

**Memorandum**

NOV 4 1996  
Date *Michael Mangano*  
for June Gibbs Brown  
From Inspector General

Subject Review of Clinical Laboratory Services Under Virginia's Medicaid Program for Calendar Years 1993 and 1994 (A-03-96-00202)

To Bruce C. Vladeck  
Administrator  
Health Care Financing Administration

This memorandum is to alert you to the issuance on November 5, 1996 of our final audit report. A copy is attached.

The objective of our review was to evaluate the Virginia Department of Medical Assistance Services' (State agency) procedures and controls over the payment of Medicaid claims which contain clinical laboratory services. Clinical laboratory services include chemistry, hematology, and urinalysis tests. Our review was limited to clinical laboratory services involving chemistry and urinalysis tests. Due to the immateriality of the amount of potential instances of overpayments in the laboratory services involving hematology tests, we excluded those tests from this review.

Our review disclosed that the State agency lacked adequate procedures and controls to ensure that chemistry and urinalysis tests were reimbursed in accordance with section 1903(i)(7) of the Social Security Act (the Act) which limits Federal reimbursement for clinical laboratory services under the Medicaid program to the amount that would be recognized by Medicare under section 1833(h) of the Act. The Medicare regulations require that laboratory tests, which are available as part of a multichannel chemistry panel or an all-inclusive urinalysis test, be bundled into and reimbursed at a lesser panel or all-inclusive fee rather than being reimbursed at higher individual test fees. The State agency did not have adequate controls to ensure that chemistry and urinalysis tests are bundled for reimbursement purposes. We found that 99 of 100 sampled claims were overpaid. Based on our audit, we estimate that the State agency overpaid providers \$1,446,925 (Federal share \$723,463) during 1993 and 1994.

We are recommending that the State agency: (1) implement a policy change that would clearly define and mandate the use of bundled services for chemistry and urinalysis tests, (2) install edits to detect and prevent payments for unbundled services and billings that contain duplicative tests, (3) recover overpayments for clinical laboratory services

identified in this review, and (4) make adjustments for the Federal share of the amounts recovered by the State agency on its Quarterly Report of Expenditures to the Health Care Financing Administration.

The State agency generally disagreed with our findings and recommendations. The State agency believes it is inappropriate to apply Medicare reimbursement guidelines to Medicaid claims. The State agency also contested the potential amount of overpayment identified in our report and intends to analyze the 100 sampled claims using its Medicaid reimbursement policies to determine the potential amount of overpayments.

We do not agree with the State agency. States administering Federal financial participation under the Medicaid program must observe Medicare rules governing reimbursement of clinical diagnostic laboratory services, including schemes for bundling tests into panels for payment purposes. Our calculation of the potential amount of overpayment is consistent with those rules. We believe that the State agency should implement our recommendations for procedural improvements and pursue collection of the overpayments identified during our review and make the appropriate adjustments on its Quarterly Report of Expenditures.

Attachment

For information contact:

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Regional Inspector General  
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(215) 596-6744

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF CLINICAL LABORATORY SERVICES  
UNDER VIRGINIA'S MEDICAID PROGRAM FOR  
CALENDAR YEARS 1993 AND 1994**



**JUNE GIBBS BROWN  
Inspector General**

**NOVEMBER 1996  
A-03-96-00202**



**DEPARTMENT OF HEALTH & HUMAN SERVICES**

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Our Reference: Common Identification Number A-03-96-00202

Joseph M. Teefey, Director  
Department of Medical Assistance Services  
Commonwealth of Virginia  
600 East Broad Street, Suite 1300  
Richmond, Virginia 23219

Dear Mr. Teefey:

This report presents the results of our review of the Virginia Department of Medical Assistance Services (State agency) reimbursements for outpatient clinical laboratory services under the Medicaid program. The objective of our review was to determine the adequacy of procedures and controls over the processing of Medicaid payments to providers in Calendar Years (CY) 1993 and 1994 for outpatient clinical laboratory services involving chemistry and urinalysis tests.

