



Office of Audit Services
1100 Commerce, Room 6B6
Dallas, TX 75242

April 26, 2002

Common Identification Number: A-06-01-00088

Ronnie D. McCormick, Regional Director
Provider Audit and Reimbursement
TrailBlazer Health Enterprises, LLC
Executive Center III
8330 LBJ Freeway
Dallas, Texas 75243-1213

Dear Mr. McCormick:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled "Audit of Observation Service Billings by Baptist Health System." The audit period covered claims with dates of service from September 1, 1995 through August 31, 1999. 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 (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the which the department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-06-01-00088 in all correspondence relating to this report.

Sincerely yours,

Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Dr. James R. Farris, MD
Regional Administrator
Center for Medicare and Medicaid Services
1301 Young Street, Room 714
Dallas, Texas 75202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF OBSERVATION
SERVICE BILLINGS BY
BAPTIST HEALTH SYSTEM**

SEPTEMBER 1, 1995 - AUGUST 31, 1999



JANET REHNQUIST
Inspector General

APRIL 2002
A-06-01-0088

Office of Inspector General

<http://oig.hhs.gov>

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April 26, 2002

Common Identification Number: A-06-01-00088

Mr. Ronnie D. McCormick, Regional Director
Provider Audit and Reimbursement
Trailblazer Health Enterprises, LLC
Executive Center III
8330 LBJ Freeway
Dallas, Texas 75243-1213

Dear Mr. McCormick:

This report provides you with the results of our audit work related to outpatient observation services billed by Baptist Health System (Hospital) in San Antonio, Texas. The objective of our audit was to determine whether outpatient observation services billed by the Hospital met the Medicare reimbursement requirements. Our review covered service dates between September 1, 1995 and August 31, 1999 (fiscal years 1996-1999).

The Hospital billed Medicare for observation services that did not meet Medicare criteria. However, prior to the completion of our audit, fiscal intermediary officials made adjustments of approximately \$3 million in observation charges to the Hospital's cost reports for fiscal years 1996 through 1999. The adjustments made by the fiscal intermediary offset any adjustments resulting from our audit. Our audit showed that observation services were primarily unallowable because:

- A physician's order for observation was not documented in the medical records,
- The medical records contained a standing order for observation, or
- The medical records contained orders for an inpatient admission, but the observation services were billed as outpatient.

In the fall of 1999, the Hospital implemented various activity plans to improve its management of observation billings due to potential inconsistencies in the use of observation status. These activities included a team to: (1) establish policies and procedures to ensure consistent, proper classification and billing of all patients, and (2) develop and implement an education plan for Hospital staff and physicians.

Because the adjustments made by the fiscal intermediary offset any adjustments resulting from our audit, we are making no financial recommendations. However, we are recommending that the fiscal intermediary: (1) ensure that the types of unallowable observation services identified in this report are addressed in the cost report adjustments, and (2) review future observation claims to ensure the Hospital's activity plans continue to reduce unallowable outpatient observation services. The fiscal intermediary concurred with our recommendations. The complete text of their response is included as Appendix C.

INTRODUCTION

Background

Outpatient observation services (revenue code 0762) are defined as those services furnished by a hospital on its premises to evaluate an outpatient's condition or determine the need for possible admission to the hospital as an inpatient.

According to Section 230.6 (A) of the Hospital Manual and 3112.8(A) of the Intermediary Manual published by the Centers for Medicare and Medicaid Services (CMS):

Observation services are allowable "...only when provided by the order of a physician or another individual authorized by State licensure law and hospital staff bylaws to admit patients to the hospital or to order outpatient tests."

Additionally, subpart (E) of both manual sections referenced above defines services that are not covered as outpatient observation. These include:

- Services which are not reasonable or necessary for the diagnosis or treatment of the patient (e.g., following an uncomplicated treatment or procedure),
- Services which are the result of a standing order for observation following outpatient surgery, and
- Services which are ordered as inpatient services by the admitting physician, but billed as outpatient.

Prior to August 2000, hospitals were separately reimbursed for observation services on a reasonable cost basis. Outpatient observation services were charged by number of hours, with the first observation hour beginning when the patient is placed in the observation bed (beginning and ending times are rounded to the nearest hour). With the start of Outpatient Prospective Payment System (OPPS) in August 2000, observation services were no longer reimbursed as a separate payment. They were included as part of the OPPS payment amount for outpatient procedures.

