unit (RVU) for the services; (2) a geographic adjustment factor; and (3) a nationally uniform conversion factor for the services. The RVU for each service is comprised of work expense, practice expense, and malpractice expense. The RVU is multiplied by the appropriate geographic adjustment factor based on the location of the services. The sum of these transactions is multiplied by the standard conversion factor to calculate the physician payment.

For certain ASPs, Medicare has established two different RVUs for the practice expense to account for a difference in the resources incurred by a physician for services performed at a facility versus a non-facility. Physicians are required to identify the place of service on the Health Insurance Claim Form HCFA-1500 (HCFA-1500) they submit to the Medicare carriers for payment. The correct place of service code ensures that Medicare is not duplicating payment to the physician and the facility for any of the practice expense incurred in performing a service for a Medicare beneficiary.

#### ***Carrier Responsibility***

The Medicare carriers, under contract with the Centers for Medicare and Medicaid Services (CMS), process and pay Medicare Part B claims submitted by physicians and ASC facilities. The National Heritage Insurance Company (NHIC) in Hingham, Massachusetts processes and pays claims billed by physicians and ASC facilities in Massachusetts, Maine, Vermont, and New Hampshire.

## **OBJECTIVE, SCOPE AND METHODOLOGY**

### ***Objective***

The objective of our review was to determine whether physicians' claims identified the proper location of service for ASPs rendered to New England beneficiaries during calendar year (CY) 2001.

### ***Scope***

We performed a computer match to identify potential overpayments for ASPs rendered by physicians in facility settings to New England beneficiaries during CY 2001. Using beneficiaries' dates of service, we matched Medicare Part B physician paid claims data for ASPs against the applicable Part B outpatient hospital or ASC facility paid claims data to obtain a population of potential overpayments. Based on our match, we identified 7,451 ASPs billed by physicians incorrectly using a non-facility place of service code. From the 7,451 ASPs, we selected a stratified statistical sample of 100 ASPs to validate incorrect payments (see APPENDIX A - METHODOLOGY FOR STATISTICAL SAMPLE). The NHIC made payments for 63 of the 100 ASPs in our sample. To estimate the overpayments, two appraisals were done for the same sample of ASPs rendered to New England beneficiaries; one for ASPs processed by all applicable carriers, and one for ASPs processed by NHIC (see APPENDIX B - SAMPLE RESULTS AND PROJECTIONS).

We did not review the overall internal control structure because the objective of our review did not require an understanding or assessment of the internal control structure at NHIC. Our internal control review was limited to obtaining an understanding of NHIC's procedures to detect incorrectly billed ASPs and prevent overpayments.

### ***Methodology***

To accomplish our objective, we:

- reviewed applicable Medicare laws and regulations;
- obtained common working file (CWF) paid claims detail for the 63 sample ASPs to validate the data from our computer match and to assist us in calculating the correct payment for the procedures;
- met with billing and compliance representatives of selected physicians' offices to discuss ASPs billed incorrectly and to identify control weaknesses contributing to noncompliance with Medicare regulations; and
- discussed the results of our review with NHIC officials and provided NHIC a file containing 5,373 ASPs with probable payment errors for recovery.

We conducted our review from January 2003 through February 2003 at the Region I, Office of Audit Services in Boston, Massachusetts and at the NHIC in Hingham, Massachusetts. We also visited selected physicians' offices in Massachusetts and Maine. The NHIC's written comments to our draft



report are appended in their entirety to this report (See APPENDIX C) and are summarized and addressed on page 5.

Our review was conducted in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

Medicare regulations provide for a higher payment for ASPs performed in non-facility settings, such as physicians' offices, to compensate physicians for the increased costs normally incurred by a facility. To determine compliance with the regulations, we developed a computer match that identified 7,451 ASPs rendered to New England beneficiaries in facility settings, such as outpatient hospitals, for which physicians incorrectly billed the location of the service as their offices. Based on a statistical sample of 100 ASPs billed incorrectly, we estimate that carriers overpaid physicians about \$250,000 for ASPs rendered to New England beneficiaries during CY 2001.

Of the 100 sampled ASPs, 63 represent payments made by NHIC. For these ASPs, we found that NHIC made payments to physicians that, on average, were about 20 percent higher than the appropriate fee schedule payments. Based on our results, we believe the risk is high that NHIC made overpayments valued at over \$146,000 for 5,373 ASPs that were vulnerable to this billing error.

In our opinion, these overpayments occurred because:

- Physician-billing personnel had not established adequate controls to prevent the incorrect billing of ASPs. Specifically, billing personnel either:
  - were unaware of the reimbursement impact due to billing the incorrect place of service code and the need for controls; or
  - were cognizant of the impact of using the incorrect place of service code but did not establish adequate controls.
- The NHIC had not established the payment controls necessary to detect billing errors for ASPs and recover overpayments.

