Memorandum

Date OCT 11 1996

From Deputy Inspector General
for Audit Services

Subject Office of Inspector General's Partnership Plan--Utah State Auditor's Report on Clinical Laboratory Services (A-06-95-00100)

To Bruce C. Vladeck
Administrator
Health Care Financing Administration

We are transmitting for your information and use, the attached final report on an audit of Medicaid clinical laboratory services in Utah for Calendar Years (CY) 1993 and 1994. This review was conducted by the Utah State Auditor (USA). The objective of the review was to determine the adequacy of the Utah Department of Health's (UDH) procedures and controls over the processing of Medicaid payments to providers of certain clinical laboratory services.

This work was conducted as part of our partnership efforts with State Auditors to expand audit coverage of the Medicaid program. As part of the review, the Office of Audit Services assisted the USA by (1) providing guidance for identifying, through computer applications, a universe of potentially overpaid claims resulting from certain chemistry, hematology, and urinalysis tests that were improperly grouped or duplicative of each other; (2) selecting a statistical sample of claims for the USA to validate the payments; and (3) appraising the sample results for the USA to report the estimated overpayments made. In addition, we have performed sufficient work to satisfy ourselves that the attached USA audit report can be relied upon and used by Health Care Financing Administration (HCFA) in meeting its program oversight responsibilities.

The USA determined that UDH did not have adequate controls to ensure Medicaid reimbursements for clinical laboratory tests did not exceed amounts recognized by Medicare for the same tests. The USA estimates that UDH reimbursed providers for potential overpayments totaling $319,972 (Federal share $239,329) in CYs 1993 and 1994. The USA further determined the overpayments occurred because the UDH has not issued information regarding bundling procedures to providers and does not have edit checks built into the computer programs to detect improper payments.

The USA recommended that the State agency: (1) provide providers information regarding bundling procedures; (2) implement edit checks to allow for only properly bundled tests to be paid; (3) determine if physicians ordered hematology indices; (4) consider adopting policies and procedures to prevent payment of unnecessary

indices charges; (5) establish controls to prevent laboratory payments from exceeding Medicare rates; and (6) recover overpayments from at least the providers with the largest payment errors and make adjustments for the Federal share of amounts recovered on the Quarterly Report of Expenditures to HCFA.

As we do with all audit reports developed by nonfederal auditors, we provided as an attachment, a listing of the coded recommendations for your staff's use in working with the State to resolve findings and recommendations through our stewardship program. Attachment A provides a summary of the recommendations.

We plan to share this report with other States to encourage their participation in our partnership efforts. If you have any questions about this review, please let me know or have your staff contact George M. Reeb, Assistant Inspector General for Health Care Financing Audits, at (410) 786-7104.

Thomas D. Roslewicz

Attachment

Recommendation Codes	Page	Amount	Resolution Agency	Recommendations
211929101	3	N/A	HCFA	The Department of Health should provide laboratories information and timely updates regarding bundling procedures through updated Laboratory Providers Manual.
337906101	3	N/A	HCFA	The Department of Health should implement procedures, through edit checks on the Medicaid Management Information System or other means, to allow payments only on properly bundled tests and to prevent duplication of tests.
073348101	3	N/A	HCFA	The Department of Health should investigate providers records to determine if the hematology indices were ordered by the physicians.
337348101	4	N/A	HCFA	The Department of Health should consider adopting policies and implementing procedures to prevent the payment of unnecessary indices charges.
337347101	4	N/A	HCFA	The Department of Health should establish controls to prevent laboratory payments from exceeding Medicare rates.
337910031	4	$239,329	HCFA	The Department of Health should recover overpayments from at least the providers with the largest payment errors and make adjustments for the Federal share of amounts recovered on the Quarterly Report of Expenditures to HCFA.

