DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

June 16, 2003

CIN: A-06-02-00012

Mr. William V. Morris III
Vice President
TriSpan Health Services
Medicare
1064 Flint Drive
Jackson, MS 39208

Dear Mr. Morris:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' report entitled "Review of Compliance with Medicare Regulations Related to the Consolidation of University Hospital and the Medical Center of Louisiana at New Orleans". The focus of this review centered on whether Medicare regulations, dealing with change of ownership, were adhered to when the hospitals consolidated to form the MCLNO East and West Campuses. A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

TriSpan officials stated that procedures were in place that address our procedural recommendations and that the recovery related to the consolidation was being pursued. We have incorporated TriSpan's written comments in the body of the report following the Conclusions and Recommendations section of the report. We appreciate the cooperation given to us by TriSpan officials during this audit.

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.

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To facilitate identification, please refer to CIN: A-06-02-00012 in all correspondence relating to this report.

Sincerely yours,

Gordon L. Sato

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Mr. Dale Kendrick
Associate Regional Administrator
Centers for Medicare and Medicaid Services
U.S. Department of Health and Human Services
Sam Nunn Federal Building
61 Forsyth Street, SW, Suite 4T20
Atlanta, Georgia 30303-8909

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF COMPLIANCE WITH MEDICARE REGULATIONS RELATED TO THE CONSOLIDATION OF UNIVERSITY HOSPITAL AND THE MEDICAL CENTER OF LOUISIANA AT NEW ORLEANS

JUNE 2003
A-06-02-00012

Office of Inspector General

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Mr. William V. Morris III
Vice President
TriSpan Health Services
Medicare
1064 Flint Drive
Jackson, MS 39208

Dear Mr. Morris:

This audit report provides the results of our review of the consolidation of University Hospital (University) and the Medical Center of Louisiana at New Orleans (MCLNO). The objective of our review was to determine whether Medicare's regulations, especially those dealing with a change of ownership, were adhered to when the hospitals consolidated to form the MCLNO East and West Campuses.

A consolidation of hospitals is a change of ownership in Medicare regulations. These regulations require that Medicare payments for services to patients, who are discharged after the date of the consolidation, be made to the legal owner on the date of discharge. After consolidation, MCLNO was not only the legal owner, but also the hospital surviving the consolidation.

The MCLNO's consolidation with University was effective July 1, 1994. Any use of University's Medicare provider number to bill Medicare for patient services after that date was improper. However, University's provider number continued to be used on claims submitted to its Medicare fiscal intermediary (FI), TriSpan, for payment after the consolidation date. This, along with other claims errors, resulted in $1,811,781 of Medicare overpayments consisting of:

- $1,309,238 for 215 patients between July 1, 1994 and June 30, 1997, who were reported to Medicare as discharged by transfer to another short term hospital when the patient was moved between MCLNO's East and West campuses;

- $147,047 for 21 patients on July 1, 1997, which represented an erroneous consolidation date, who were reported to Medicare as transferred to another short-term hospital when the patient may or may not have been moved between MCLNO's two campuses;

- $340,998 for 30 patients who were reported to Medicare as discharged when the patient was admitted to the other MCLNO campus on the same day; and

- $14,498 for 13 patients who were reported to Medicare as discharged from a MCLNO campus when the patient was admitted to another short-term hospital on the same day.

We determined that errors in MCLNO's cost reports also resulted because the use of both provider numbers for different parts of a stay resulted in duplication of certain data in the cost reports. It was not within the scope of this audit to identify and quantify these errors.

We concluded that the overpayments associated with the improper claims submitted to Medicare resulted from: (1) MCLNO's use of both provider numbers after the consolidation to solve an internal billing problem, and (2) TriSpan's acceptance and payment of the claims and cost reports that were in error because of the use of two provider numbers. In addition, TriSpan and the Centers for Medicare and Medicaid Services (CMS), recognized the consolidation, but did not enforce termination of the provider number assigned to University.

We are recommending that TriSpan and the hospitals work together to:

- Make required adjustments to the appropriate Medicare claims and cost reports for the errors identified in this report or that might be identified while taking corrective action; and

- Report the results of the corrective actions taken to the Office of Inspector General (OIG).

In addition, we are recommending that TriSpan establish procedures to (1) identify when hospital consolidations occur and (2) ensure that all of the hospitals involved in a consolidation comply with all appropriate Medicare regulations.

In their written response to our draft report, TriSpan officials stated that they had procedures in place to ensure all Medicare regulations are followed and to identify when hospital consolidations occur. These officials stated that they were not notified by CMS about the University and MCLNO consolidation until October 6, 1996, and that it was not appropriate for them to take any corrective actions prior to that notification. However, the officials further stated that the recovery related to the consolidation was currently being pursued. We believe that TriSpan will take the appropriate corrective actions, as needed, and report the results to the OIG at the proper time. The full text of TriSpan's written comments is included in the APPENDIX to our report.