Although CMS will continue to package observation services into surgical procedures and most clinic and emergency visits, starting no later than April 1, 2002, CMS will separately pay for observation services involving three medical conditions. As published in the November 30, 2001 Federal Register, these three medical conditions will include services relating to chest pain, asthma, and congestive heart failure.

Objective, Scope and Methodology

The objective of our audit was to determine whether outpatient observation services billed by the Hospital met the Medicare reimbursement requirements. Our review covered service dates between September 1, 1995 and August 31, 1999 (fiscal years 1996-1999). The Hospital billed Medicare for \$6,874,673 in observation charges during fiscal years 1996 through 1999.

Our audit work included:

- Interviewing fiscal intermediary and Hospital officials, and
- Reviewing the medical records to determine whether the observation services met the requirements for Medicare reimbursement.

The Hospital was second in the nation in observation costs for fiscal year 1998. Further analysis of the Provider Summary Report showed that the Hospital had a significant amount of observation charges during fiscal years 1996 through 1999. Based upon these factors, we decided to audit the claims related to the 4 years.

We stratified a statistical sample of 120 Medicare claims approved for payment with outpatient observation services billed by the Hospital over the 4 fiscal years. Each stratum represented a fiscal year and contained 30 randomly selected medical claims with observation services. We reviewed the medical records supporting the observation services drawn in our sample to determine if they met the requirements for Medicare reimbursement. For each observation service that did not meet the reimbursement criteria, we determined the amount of unallowable observation charges and the number of unallowable hours.

Our approach in determining whether the observation services were unallowable under Medicare requirements was as follows:

- Medicare requirements do not allow for reimbursement of observation services without a physician's order. However, when medical records were identified without physician's orders or with standing orders, we identified at least one additional finding in most cases before determining that the observation services were unallowable. The additional findings identified

included observation following an uncomplicated treatment or procedure, and an inappropriate number of observation hours billed.

- Specific language in the medical records such as “no complications,” or “patient tolerated the procedure well” was used to identify an uncomplicated treatment or procedure before determining that the observation services were unallowable.
- Time spent prior to a scheduled procedure is not allowable as observation, and time spent in surgery and recovery cannot be simultaneously billed as observation.

We are issuing this report to the fiscal intermediary because it is responsible for adjudicating Medicare claims submitted by the Hospital.

Our audit was conducted in accordance with generally accepted government auditing standards. Our audit was limited to determining the appropriateness of pre-OPPS claims that contained observation services submitted to CMS for payment. We did not review the internal controls of the fiscal intermediary.

Our audit work was performed at the fiscal intermediary, Baptist Health System in San Antonio, Texas and in our Oklahoma City field office during the period of August 2001 through February 2002.

RESULTS OF AUDIT

The Hospital charged Medicare \$6,874,673 for all observation services from September 1, 1995 to August 31, 1999 (fiscal years 1996-1999). These charges included a number of observation services that did not meet the requirements for Medicare reimbursement. Subsequent to the initial submission of the cost reports that included observation charges, the fiscal intermediary made several adjustments reducing the amount charged to Medicare by approximately \$3.0 million (see Appendix A). The fiscal intermediary posted some of these adjustments during our fieldwork.

Our audit of a statistical sample of 120 claims contained observation services with dates of service from September 1, 1995 to August 31, 1999 (Hospital's fiscal years 1996 through 1999). Of the 120 observation services reviewed, 63 (or 53 percent) did not meet Medicare reimbursement criteria. The observation services for 57 of these claims were unallowable, while another 6 were partially unallowable. (See Appendix B for a table showing the reasons why each sample service was not allowable.)

The Hospital has implemented various activity plans to improve its management of observation billings. An Observation Status Performance Improvement Team was initiated in December 1999 to identify current processes for managing patient status. In addition, system wide education of patient care, admitting, and billing staff took place in

the spring of 2000 for full implementation of policies relating to observation status of patients.

UNALLOWABLE OBSERVATION SERVICES

The observation services for 57 of the 63 claims did not meet the Medicare requirements for 3 primary reasons: 1) a physician's order for observation was not documented in the medical records; 2) the medical records contained a standing order for observation; or 3) the medical records contained orders for an inpatient admission, but the observation services were billed as outpatient.

No Physician's Order In The Medical Records

The observation services for 29 of the 57 (or 51 percent) claims were unallowable because the medical record did not include an appropriate order for observation services. Medicare criteria indicate that observation services are allowable only when provided by the order of a physician or another individual authorized to admit patients to the hospital or to order outpatient tests.