DEPARTMENT OF HEALTH

Review of Medicaid Claims for Clinical Laboratory Services
For the Period January 1, 1993 through December 31, 1994

Report No. 96-607

Keeping Utah
Financially Strong

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REPORT NO. 96-607

July 30, 1996

Rod L. Betit, Executive Director
Department of Health
P.O. Box 16700
Salt Lake City, Utah 84116-0700

Dear Mr. Betit:

We have performed the procedures enumerated below to certain accounting records and to certain related aspects of the Department of Health's (Health) internal control structure for the period January 1, 1993 through December 31, 1994. The procedures were performed to assist Health in evaluating compliance and internal controls over the payment of Medicaid claims for clinical laboratory services. Additionally, the procedures were performed in conjunction with the U.S. Department of Health and Human Services' (HHS) Partnership Plan for Federal/State Joint Audits of the Medicaid Program. This program consists of federal auditors and interested state auditors performing joint audits to improve audit efforts through the sharing of information, expertise, and resources, which will also lead to a more effective, efficient, and economical delivery of health care services.

PROCEDURES

1. We obtained a general understanding of the policies and procedures (including instructions given to providers) regarding billing and payment for clinical laboratory services.

2. From the federal Health Care Financing Administration's (HCFA) Medicaid Statistical Information System Paid Claims files for January 1993 through December 1994, the federal auditors extracted Utah's total chemistry, urinalysis, and hematology laboratory paid claims. From these claims, the federal auditors extracted all claims which were potentially overpaid.

   For the chemistry population, claims were extracted as potentially overpaid if payment was made for more than one individual panel test, more than one panel, or at least one panel and at least one individual panel for the same beneficiary on the same date of service by the same provider. These types of tests should have been "bundled" (or grouped) into the appropriate panel size for determination of maximum payment allowance. Section 6300.2 of the Medicaid State Manual states that Medicaid reimbursement for clinical laboratory tests may not exceed the amount

recognized by the Medicare program. The Medicare Carriers Manual, Section 5114.1 L.2, entitled "Separately Billed Tests That Are Commonly Part of Automated Battery Tests" tells carriers that if the sum of the reimbursement allowance for the separately billed tests exceeds the reimbursement allowance for the panel that includes these tests, make payment at the lesser amount for the panel. The limitation that payment for individual tests not exceed the payment allowance for the panel is applied whether a particular laboratory does or does not have the automated multichannel equipment.

For the urinalysis population, claims were extracted as potentially overpaid if payment was made for more than one urinalysis examination for the same beneficiary on the same date of service by the same provider. The Medicare Carriers Manual Section 5114.1 F states that if a urinalysis examination without microscopy and a urinalysis microscopy only are both billed, payment should be as though the combined service (urinalysis examination with microscopy) had been billed.

For the hematology population, claims were extracted as potentially overpaid or having potential cost savings if payment was made for more than one hematology profile, a profile and a test included in the profile, or a profile and indices (calculations and ratios calculated from the results of hematology tests) for the same beneficiary on the same date of service by the same provider. Only the last example was found in the sample described below. According to HHS and the American Medical Association, a separate indices charge is not necessary due to advancements in technology, such that the indices are built into the profile test. Separate indices charges are allowable only if ordered by the physician, otherwise the charge is considered an overpayment, not just a potential savings. However, our test did not include determining whether the indices were ordered by the physician. In addition, it is not mandatory that states adopt a policy of not paying for hematology indices separately, and Health has not adopted a policy as such. Therefore, if the physician ordered the separate indices, it is not considered an overpayment, but rather an indicator of potential savings should Health adopt such a policy.

{See appendix A for a list of the specific laboratory services charge (CPT) codes reviewed.}

The federal auditors then selected a random statistical sample of 50 claims in each of these three populations of claims with potential overpayments/cost savings. We reviewed the disbursement documentation for the sampled claims and calculated any overpayments and potential cost savings. The federal auditors then utilized a statistical variable sample appraisal methodology to project the sample results to the three populations of potential overpayments.