INTRODUCTION

BACKGROUND

Public Law 98-21, enacted by Congress in 1983, established a discharge based Prospective Payment System (PPS) for hospitals rendering general acute care services that took effect with cost reporting periods beginning on or after October 1, 1983. The PPS established patient discharges as the basis for payment, distinguished between patient discharges and transfers and

addressed changes in ownership such as the consolidation of PPS hospitals to form a single hospital.

When PPS hospitals consolidate to form a single hospital, 42 C.F.R. 412.125 provides that only the legal owner on the date of discharge may submit a claim for all of the care rendered to the patient. The hospital being consolidated is not considered a discharging hospital if the patients actual discharge will occur after the date of consolidation. For example, assume that Hospital A and Hospital B are consolidated into a single hospital with two campuses and all post consolidation discharges are to be under Hospital B's provider number. Hospital A as the consolidated hospital should not submit a claim for any inpatient whose discharge will occur after the consolidation and be reported by Hospital B. Hospital B's claim should include all care rendered to the patient from admission to discharge regardless of the campus involved.

The FIs, such as TriSpan, that contract with CMS are responsible for ensuring that payments are made in accordance with Medicare regulations. The FIs need procedures in place to review both claims and cost reports submitted by hospitals involved in a consolidation to assure that all Medicare regulations are followed. TriSpan serves as an FI for the State of Louisiana.

At the time of the consolidation, the Louisiana Health Care Authority (LHCA) owned both University and MCLNO. However, the Louisiana State legislature subsequently moved the hospitals under the control of the Louisiana State University Health Sciences Center.

OBJECTIVES, SCOPE AND METHODOLOGY

An OIG computer match of PPS claims posted to the National Claims History (NCH) file between January 1, 1992 and June 30, 1999, identified transfers between PPS hospitals. Using this claims information, we identified potential hospital consolidations by (1) identifying an unusual number of transfers on one day made by one PPS hospital with a single other PPS hospital receiving most, or all, of the transferred patients and (2) finding no transfers reported by the first hospital after the date identified in NCH.

This computer match disclosed a large number of transfers on July 1, 1997, by University to MCLNO and we later determined these two hospitals had consolidated on July 1, 1994, but did not cease use of one of their provider numbers until July 1, 1997.

The objective of our review was to determine whether Medicare's regulation, especially those dealing with a change of ownership, were adhered to when the hospitals consolidated to form MCLNO East and West. To accomplish our objective we:

- Accessed the NCH file to obtain claims information necessary for an identification of patterns indicating a potential hospital consolidation with one of the hospitals reporting most, or all, of its inpatients transferred to the same hospital;

- Identified the University or MCLNO claims that (1) should not have been submitted because the patient was moved between their campuses, (2) should

have been submitted as a transfer to another PPS hospital instead of as a discharge, and (3) affected the consolidated cost report for the years ended June 30, 1995, 1996, 1997 and 1998;

- Confirmed the consolidation of University and MCLNO through a review of TriSpan's files and with the hospitals' internal auditors;

- Discussed the change of ownership regulations with TriSpan officials and the procedures they follow for audit or reimbursement of consolidating hospitals; and

- Discussed with the hospitals' internal auditors the reasons for the continued use of both provider numbers while submitting consolidated cost report for the affected years.

Our review was conducted in accordance with generally accepted government auditing standards and included Medicare inpatient claim payments made to both hospitals from July 1, 1994 through June 30, 1998. A review of internal controls at TriSpan or the hospitals was not required in order to meet our objectives. Fieldwork for this review was performed in Baton Rouge, Louisiana and Jackson, Mississippi.

FINDINGS AND RECOMMENDATIONS

The MCLNO's consolidation of University was effective July 1, 1994. Any further use of University's Medicare provider number for billing purposes after that date was improper. The continued use of University's provider number and other claims errors resulted in $1,811,781 of Medicare overpayments consisting of:

- $1,309,238 for 215 patients between July 1, 1994 and June 30, 1997 who were reported to Medicare as discharged by transfer to another short-term hospital when the patient was moved between MCLNO's East and West campuses;

- $147,047 for 21 patients on July 1, 1997, which represented an erroneous consolidation date, who were reported to Medicare as transferred to another short-term hospital when the patient was moved between MCLNO's campuses

- $340,998 for 30 patients who were reported to Medicare as discharged when the patients were admitted to the other MCLNO campus on the same day; and

- $14,498 for 13 patients who were reported to Medicare as discharged from a MCLNO campus when the patients were admitted to another short-term hospital on the same day.

