



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 4A5
Dallas, TX 75242

September 27, 1996

CIN: A-06-96-00045

Mr. Ed Hanchey
Vice President, Medicare Part A Operations
Blue Cross Blue Shield of Texas
1020 South Sherman Street
Richardson, Texas 75081

Dear Mr. Hanchey:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OAS) report entitled "Results of a Limited Scope Audit of Medical Supplies and Equipment that Baptist Memorial Hospital Billed to Medicare as Skilled Nursing Facility Ancillary Services." A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action 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.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-06-96-00045 in all correspondence relating to this report.

Sincerely yours,

Donald L. Dille
Regional Inspector General
for Audit Services

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF A LIMITED SCOPE AUDIT
OF MEDICAL SUPPLIES AND
EQUIPMENT THAT BAPTIST MEMORIAL
HOSPITAL BILLED TO MEDICARE AS
SKILLED NURSING FACILITY ANCILLARY
SERVICES**



**JUNE GIBBS BROWN
Inspector General**

**SEPTEMBER 1996
A-06-96-00045**



September 27, 1996

CIN: A-06-96-00045

Mr. Ed Hanchey
Vice President, Medicare Part A Operations
Blue Cross Blue Shield of Texas
1020 South Sherman Street
Richardson, Texas 75081

Dear Mr. Hanchey:

This report provides you with the results of a limited scope audit (CIN: A-06-96-00045) of medical supplies and equipment that Baptist Memorial Hospital System (BMHS) billed to Medicare as Skilled Nursing Facility (SNF) ancillary services between September 1, 1992 and August 31, 1994. During this period, BMHS billed Medicare \$1,634,035 for medical supplies. The objective of our audit was to determine whether medical supplies and equipment billed as ancillary were allowable under Medicare guidelines.

The BMHS billed unallowable routine care medical supplies and equipment as SNF ancillary services. Twenty-eight percent of 141 medical items classified as ancillary were considered routine. Routine care items cannot be billed to Medicare as ancillary. The cost of routine items is included in the SNF's per diem reimbursement rate.

We are not recommending an adjustment for the period under review because BMHS was operating under the exemption provided for in the Code of Federal Regulations, 42 CFR 413.30(e)(2). Under this exemption, BMHS was not subject to the routine cost reimbursement limitations because it was a new SNF provider. BMHS may be reimbursed for the cost of misclassified routine items during the period covered by our audit. This exemption expired after the period covered by our audit.

According to the Fiscal Intermediary's, Blue Cross Blue Shield of Texas (BCBSTX), medical review of SNF medical supplies, routine items continued to be billed to Medicare as ancillary supplies during FYs 1995 and 1996. The BMHS took corrective action that will prevent billing Medicare for routine items. The corrective action was initiated for bills submitted on or after December 12, 1995.

We recommend that for FYs 1995 and 1996, BCBSTX ensure that BMHS:

- adjusts its claims to reverse all noncovered ancillary supply and equipment charges,
- classifies such costs as routine on the cost reports for both years, and
- does not bill routine medical supply and equipment items as ancillary.

INTRODUCTION

Background

The Office of Inspector General is conducting a national review of SNF ancillary medical supplies. States included in this review are California, Florida, Illinois, New York, and Texas. The BMHS was selected for review of medical supplies because it demonstrated higher costs for these items when compared to other SNFs.

Medicare reimburses SNFs on a reasonable cost basis. In order to determine reasonable costs, providers are required to submit cost reports annually. Costs are classified on the cost report as either routine or ancillary.

Routine services are generally those services included by the provider in a daily service--sometimes referred to as the "room and board" charge. Ancillary services are those services directly identifiable to individual patients, such as laboratory, radiology, drugs, medical supplies, and therapies.

The misclassification of routine services as ancillary may result in higher Medicare reimbursement because Federal law imposes certain limits on routine costs of SNFs.

According to the Provider Reimbursement Manual (PRM), HCFA Publication 15-1, Section 2203.1, the following types of items and services are always considered routine in a SNF for purposes of Medicare cost apportionment; even if customarily considered ancillary by a SNF:

- " • All general nursing services, including administration of oxygen and related medications...handfeeding, incontinency care, tray service, enemas, etc.
- Items which are furnished routinely and relatively uniformly to all patients, e.g., patient gowns, paper tissues, water pitchers, basins, bed pans, deodorants, mouthwashes.