## **MEDICARE BILLING REGULATIONS**

Under the Medicare physician fee schedule, the physician practice expense RVU is comprised of two different rates for certain ASPs based on whether the services were performed in a facility setting, such as an outpatient hospital, or in a non-facility setting, such as a physician's office. In this respect, Medicare uses the higher practice expense RVU for ASPs performed in a non-facility setting to compensate physicians for the increased costs normally incurred by the facility. Medicare billing regulations require physicians to record the location of the service on the HCFA-1500 through the use of a two-digit number called the place of service code.

## **PHYSICIAN BILLING ERRORS FOR AMBULATORY SURGICAL PROCEDURES**

To determine compliance with Medicare regulations, we developed a computer application that matched physician ASPs against the location in which the physician performed the service. Specifically, we used beneficiaries' dates of service to match physician paid claims data for ASPs against the applicable outpatient hospital or ASC facility paid claims data. The results of our match identified probable overpayments for 7,451 ASPs rendered by physicians to New England beneficiaries during CY 2001. We selected a sample of 100 ASPs for detailed review of claims data to validate payment errors and to calculate overpayment amounts. We determined that physicians incorrectly billed the location of the service for all 100 ASPs.

Of the 100 sampled ASPs, 63 represent payments made by NHIC. Although these ASPs were performed in either outpatient hospitals or ASC facilities, physicians incorrectly billed all 63 procedures using the physician's office and other non-facility place of service codes. As a result, NHIC made payments to physicians that, on average, were about 20 percent higher than the appropriate fee schedule payments.

### **BILLING AND PAYMENT CONTROLS NOT ESTABLISHED**

During the scope of our review, physician-billing personnel had not established adequate controls to prevent incorrect billing of the place of service code for ASPs. Furthermore, NHIC had not established the payment controls necessary to detect billing errors for ASPs and recover overpayments.

#### **Physician Billing Controls Not Established**

We conducted our fieldwork at selected physicians' offices to validate the results of our match and to identify control weaknesses that contributed to billing errors. Physician-billing personnel acknowledged that adequate controls were not established to prevent incorrect billing of ASPs. Specifically, some billing personnel were not aware of the payment impact that results from billing the wrong place of service code and, therefore, the need for controls. Other physician billers recognized the payment impact but did not establish controls. At one office, for instance, billing personnel had not removed or bypassed the billing software default that predetermined the physician's office as the place of service for all ASPs.

#### **Necessary Payment Controls Not Established At NHIC**

During the period of our review, overpayments were made to physicians and not recovered because NHIC had not established payment controls necessary to detect ASPs billed incorrectly by physicians. In this respect, NHIC did not perform any post payment data analysis to detect ASP claims vulnerable to this billing error in order to facilitate overpayment identification and recovery.

## **MEDICARE PROGRAM OVERPAYMENTS**

The results of our match identified probable overpayments for 7,451 ASPs rendered by physicians to New England beneficiaries during CY 2001. Based on a statistical sample of 100 ASPs billed incorrectly, we estimate that carriers overpaid physicians \$250,000 for ASPs rendered to New England beneficiaries during CY 2001. Of the 100 sampled ASPs, 63 represent payments made by NHIC. Based on the results of our detailed review of these services, we believe the risk is high that NHIC made overpayments for 5,373 ASPs that were vulnerable to this billing error. Based on the results of our NHIC sample appraisal, we estimate that NHIC overpaid physicians more than \$146,000 for ASPs rendered to New England beneficiaries during CY 2001.

## **RECOMMENDATIONS**

We recommend that NHIC:

- Utilize our file containing 5,373 ASPs with probable billing errors to identify and recover overpayments estimated at over \$146,00, and report the results to the Office of Inspector General.
- Issue to its physicians guidelines that emphasize billing the correct place of service code for ASPs.
- Subsequent to the period of our review, conduct post payment data analysis to detect ASP claims billed incorrectly and use the results of that data analysis to recover overpayments and take additional appropriate corrective actions, as necessary.

## **NHIC's Comments**

In its response to our draft report, NHIC generally agreed with our finding and recommendations. In total NHIC will implement an adjustment for 503 physician records related to Part B ambulatory surgical center facilities out of the reported 5,373 cases identified. NHIC states that it will not adjust the remaining physician claims because they relate to services performed at outpatient hospitals and NHIC does not have access to outpatient hospital claims billing information.

## **Additional OIG Comments**

We acknowledge that NHIC does not have access to outpatient hospital claims billing information. However, our computer application and subsequent validation work has determined these physician claims contain overpayments. Therefore, we believe NHIC should initiate overpayment recoveries for the remaining physician claims.