The consolidation of MCLNO and University was effective July 1, 1994. However, neither hospitals officials, TriSpan officials nor CMS officials took proactive steps that would have prevented the overpayments identified in this report. We have identified several factors that we believe contributed to the Medicare overpayments. Those factors are discussed in the sections that follow. We are making recommendations for corrective actions that need to be taken to

correct the overpayments and to identify any adjustments that need to be made to the Medicare cost reports as a result of the consolidation.

Medicare Regulations

Part 42 CFR. 412.125, the regulations governing change of ownership (including consolidations) states that:

> "Payment for the operating and capital-related costs of inpatient hospital services for each patient, including outlier payments, as provided in Sec. 412.112, and payments for hemophilia clotting factor costs under Sec. 412.115(b), are made to the entity that is the legal owner on the date of discharge. Payments are not prorated between the buyer and seller."

The consolidation of University and MCLNO into a single Medicare provider was a change of ownership under these regulations.

Causes for the Overpayments

We concluded that the Medicare overpayments related to the consolidation could be attributed to several factors: (1) MCLNO's use of both provider numbers after the consolidation to solve an internal billing problem; (2) TriSpan's acceptance and payment of the claims and cost reports that were in error because of the use of two provider numbers; and (3) TriSpan and CMS recognition of the consolidation, but did not enforce termination of the provider number assigned to University. In addition, according to correspondence provided to us by MCLNO's internal auditors, the organization did not take steps that were needed to prevent the overpayments despite their knowledge of the consolidation.

Hospital Actions

A total of 279 inpatient service claims were erroneously submitted to Medicare for payment as discharges or transfers. These claims represented $1,811,781 in improper Medicare payments. Of the 279 claims, 266 claims were for inpatient services for patients who were moved between MCLNO's East and West campuses and for whom a discharge or transfer claim was erroneously submitted to Medicare as though the patient had been discharged or transferred to another short-term hospital. These claims resulted in $1,797,283 of Medicare claims overpayments. In addition, 13 patients who left one of the campuses for inpatient treatment at a hospital unrelated to MCLNO were reported discharged rather than transferred to another short-term hospital. The reporting of these 13 patients as discharged, rather than transferred, led to an additional $14,498 of Medicare overpayments.

The MCLNO internal auditors provided us with correspondence that documents MCLNO's acknowledgment of the consolidation date. However, MCLNO did not take any action to stop any improper billings to Medicare until July 1, 1997. The correspondence provided consisted of:

- July 18, 1994 - Correspondence informing the Joint Commission on Accreditation of Health Care Organizations that University was dissolved on July 1, 1994. For Medicare billing purposes, this should have resulted in the establishment of MCLNO East and West with all subsequent claims using MCLNO's provider number.

- February 20, 1997 – Correspondence to TriSpan and others informing them that effective July 1, 1997, MCLNO would have a single merged patient accounting system, but it may be necessary for MCLNO to obtain and use a third provider number.

Intermediary Actions

Following the July 1, 1994 consolidation of University and MCLNO, TriSpan continued to accept and pay Medicare claims submitted under both provider numbers. In addition, TriSpan generated Provider Statistical and Reimbursement (PS&R) reports for each number and consolidated the data in order to audit and settle the consolidated cost report submitted under MCLNO's provider number.

Our review procedures at TriSpan were limited to confirmation of the consolidation date. In this regard, we did find documentation that TriSpan officials were aware of the July 1, 1994 consolidation date and that both provider numbers were used until July 1, 1997. In addition, TriSpan's audit staff stated that auditing MCLNO's cost report required them to consolidate the PS&R reports of both University and MCLNO. However, there was no evidence in the auditor's working papers that they fully recognized that MCLNO's use of two provider numbers was causing Medicare claims overpayments and duplication of certain cost report data.

The MCLNO's internal auditors provided us with documentation which further showed that TriSpan did not take any corrective action until July 1, 1997. This correspondence consisted of:

- June 20, 1997 – Correspondence from TriSpan informing the LHCA that Medicare claims for University may continue to be filed for June 30, 1997, and prior dates of discharge. Effective for dates of discharge on or after July 1, 1997, Medicare claims for the merged facility should be filed using the MCLNO provider number.

CMS Actions

Based on correspondence provided by the MCLNO's internal auditors, CMS' acknowledgement of the consolidation was also delayed. The date of CMS' acknowledgement was October 2, 1996 – 27 months after the consolidation and 9 months before the hospital actually stopped using University's provider number. The correspondence consisted of:

- October 2, 1996 - Correspondence from CMS acknowledging the July 1, 1994 consolidation, and stating that University's provider number was terminated; acknowledging its delayed response to LHCA; and stating that all Medicare claims on or after July 1, should be billed under MCLNO's provider number.