SUMMARY OF COMPUTER EXTRACTS AND SAMPLE RESULTS

Utah Medicaid Paid Laboratory Services Claims
January 1993 through December 1994

	Chemistry		Urinalysis		Hematology	
	No.	Dollars	No.	Dollars	No.	Dollars
Total Claims	86,288	$960,186	79,211	$366,966	149,637	$865,584
Claims with Potential Overpayments/Cost Savings	39,483	$400,254	4,125	$16,602	49,344	$281,626
Sample Claims with Potental Overpayments/Cost Savings	50	$1,334	50	$439	50	$594
Sample Overpayments/Cost						

Savings Confirmed	50	$594	50	$233	50	$242
Projected Overpayments/ Cost Savings	N/A	$190,624	N/A	$9,613	N/A	$119,735

EXPLANATION OF FINDINGS

The overpayments noted above from the samples occurred because a) Health has not issued information regarding bundling procedures to the providers submitting the claims, nor is the information included in the Laboratory Providers Manual on urinalysis tests; therefore, the providers have not received updated information; b) Health does not have edit checks or other procedures to check claims for compliance with these types of bundling requirements; and c) Health does not have edit checks or other procedures to check claims for certain instances where claims report two units of one laboratory test on the same date to the same beneficiary. Additionally, Health could reap cost savings on hematology tests if Health chooses to adopt a policy and implement edit checks or other procedures to detect and prevent payment of hematology indices that are in addition to payment of a hematology profile.

We also noted that some claims were paid at a percentage of billed charges instead of a fixed rate, sometimes causing the payment to exceed Medicare rates for the billed procedures. As noted above, Medicaid payments should not exceed the Medicare rate for the same procedures. (These types of errors had no effect on the calculation of total overpayments noted above because the tests paid at a fixed rate were tests that were deleted when bundling the costs in order to calculate the overpayments.

RECOMMENDATIONS

1. **We recommend that Health provide laboratories submitting claims with information and timely updates regarding bundling procedures through an updated Laboratory Providers Manual.**

   Department of Health's Response:

   We agree with this recommendation.

2. **We recommend that Health implement procedures, through edit checks on the Medicaid Management Information System or other means, to allow payments only on properly bundled tests and to prevent duplication of tests.**

   Department of Health's Response:

   We agree with this recommendation and will use the post payment review process to monitor bundled tests.

3. **We recommend that Health investigate provider records to determine if the hematology indices were ordered by the physicians.**

Department of Health's Response:

We disagree with this recommendation. When a physician orders a blood workup, he wants a complete workup which would include the indices.

4. **We recommend that Health consider adopting policies and implementing procedures to prevent the payment of unnecessary indices charges.**

Department of Health's Response:

We agree with this recommendation.

5. **We recommend that Health establish controls to prevent laboratory payments from exceeding Medicare rates.**

Department of Health's Response:

We agree with this recommendation but it should be noted that for procedure codes which have not been priced by Medicare, the Department uses the percentage of billed charge pricing methodology until Medicare establishes a fee. Our authority for using this price methodology is based upon Section 6300.1 of the State Medicaid Manual which provides that "If a Medicare fee has not been established for a particular test reimbursed by Medicaid, no such [payment] limitation applies to the test."

Auditor's Concluding Remark:

A Medicare fee had been established at the time of the claims for the instances noted in our sample.

6. **We recommend that Health recover overpayments from at least the providers with the largest payment errors and make adjustments for the federal share of amounts recovered on the Quarterly Report of Expenditures to HHS.**

Department of Health's Response:

We disagree with this recommendation. Our review indicates that providers were billing in good faith for services provided. There is sufficient ambiguity in the billing instructions for these services in the CPT manual and from HHS that we feel that providers should not have to repay any overpayments.

SCOPE LIMITATIONS

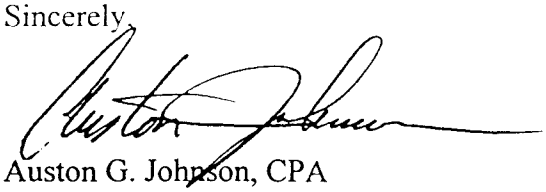
Our procedures were more limited than would be necessary to express an opinion on any of the items referred to above or to express an opinion on the effectiveness of Health's internal control structure or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the finding resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of Health's internal control structure, other matters might have come to our attention that would have been reported to you.