Our review disclosed that the State agency lacked adequate procedures and controls to ensure that chemistry and urinalysis tests were reimbursed in accordance with section 6300 of the State Medicaid Manual which requires State agencies to ensure that Medicaid reimbursements for clinical laboratory tests do not exceed amounts recognized by the Medicare program. The Medicare regulations require that laboratory tests, which are available as part of a multichannel chemistry panel or an all-inclusive urinalysis test, be bundled into and reimbursed at a lesser panel or all-inclusive fee rather than being reimbursed at higher individual test fees. The State agency did not have adequate controls to ensure that chemistry and urinalysis tests are bundled for reimbursement purposes.

We selected a stratified sample of 100 claims--50 chemistry claims for more than one individual test or panel, or for a panel and individual tests for the same recipient on the same date of service by the same provider; and 50 urinalysis claims for more than one urinalysis test for the same recipient on the same date of service by the same provider. We considered these claims to be potential payment errors because the probability existed that the claims should have been reimbursed at a panel or all-inclusive fee rather than at higher individual test fees.

We found that 99 of the 100 claims were overpaid since the 50 chemistry tests were available as part of an automated multichannel chemistry panel, and 49 of the 50 urinalysis tests should have been paid under an all-inclusive fee. We also found that for 24 of the chemistry

claims and 28 of the urinalysis claims the State agency paid providers higher fees than the Virginia Medicare Carrier (MetraHealth Medicare, formerly the Travelers) clinical laboratory fee schedule prices.<sup>1</sup>

In our opinion, the 99 overpayments occurred because the State agency: (1) did not have adequate edits to detect chemistry and urinalysis tests that should have been bundled into a single automated multichannel panel chemistry test code or an all-inclusive urinalysis test code for reimbursement purposes; (2) did not consider for bundling purposes all chemistry tests identified by the local Medicare carrier as being suitable for bundling; and (3) reimbursed some chemistry and urinalysis tests at fees higher than those established by the local Medicare carrier.

Projecting the results of our statistical sample over the population of similar claims using standard statistical methods, we estimate that the State agency overpaid providers \$1,446,925 (Federal share \$723,463).

We are recommending that the State agency: (1) implement a policy change that would clearly define and mandate the use of bundled services for chemistry and urinalysis tests; (2) install edits to detect and prevent payments for unbundled services and billings that contain duplicative tests; (3) recover overpayments for clinical laboratory services identified in this review; and (4) make adjustments for the Federal share of the amounts recovered by the State agency on its Quarterly Report of Expenditures to the Health Care Financing Administration (HCFA).

The State agency responded to a draft of this report and generally disagreed with our findings and recommendations. The State agency believes it is inappropriate to apply Medicare reimbursement guidelines to Medicaid claims. It also contested the potential amount of overpayments identified in our report and intends to analyze the 100 sampled claims using its Medicaid reimbursement policies to determine the potential amount of overpayments. We have summarized the State agency's response along with our comments after the Conclusions and Recommendations section of this report. The State agency's written response is included in its entirety as Appendix C.

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Because many of the overpayments identified in this review were attributed to Medicaid fee schedule prices exceeding the local Medicare carrier's fee schedule prices, we intend to make a separate review of the State agency's Medicaid fee schedules and paid claims to determine the impact on the Medicaid program for all clinical laboratory services. The results of this expanded review will be reported separately.

## INTRODUCTION

### BACKGROUND

Medicaid, a Federally aided State program established under Title XIX of the Social Security Act, provides medical assistance to certain individuals and families with low income and resources. Within broad Federal guidelines, States design and administer the Medicaid program under the general oversight of HCFA. States are required to provide certain medical services and other services such as outpatient clinical laboratory tests. In Virginia, the Department of Medical Assistance Services is the State agency responsible for administering the Medicaid program.