# APPENDICES

## APPENDIX A

### METHODOLOGY FOR STATISTICAL SAMPLE

Using Medicare Part B paid claims data obtained from the New England Benefits Integrity Support Center, we performed a computer match to identify potential overpayments for ASPs rendered to New England beneficiaries during CY 2001 by physicians in facility settings. Using beneficiary dates of service, we matched physician paid claims data for ASPs against the applicable outpatient hospital or ASC facility paid claims data. Based on our match, we identified 7,451 ASPs for which there is significant risk that Medicare Part B carriers made overpayments for ASPs billed by physicians using an incorrect place of service code. As shown below, NHIC made most of the potential overpayments to physicians for ASPs rendered to New England beneficiaries in CY 2001:

NATIONAL HERITAGE INSURANCE COMPANY	5,373
OTHER CARRIERS	2,078
TOTAL	7,451

From the 7,451 ASPs, we selected a stratified statistical sample of 100 ASPs to validate incorrect payments. The stratified statistical sample consisted of 70 ASPs performed by physicians at outpatient hospitals and 30 ASPs performed by physicians at ASC facilities. The results of the sample selection were as follows:

NATIONAL HERITAGE INSURANCE COMPANY	53	10
OTHER CARRIERS	17	20
TOTAL	70	30

## APPENDIX B

### RESULTS OF STATISTICAL SAMPLE

#### APPLICABLE MEDICARE CARRIERS

SAMPLE SIZE	100
VALUE OF SAMPLE	\$17,539.96
NUMBER OF ERRORS	98
VALUE OF ERRORS	\$4,393.54
POPULATION SIZE	7,451
VALUE OF POPULATION	\$1,166,464.10

POINT ESTIMATE	\$250,329
CONFIDENCE LEVEL	90%
LOWER CONFIDENCE LIMIT	\$213,746
UPPER CONFIDENCE LIMIT	\$286,911
SAMPLE PRECISION	14.61%

#### NHIC

SAMPLE SIZE	100
VALUE OF SAMPLE	\$17,539.96
NUMBER OF ERRORS	61
VALUE OF ERRORS	\$1,932.71
POPULATION SIZE	7,451
VALUE OF POPULATION	\$1,166,464.10

POINT ESTIMATE	\$146,438
CONFIDENCE LEVEL	90%
LOWER CONFIDENCE LIMIT	\$110,400
UPPER CONFIDENCE LIMIT	\$182,477
SAMPLE PRECISION	24.61%



June 18, 2003

Michael J. Armstrong  
Regional Inspector General for Audit Services  
Region 1  
John F. Kennedy Federal Building  
Boston, MA 02203

Common Identification Number:  
A-01-02-00521

Subject: Review of Payments made by NHIC for Ambulatory Surgical Procedures (ASPs) for CY 2001

Dear Mr. Armstrong:

Please find attached National Heritage Insurance Company's (NHIC) response to the recommendations in the audit report noted above. If you have any questions regarding NHIC corrective actions, please contact Jennifer Otten at (530) 896-7143.

Thank you,

Anne Bockhoff Dalton  
Vice President  
National Heritage Insurance Company

CC: James Underhill, CMS Region IX  
Stephen Mills, CMS Region I  
Robert Harrington, Jr., NHIC  
Jane Hite, NHIC  
Jennifer Otten, NHIC

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**NHIC**

National Heritage Insurance Company  
75 Sgt. William B. Terry Drive  
Hingham, MA 02043  
A CMS CONTRACTED CARRIER

The OIG recommendations and NHIC's response:

1. **Recommendation**

Utilize our file containing 5,373 Ambulatory Surgical Procedures (ASPs) with probable billing errors to identify and recover overpayments, and report overpayment amounts to the Office of Inspector General.

**NHIC Response**

NHIC has initiated an overpayment recovery project for the ASC-related claims as identified by the OIG. NHIC will identify and recover the identified overpayments and report the overpayment amounts to the Office of the Inspector General. Once we have determined the number of overpayments to be recovered we will inform the OIG of the estimated completion date.

2. **Recommendation**

Issue to its physicians guidelines that emphasize billing the correct place of service code (POS) for ASPs.

**NHIC Response**

NHIC has prepared a bulletin article for the September 2003 newsletter to educate providers on the proper use of POS codes when billing for ASPs. Additionally, this information is posted on the NHIC web site. Based on these findings, NHIC may also send separate mailings to those providers identified as using the incorrect POS code.

3. **Recommendation**

Subsequent to the period of our review, conduct post payment data analysis to detect ASP claims billed incorrectly and use the results of that data analysis to recover overpayments and take additional appropriate corrective actions, as necessary.

**NHIC Response**

NHIC will determine overpayments made during CY 2002 and the first 6 months of CY 2003 and initiate accounts receivable actions as indicated in #1 above. However, due to the inaccessibility of the Part A data, NHIC will be limited in the number of cases identified as potential overpayments. For example, of the 5,373 files provided by the OIG in the CY 2001 review, NHIC would only have identified 503 cases. Of the 5,373 cases, only these cases could be matched to a Part B ASC facility claim. The other cases would not have been identified through NHIC-initiated actions since NHIC does not have access to claims billing information from outpatient hospitals. Additionally, the ASCs have potentially up to 27 months to submit claims. A physician could submit their billing and finalize payment while the ASC claim has not been submitted thus making the identification of these cases more difficult. NHIC will identify and initiate a project to recover the identified overpayments with the data available. Once we have determined the number of overpayments to be recovered we will inform the OIG of the estimated completion date.