DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

DEC - 4 2008

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

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

SUBJECT: Review of High-Dollar Payments for Outpatient Services Processed by Palmetto GBA for the Period January 1, 2004, Through December 31, 2005 (A-04-08-06010)

Attached is an advance copy of our final report on high-dollar payments for outpatient services processed by Palmetto GBA (Palmetto) for the period January 1, 2004, through December 31, 2005. These claims were submitted by providers in North Carolina. We will issue this report to Palmetto 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 Palmetto made to hospitals for outpatient services were appropriate.

Of the 39 high-dollar payments that Palmetto made for outpatient services for calendar years (CY) 2004 and 2005, 17 were appropriate. The remaining 22 payments included overpayments totaling $1,772,911, which the hospitals had not refunded by the beginning of our audit. The hospitals received these overpayments by billing excessive units of service. Palmetto 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 Palmetto recover the $1,772,911 in identified overpayments.

In written comments on our draft report, Palmetto provided information on actions that it was taking to recoup the overpayments.

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 Peter J. Barbera, Regional Inspector General for Audit Services, Region IV, at (404) 562-7750 or through e-mail at Peter.Barbera@oig.hhs.gov. Please refer to report number A-04-08-06010.

Attachment

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General
Office of Audit Services

REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

DEC - 9 2008

Report Number: A-04-08-06010

Mr. Bruce W. Hughes
President and Chief Operating Officer
Palmetto GBA
2300 Springdale Drive, Building 1
Camden, South Carolina 29020

Dear Mr. Hughes:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of High-Dollar Payments for Outpatient Services Processed by Palmetto GBA for the Period January 1, 2004, Through December 31, 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, or contact Mary Ann Moreno, Audit Manager, at (404) 562-7770 or through e-mail at Mary.Moreno@oig.hhs.gov. Please refer to report number A-04-08-06010 in all correspondence.

Sincerely,

Peter J. Barbera

Peter J. Barbera
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

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF HIGH-DOLLAR PAYMENTS FOR OUTPATIENT SERVICES PROCESSED BY PALMETTO GBA FOR THE PERIOD JANUARY 1, 2004, THROUGH DECEMBER 31, 2005

Daniel R. Levinson
Inspector General

December 2008
A-04-08-06010

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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THIS REPORT IS AVAILABLE TO THE PUBLIC
at http://oig.hhs.gov

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 (CWF) to process claims. The CWF can detect certain improper payments during prepayment validation.

Medicare guidance requires hospitals to claim outpatient services using the appropriate Healthcare Common Procedure Coding System codes and to report units of services as the number of times that a service or procedure was performed.

During our audit period (calendar years (CY) 2004 and 2005), Palmetto GBA (Palmetto) was the fiscal intermediary in North Carolina. Palmetto processed approximately 6 million outpatient claims during this period, 39 of which resulted in payments of $50,000 or more (high-dollar payments).

OBJECTIVE

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

SUMMARY OF FINDING

Of the 39 high-dollar payments that Palmetto made for outpatient services for CYs 2004 and 2005, 17 were appropriate. The remaining 22 payments included overpayments totaling $1,772,911, which the hospitals had not refunded by the beginning of our audit. The hospitals received these overpayments by billing excessive units of service. Palmetto 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 CWF had sufficient edits in place during CYs 2004 and 2005 to detect and prevent excessive payments.

RECOMMENDATION

We recommend that Palmetto recover the $1,772,911 in identified overpayments.

PALMETTO GBA COMMENTS

In written comments on our draft report, Palmetto provided information on actions that it was taking to recoup the overpayments. The complete text of Palmetto's comments is included 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 (CWF). The CWF can detect certain improper payments during prepayment validations.

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.