Corrective Action Needed

We believe corrective action will require extensive work by both TriSpan and MCLNO. We identified 532 claims that will require adjustments or voiding to eliminate University's claim and correct MCLNO's claim by including all data for the patient's entire stays. Another seven University claims which reported discharges to other short-term hospitals need to be voided and reprocessed as MCLNO claims showing the patients transferred to other short-term hospitals . Finally, six MCLNO discharge claims will require adjustments to transfer claims. We will provide TriSpan with the list of all the claims that require correction.

After the corrective actions on the claims have been completed, TriSpan will need to produce new PS&R reports for each of the affected years and make necessary corrections to the cost reports. Based on the differences between the original and adjusted cost reports, TriSpan will be able to quantify the actual Medicare overpayments that resulted from the errors related to this consolidation.

In addition, Medicare regulations require that certain preadmission services performed on an outpatient basis, that lead to an inpatient admission, be incorporated into the inpatient claim. Also, observation services performed by one of the hospitals, that would otherwise be eligible for separate payment, may need to be incorporated into an inpatient claim because of the consolidation. For each of the cost reporting periods effected, it will be necessary for TriSpan to: (1) identify any observation or outpatient services that began or were performed at one of the campuses; (2) compare these services to the inpatient claims for the other campus; and, (3) determine whether any of the observation or outpatient services should be incorporated into the claim for the subsequent inpatient admission. Depending on the results of this review by TriSpan, additional claims and cost report adjustment may be necessary.

CONCLUSIONS AND RECOMMENDATIONS

The consolidation of University and MCLNO resulted in numerous claims and cost report errors that neither the hospitals nor TriSpan had procedures in place to recognize and correct. We recommend that TriSpan and the hospitals work together to:

- Make required adjustments to the appropriate Medicare claims and cost reports for the errors identified in this report, or that might be discovered while taking corrective action; and

- Report the results of the corrective actions taken to the Office of Inspector General (OIG).

In addition, we recommend that TriSpan establish procedures to (1) identify when hospital consolidations occur and (2) ensure that all of the hospitals involved in a consolidation comply with the Medicare regulations set forth in 42 C.F.R. 412.125.

TRISPAN'S COMMENTS

In their written response to our draft report, TriSpan stated that they have policies and procedures in place to ensure that all Medicare regulations related to consolidations are followed and to identify when hospital consolidations occur. With regard to the consolidation of the University and MCLNO, TriSpan stated that it was not notified by CMS about the consolidation until October 6, 1996, and that it was not appropriate for them to take any corrective action on the claims payments and cost reports prior to that notification by CMS. TriSpan further stated that the recovery related to the consolidation was currently being pursued. We have included the full text of TriSpan's written comments in the APPENDIX to this report.

OIG'S RESPONSE

We believe that TriSpan will, as needed, take the appropriate corrective actions with regard to the University and MCLNO consolidation and report the results to the OIG at the proper time.

Sincerely,

Gordon L. Sato

GORDON L. SATO
Regional Inspector General
for Audit Services

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www.trispan.com
P. O. Box 23046 • Jackson, MS • 39225-3046
1064 Flynt Drive • Jackson, MS • 39232-9570
(601) 936-0105

May 28, 2003

Mr. Sam Patterson
Department of Health and Human Services
Office of Inspector General
Office of Audit Services
3625 Northwest 56th Street, Room 101
Oklahoma City, OK 73112

Re: Common Identification Number A-06-02-00012

Dear Mr. Patterson:

The purpose of this letter is to provide closure to the Office of Inspector General's review of compliance related to the Consolidation of University Hospital and the Medical Center of Louisiana at New Orleans. Appropriate policies and procedures are in place to ensure all Medicare regulations are followed and to identify when hospital consolidations occur. These policies and procedures were in place during the time of the above review.

Unfortunately, we were not notified by the Center for Medicare and Medicaid Services (CMS) of the consolidation until October 6, 1996. This notification was actually 27 months after the consolidation occurred. Until we are officially notified by CMS it is not appropriate for us to take action with regard to claims payment or cost reports.

The recovery of the overpayment is currently being pursued.

If you have any questions, please contact me by telephone at 601-664-5404 or by writing at the address on this letter.

Sincerely,

Sandra M. Griffith
Director, Program Safeguards

cc: Gary Gerber, Director, Medicare Provider Audit
Sheila Thomas, Director, Medicare Provider Reimbursement
Michael Weisner, SA-OIG

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CMS
CENTERS for MEDICARE & MEDICAID SERVICES