Standing Order In The Medical Records

The observation services for 21 of the 57 (or 37 percent) claims were unallowable because the medical record contained standing orders for observation services. Medicare criteria indicate that standing orders for observation services following outpatient surgery are unallowable. Several claims contained a physician's order that was written either one or more days prior to the patient's admission to the Hospital for a scheduled outpatient procedure.

Outpatient Services Were Ordered as Inpatient

The observation services for 7 of the 57 (or 12 percent) claims were unallowable because the medical record contained an order for an inpatient hospital stay, but the observation was billed as an outpatient service. Medicare criteria indicate that services which were ordered as inpatient services by the admitting physician are not allowable for outpatient observation.

In addition, the majority of these 57 unallowable observation services had additional findings that did not meet the Medicare requirements for reimbursement. These additional findings included observation following an uncomplicated treatment or procedure and an inappropriate number of observation hours billed.

Observation Following an Uncomplicated Treatment or Procedure

The observation services for 47 of the 57 (or 82 percent) claims were unallowable because the medical record documented that there were no complications following an outpatient treatment or procedure. Medicare observation criteria state that services that are not reasonable or necessary, such as observation following an uncomplicated treatment or procedure, are not allowable for Medicare reimbursement.

Inappropriate Number of Observation Hours Billed

The observation services for 15 of 57 (or 26 percent) claims had an inappropriate number of observation hours billed. In some claims, the observation time billed by the Hospital began prior to the scheduled procedure, included the time the patient was in the procedure and in the recovery unit, and ended when the patient was discharged. Medicare observation criteria state that time spent prior to a scheduled procedure is unallowable as observation and time spent in surgery and recovery cannot be simultaneously billed as observation.

PARTIALLY UNALLOWABLE OBSERVATION SERVICES

The observation services for 6 of the 63 (or 10 percent) claims were partially unallowable because they had an inappropriate number of observation hours billed. For example, in sample claim 11 in fiscal year 1998, the beneficiary entered the Hospital at 10:40 a.m. and was discharged at 10:50 the following day. The hospital billed for 24 hours as observation even though the beneficiary received an outpatient surgical procedure at 2:35 p.m. on the first day and then went to the recovery room until 5:25 p.m. In this case, the 18 hours from recovery to discharge is the maximum amount of time the Hospital could have billed observation services. A hospital official agreed in all six claims that the Hospital billed Medicare for more observation hours than should have been billed.

A Hospital official agreed that the observation services in these 63 claims should not have been billed to Medicare. The Hospital official cited a lack of medical staff education on observation criteria as the primary reason for the unallowable observation services.

CONCLUSIONS AND RECOMMENDATIONS

During the Hospital's service dates between September 1, 1995 and August 31, 1999 (fiscal years 1996-1999), Medicare reimbursed the Hospital for many outpatient observation services that did not meet the requirements for Medicare reimbursement.

Subsequent to the initial submission of the cost reports that included observation charges, the fiscal intermediary made adjustments to the Hospital's cost reports reducing the amount of observation charges by approximately \$3.0 million. This offset any adjustment resulting from our audit. Therefore, we are making no financial recommendations.

With the start of OPSS in August 2000, observation services were no longer reimbursed as a separate payment. They were included as part of the OPSS payment amount. However, starting no later than April 1, 2002 CMS will separately pay for observation services relating to three medical conditions. As published in the November 30, 2001, Federal Register, these three medical conditions include chest pain, asthma, and congestive heart failure. Unallowable observation services may recur under this new policy.

We recommend that the fiscal intermediary: (1) ensure that the types of unallowable observation services identified in this report are addressed in the cost report adjustments, and (2) review future observation claims to ensure the Hospital's activity plans continues to reduce unallowable outpatient observation services.

AUDITEE RESPONSE

The fiscal intermediary concurred with our recommendations. In its formal response to our draft report, the fiscal intermediary responded:

“TrailBlazer Health Enterprises, LLCSM audit staff will continue to evaluate the propriety of observation charges submitted for reimbursement through the use of the Medicare Cost Report. This evaluation will be performed in accordance with regulations established in the Provider Reimbursement Manual as directed by the Centers for Medicare and Medicaid Services and will serve to evaluate the Provider's plans to reduce unallowable outpatient observation services. Material adjustments resulting from the ongoing review of these charges will be incorporated into the final settlement and related Notice of Program Reimbursement for Baptist Memorial Health System as applicable.”