REPORT DISTRIBUTION

This report is intended solely for the information and use of management and HHS and should not be used for any other purpose. However, this report is a public record and its distribution is not limited.

By its nature, this report focuses on exceptions, weaknesses, and problems. This should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of Health during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please call Jana Obray, Audit Manager, at 538-1145.

Sincerely,



Auston G. Johnson, CPA
Utah State Auditor

cc: Shari Watkins, Director, Office of Finance
Robert E. Kolan, Director, Bureau of Financial Audit
Michael Deily, Director, Division of Health Care Financing
James Trout, Senior Auditor, HHS, OIG, OAS

AUTOMATED MULTICHANNEL CHEMISTRY PANEL TESTS REVIEWED

Chemistry Panel CPT Code Description	CPT Codes
1 or 2 clinical chemistry automated multichannel test(s)	80002
3 clinical chemistry automated multichannel tests	80003
4 clinical chemistry automated multichannel tests	80004
5 clinical chemistry automated multichannel tests	80005
6 clinical chemistry automated multichannel tests	80006
7 clinical chemistry automated multichannel tests	80007
8 clinical chemistry automated multichannel tests	80008
9 clinical chemistry automated multichannel tests	80009
10 clinical chemistry automated multichannel tests	80010
11 clinical chemistry automated multichannel tests	80011
12 clinical chemistry automated multichannel tests	80012
13-16 clinical chemistry automated multichannel tests	80016
17-18 clinical chemistry automated multichannel tests	80018
19 or more clinical chemistry automated multichannel tests	80019
General Health Panel	80050
Hepatic Function Panel	80058

Chemistry Panel Test CPT Code Description Subject to Panelling (34 CPT Codes)	CPT Codes
Albumin	82040
Albumin/globulin ratio	84170
Bilirubin Total OR Direct	82250
Bilirubin Total AND Direct	82251
Calcium	82310, 82315, 82320, 82325
Carbon Dioxide Content	82374
Chlorides	82435
Cholesterol	82465
Creatinine	82565
Globulin	82942
Glucose	82947
Lactic Dehydrogenase (LDH)	83610, 83615, 83620, 83624
Alkaline Phosphatase	84075
Phosphorus	84100
Potassium	84132
Total Protein	84155, 84160
Sodium	84295
Transaminase (SGOT)	84450, 84455
Transaminase (SGPT)	84460, 84465
Blood Urea Nitrogen (BUN)	84520
Uric Acid	84550
Triglycerides	84478
Creatinine Phosphokinase (CPK)	82550, 82555
Glutamyl transpetidase, gamma	82977

AUTOMATED HEMATOLOGY PROFILE AND COMPONENT TESTS REVIEWED

Hematology Component Test CPT Code Description	CPT Codes
Red Blood Cell Count (RBC) only	85041
White Blood Cell Count (WBC) only	85048
Hemoglobin, Colorimetric (Hgb)	85018
Hematocrit (Hct)	85014
Manual Differential WBC Count	85007
Platelet Count (Electronic Technique)	85595

Additional Hematology Component Tests - Indices Description	CPT Codes
Automated Hemogram Indices (one to three)	85029
Automated Hemogram Indices (four or more)	85030

Hematology Profile CPT Code Description	CPT Codes
Hemogram (RBC, WBC, Hgb, Hct, and Indices)	85021
Hemogram and Manual Differential	85022
Hemogram and Platelet and Manual Differential	85023
Hemogram and Platelet and Partial Automated Differential	85024
Hemogram and Platelet and Complete Automated Differential	85025
Hemogram and Platelet	85027

URINALYSIS TESTS REVIEWED

Urinalysis CPT Code Description	CPT Codes
Urinalysis	81000
Urinalysis without Microscopy	81002, 81003
Urinalysis Microscopic only	81015