Palmetto GBA

During our audit period (CYs 2004 and 2005), Palmetto GBA (Palmetto) was the fiscal intermediary in North Carolina. Palmetto processed approximately 6 million outpatient claims during this period, 39 of which resulted in high-dollar payments totaling $3.2 million.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

We reviewed the 39 high-dollar payments for outpatient claims that Palmetto processed during CYs 2004 and 2005. We limited our review of Palmetto's internal controls to those applicable to the 39 high-dollar 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 performed fieldwork from July 2007 through May 2008. Our fieldwork included contacting Palmetto, located in Columbia, South Carolina, 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 CWF claim histories for claims with high-dollar payments to determine whether the claims had been canceled and superseded by revised claims and 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
- validated with Palmetto that partial 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 finding and conclusions based on our audit objective.

FINDING AND RECOMMENDATION

Of the 39 high-dollar payments that Palmetto made for outpatient services for CYs 2004 and 2005, 17 were appropriate. The remaining 22 payments included overpayments totaling $1,772,911, which the hospitals had not refunded by the beginning of our audit. The hospitals received these overpayments by billing excessive units of service. Palmetto 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

CWF 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

Hospitals reported excessive units of service on 22 claims, resulting in overpayments totaling $1,772,911. The following examples illustrate the overstated units of service:

- A hospital billed 11,475 excess units of a drug because of a clerical error and an outdated pharmacy formulary that caused a conversion error. As a result, Palmetto paid the hospital $234,723 when it should have paid $1,973, an overpayment of $232,750.

- A hospital billed 63,832 excess units of a drug because of a pharmacy computer system conversion error. For this drug, the system assigned an incorrect charge. As a result, Palmetto paid the hospital $756,930 when it should have paid $12,253, an overpayment of $744,677.

The hospitals attributed the incorrect claims to clerical, pharmacy system, or billing system errors. The hospitals agreed that excessive units were billed and that overpayments occurred.

CAUSES OF OVERPAYMENTS

During CYs 2004 and 2005, Palmetto did not have prepayment or postpayment controls to identify aberrant payments at the claim level, and the CWF 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]

[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.

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 Palmetto recover the $1,772,911 in identified overpayments.

PALMETTO GBA COMMENTS

In its October 22, 2008, written comments on our draft report, Palmetto provided information on actions that it was taking to recoup the overpayments. The complete text of Palmetto's comments is included as the Appendix.

APPENDIX

Palmetto GBA℠
PARTNERS IN EXCELLENCE℠

Bruce W. Hughes
President and Chief Operating Officer

October 22, 2008

Peter J. Barbera
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

Reference: Draft Report No. A-04-08-06010

Dear Mr. Barbera:

This letter is in response to the recent Office of Inspector General (OIG) draft report entitled "Review of High-Dollar Payments for Outpatient Services Processed by Palmetto GBA, Intermediary #382, for the Period January 1, 2004, Through December 31, 2005." We appreciate the feedback that your review provided and are committed to continuously improving our service to the Medicare beneficiaries and providers we serve.

As stated in the draft report, overall it was found that 22 of the twelve outpatient claims reviewed resulted in overpayments totaling $1,772,911. It was determined that the hospitals inaccurately reported units of service. The hospitals attributed the incorrect claims to clerical errors or pharmacy systems with calculation errors in the billing template. At the time, Palmetto GBA 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 calendar years 2004 and 2005 to detect and prevent excessive payments.

In December 2005, Palmetto GBA implemented a prepayment FISS edit to identify aberrant payments at the claim level with a threshold of $50,000 and an effective date of January 1, 2006. We continue to explore opportunities to expand and implement additional prepayment edits to mitigate excessive payments. In addition, we maintain a consistent approach in our provider education focusing on accurate billing. Our efforts have been very successful as demonstrated in the most recent Part A CERT scores for Palmetto GBA.

Because of their age, the affected claims are no longer on line and must be restored in order to initiate the adjustments necessary to recoup the identified overpayments. Palmetto GBA is coordinating with the standard system maintainer to resolve issues in this regard. Once the claims are restored, the providers will be notified of the adjustment action to recoup overpayments.

Thank you for providing Palmetto GBA with the opportunity to provide feedback regarding your review. If you have any questions, please do not hesitate to contact me.

Sincerely,

Bruce W. Hughes

cc: Sandra Y. Brown, Atlanta Regional Office, CMS
John Delaney, Dallas Regional Office, CMS