Sincerely,



Gordon L. Sato
Regional Inspector General
for Audit Services

APPENDICES

APPENDIX A**TABLE OF OBSERVATION CHARGE ADJUSTMENTS
TO THE COST REPORTS**

Fiscal Year	Initial Cost Report Amount (Outpatient Ambulatory Surgical Center and All Other)	Observation Charge Adjustments	Final Cost Report Amount
1996	\$2,293,100	\$ (985,693)	\$1,307,407
1997	\$1,979,949	\$ (637,448)	\$1,342,501
1998	\$1,585,159	\$ (740,570)	\$ 844,589
1999	\$1,275,516	\$ (556,404)	\$ 719,112
Total		\$(2,920,115)	

**SCHEDULE OF UNALLOWABLE OBSERVATION SERVICES
120 CLAIM SAMPLE, BAPTIST HEALTH SYSTEM
SEPTEMBER 1, 1996, THROUGH AUGUST 31, 1999**

Claims With No Physician Orders		
Sample Numbers	No Complications	Inappropriate Hours
Sample Numbers FY 1996		
1	X	
2	X	
3	X	
5	X	
9	X	
12	X	
13		
19	X	X
20		
28		
29	X	X
Sample Numbers FY 1997		
10	X	X
19	X	
29	X	
Sample Numbers FY 1998		
7	X	
8		
12	X	
13	X	X
15	X	
21	X	
22	X	X
23	X	
Sample Numbers FY 1999		
8	X	
10	X	X
13	X	
17	X	
19	X	
20	X	
29	X	X
Total Claims = 29		
Claims With Standing Orders		
Sample Numbers	No Complications	Inappropriate Hours
Sample Numbers FY 1996		
4	X	
6	X	X
11	X	X
16	X	
21	X	X
Sample Numbers FY 1997		
1	X	
9	X	
11	X	

Claims With Standing Orders (Continued)		
Sample Numbers	No Complications	Inappropriate Hours
12	X	
17	X	
18	X	
28	X	
30	X	
Sample Numbers FY 1998		
1	X	
5	X	X
14	X	
Sample Numbers FY 1999		
5	X	
9	X	
11	X	X
16	X	X
30	X	X
Total Claims = 21		
Outpatient Services Were Ordered As Inpatient		
Sample Numbers	No Complications	Inappropriate Hours
Sample Numbers FY 1997		
20		
23		
27		
Sample Numbers FY 1998		
17	X	X
28		
Sample Numbers FY 1999		
18		
24		
Total Claims = 7		

SCHEDULE OF PARTIALLY UNALLOWABLE SERVICES

Claims With Partial Unallowable Observation Services		
Sample Numbers	No Complications	Inappropriate Hours
Sample Numbers FY 1997		
14		X
26		X
Sample Numbers FY 1998		
11		X
16		X
25		X
Sample Numbers FY 1999		
1		X
Total Claims = 6		
Total Number of Unallowable Claims = 63		



MEDICARE

Part A Intermediary
Part B Carrier

Common Identification Number: A-06-01-00088

April 22, 2002

Mr. James Hargrove
Audit Manager
U.S. Department of Health and Human Services
3625 N.W. 56th Street, Room 101
Oklahoma City, Oklahoma 73112

RE: Baptist Memorial Health System
Provider Number: 45-0058
FYE: 8/31/96, 8/31/97, 8/31/98 and 8/31/99

Dear Mr. Hargrove:

Based on the results of the audit performed by your staff on outpatient observation services billed by Baptist Memorial Health System and included in the draft report submitted for my review on April 5, 2002, I concur with the "Conclusions and Recommendation" presented within the text of the report.

TrailBlazer Health Enterprises, LLCSM audit staff will continue to evaluate the propriety of observation charges submitted for reimbursement through the use of the Medicare Cost Report. This evaluation will be performed in accordance with regulations established in the Provider Reimbursement Manual as directed by the Centers for Medicare and Medicaid Services and will serve to evaluate the Provider's plans to reduce unallowable outpatient observation charges. Material adjustments resulting from the ongoing review of these charges will be incorporated into the final settlement and related Notice of Program Reimbursement for Baptist Memorial Health System as applicable.

Sincerely,

A handwritten signature in black ink, appearing to read "Ronnie D. McCormick".

Ronnie D. McCormick
Regional Director
Provider Audit and Reimbursement

cc: Nora Durham, Home Office Team Director
Larry Jordan, Field Office Director – San Antonio
Baptist Memorial Health System – Permanent File

TrailBlazer Health Enterprises, LLCSM
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A CMS Contracted Intermediary and Carrier