- Items stocked at nursing stations or on the floor in gross supply and distributed or utilized individually in small quantities, e.g., alcohol, applicators, cotton balls, bandaids, antacid, aspirin...
- Items which are utilized by individual patients but which are reusable and expected to be available in an institution providing an SNF level of care, e.g., ice bags, bed rails, canes, crutches, walkers, wheelchairs, traction equipment, other durable medical equipment (DME) which does not meet the criteria for ancillary services in SNFs..."

According to the PRM, HCFA Publication 15-1, Section 2203.2, items and services may be considered ancillary in a SNF if services are:

- direct identifiable services to individual patients;
- furnished at the direction of a physician because of specific medical needs; and
- one of the following:
 - not reusable,
 - represent a cost for each preparation, or
 - complex medical equipment.

Scope

Our review was made in accordance with generally accepted government auditing standards. Our objective was to determine whether SNF medical supply and equipment charges billed as ancillary were allowable under Medicare guidelines. To accomplish this objective, we examined a judgmental sample of 141 medical supply items billed as ancillary for the period September 1, 1992 through August 31, 1994.

The BCBSTX determined whether the sampled items were allowable as ancillaries using Medicare guidelines. The BCBSTX is currently conducting an internal review of medical supply classifications as ancillary or routine. This may change a number of ancillary classifications in our sample to routine. However, these changes will be effective prospectively.

Our field work was performed at BMHS in San Antonio, Texas during April 1996 and at the Office of Audit Services, Austin Field Office, during the period April 1996 through July 1996. We did not review FY 1995 because the Medicare cost report audit was not complete at the time of our review.

FINDINGS AND RECOMMENDATIONS

The BMHS billed unallowable routine care medical supplies and equipment as SNF ancillary services. Forty of the 141 medical supply items tested, or twenty-eight percent, were misclassified and billed as ancillary services. The BMHS billed for supplies such as: enema bags, heel protectors, incontinent briefs, underpads, lemon glycerin swabs, lotion, and gloves which are considered routine and cannot be billed to Medicare. It also billed for routine equipment such as feeding and infusion pumps.

Medicare reimbursement regulations do not allow payment for routine care items billed as ancillary. The cost of routine supplies and equipment is included in the SNF's per diem reimbursement rate.

According to a BMHS official, the misclassifications occurred because of a lack of information regarding the specific items that should be classified as routine or ancillary. The BMHS has requested guidance from BCBSTX to resolve misclassifications.

We are not recommending an adjustment for the period under review because BMHS was operating under the exemption provided for in 42 CFR 413.3(e)(2). Under this exemption, BMHS was not subject to the routine cost limitations because it was a new SNF provider. This exemption expired in FY 1994.

Fiscal Years 1995 and 1996

Routine items continued to be billed to Medicare as ancillary during FYs 1995 and 1996 based on BCBSTX's medical review of SNF medical supplies. During the period January 4, 1996 through June 30, 1996, the BCBSTX medically reviewed 25 percent of BMHS's SNF bills submitted for supplies because of problems identified during the BCBSTX's December 1995 postpayment review. For the first quarter of FY 1996, the BCBSTX denied 31 percent of the claims reviewed. However, this denial dropped to 7 percent for the second quarter of FY 1996.

The BMHS has taken steps to correct its billing practice of charging Medicare for supplies which are routinely furnished for all patients. This change in billing practice was initiated for bills submitted on or after December 12, 1995¹.

¹ The BMHS has taken corrective action to prevent equipment from being charged to supplies, revenue code 270. However, according to a BMHS official, routine equipment charged as ancillary under 946 has not been addressed.

Recommendations

We recommend that for FYs 1995 and 1996 BCBSTX ensure that BMHS:

- adjusts its claims to reverse all noncovered ancillary supply and equipment charges,
- classifies such costs as routine on the cost reports for both years, and
- does not bill routine medical supply and equipment items as ancillary.

Comments Made By the BCBSTX and the BMHS

The BCBSTX agreed with our findings and recommendations. See Appendix for the BCBSTX's plan for complying with the recommendations.

The BMHS officials did not respond in writing to our draft report. BMHS officials advised us orally that they were not going to provide written comments to our findings.

Sincerely,



DONALD L. DILLE
Regional Inspector General
for Audit Services

Direct Reply to HHS Action Official:

Rose Crum Johnson
Regional Administrator
Health Care Financing Administration
1200 Main Tower, Room 2000
Dallas, Texas 75202

ROUTINE ITEMS BILLED AS ANCILLARY

<u>Line</u>	<u>Item</u>	<u>Supplies</u>	<u>Equipment</u>
1	Ankle support	x	
2	Arm board - all sz	x	
3	Bed cradle, per day		x
4	Bed pans	x	
5	Bed rail pads per use		x
6	Belt gait	x	
7	Benzoin tinc swabstick	x	
8	Betadine swabstick	x	
9	Blanket Hypotherm		x
10	Cold pack	x	
11	Electrode temp pacing ethicon		x
12	Enema bag	x	
13	Feeding pump		x
14	Hand control mitten	x	
15	Heel protectors	x	
16	Hypothermia pump unit p/day		x
17	Incontinent briefs disp.	x	
18	Infusion pump / day		x
19	K-pad unit - per day		x
20	Lemon glycerin swab	x	
21	Limb holder restraint	x	
22	Lotion	x	
23	Mattress DFD Akros		x
24	Pad doughnut decubitus disp	x	
25	Quick mouth care kit sage	x	
26	Razor disp	x	
27	Restraint vest jacket disp	x	
28	SCD compress sleeves		x
29	Sterile field towel disp	x	
30	Sterile gloves	x	
31	Suction machine - per day		x
32	Surgical prep tray	x	
33	Trapeze/patient helper p/case		x
34	Triple-care cleanser	x	
35	Underpad uncont. air bed		x
36	Underpads	x	
37	Uniwash 8 oz cleanser	x	
38	Unsterile gloves	x	
39	Urine hat catch commode disp.	x	
40	Wrist/ankle restraints	x	

Blue Cross Blue Shield of Texas is conducting an internal review of medical supply classifications. This may change a number of ancillary items in our sample to routine. However, these changes will be effective prospectively.

Medicare ^Q^A^R^T**A**

P. O. Box 650400 Dallas, TX 75265-0400

September 16, 1996

Cheryl Blackmond
Audit Manager
Office of Audit Services
110 Commerce, Room #4A5
Dallas, Texas 75242

Dear Ms. Blackmond:

At your request, we have reviewed your draft report of the limited scope audit of medical supplies and equipment that Baptist Memorial Hospital System (BMHS) billed to Medicare as Skilled Nursing Facility ancillary services.

Overall we agree with the facts as presented. The recommendations will be difficult to follow because actions must be taken by BMHS but Blue Cross Blue Shield of Texas, Inc. (BCBSTX) must ensure that BMHS takes the appropriate actions. This will require sampling and over site above that which we normally perform. With today's budget situations, resources are at a premium and not readily available for special tasks.

Our plan for complying with the recommendations would be to:

1. Ask BMHS to provide a list of the entire universe of Skilled Nursing Facility (SNF) claims for the period FY95 and FY96. We are assuming that this is for their fiscal year not the Health Care Financing Administration's (HCFA) fiscal year.
2. Ask that BMHS indicate from the universe which claims were adjusted.
3. We would sample adjusted and not adjusted claims to ensure compliance. We would need records from BMHS to support our audit.
4. We would require the BMHS's Chief Financial Officer (CFO) or Chief Executive Officer (CEO) to sign a statement that identifies and supports the actions that will be taken by BMHS.
5. We would have BMHS submit an amended cost report for FY95 that reflects changes they made.
6. We would do a review of medical supplies during the audit of their cost reports. The FY96 cost report is not due until January 31, 1997.

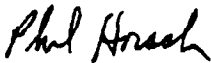
Ltr. To C. Blackmond
Dated September 16, 1996

Page Two

7. We would continue sampling of BMHS claims on a prepay review basis until we have verified BMHS has changed their billing practices. We would then do a sampling at six month intervals for one year to ensure continuing compliance.

We appreciate the opportunity to comment on your draft. Please contact me if you have any questions or need additional input.

Sincerely,



Phil Horsch, Director
Medicare Part A

PH:jw