Laboratory tests are performed by providers on a patient's specimen to help physicians diagnose and treat ailments. Chemistry tests involve the measurement of various chemical levels in blood. Chemistry tests frequently performed on automated equipment are grouped together and reimbursed at a panel rate. Chemistry tests are also combined under problem-oriented classifications (referred to as organ panels). Organ panels were developed for coding purposes and are to be used when all of the component tests are performed. Many of the component tests of organ panels are also chemistry panel tests. Urinalysis tests involve physical, chemical or microscopic analysis or examination of urine. An urinalysis may be ordered by the physician as a complete test which includes a microscopy, an urinalysis without the microscopy, or the microscopy only.

Testing may be performed in a physician's office, a hospital laboratory, or by an independent laboratory. The providers submit claims for laboratory services performed on Medicaid recipients. Claims processing is the responsibility of a designated Medicaid agency in each State which may elect to use an outside fiscal agent to process claims.

The State Medicaid Manual limits Medicaid payments for outpatient clinical laboratory tests to the amount that Medicare pays. Specifically:

- ▶ Section 6300.1 states that Federal matching funds will not be available to the extent a State pays more for outpatient clinical laboratory tests performed by a physician, independent laboratory, or hospital than the amount Medicare recognizes for such tests.
- ▶ Section 6300.2 states that payment for clinical laboratory tests under the Medicaid program cannot exceed the amount recognized by the Medicare program. Under Medicare, clinical laboratory services are reimbursed at the lower of the fee schedule amount or the actual charge. The Medicare carrier (the contractor that administers Medicare payments to physicians and independent laboratories) maintains the fee schedule and provides it to the State Medicaid agency in its locality.

- ▶ Section 6300.5 allows a State agency to enter into agreements to purchase laboratory services. However, States may not pay more in the aggregate for clinical diagnostic laboratory tests than the amount that would be paid for the tests under the Medicare fee schedule.

#### **SCOPE OF AUDIT**

Our review was conducted in accordance with generally accepted government auditing standards. The objective of our review was to determine the adequacy of procedures and controls over the processing of Medicaid payments to providers in CY 1993 and 1994 for clinical laboratory services involving chemistry and urinalysis tests. We did not include in our detailed review hematology tests because our computer applications identified an insignificant amount of potential payment errors, \$31,417.

To accomplish our objective, we reviewed State agency policies and procedures for processing Medicaid claims from providers for clinical laboratory services involving chemistry and urinalysis tests. We also reviewed the Medicare carrier's policies and procedures for processing Medicare claims from providers for clinical laboratory services.

We extracted from the State agency's CY 1993 and 1994 Medicaid paid claims files payments made under the American Medical Association Physician's Current Procedural Terminology (CPT) codes for chemistry and urinalysis tests. We identified:

- ▶ 89,347 claims totaling \$2,656,386 for more than one individual test or panel, or for a panel and individual tests for the same recipient on the same date of service by the same provider; and
- ▶ 20,500 claims totaling \$188,775 for more than one urinalysis test for the same recipient on the same date of service by the same provider.

We considered these claims to be potential payment errors because the probability existed that the claims should have been reimbursed at a panel or an all-inclusive fee rather than at the higher individual test fee. From this extraction, we selected a stratified sample of 100 claims--50 chemistry claims and 50 urinalysis claims--and reviewed their supporting documentation, including paid vouchers, from the State agency to determine the propriety of the payment.

We determined the overpayment amount for each claim. The overpayment is the difference between what the State agency paid and what should have been paid considering the single bundled code and the Medicare fee schedule. The bundled code we used in our overpayment calculation was the lesser of the provider's actual charge, or the Medicaid or Medicare fee schedule amount. We then used a stratified variable appraisal methodology to estimate the amount of overpayment for chemistry and urinalysis tests.

We tested the reliability of computer generated output by comparing data to source documents for our sampled items. We did not, however, assess the completeness of data in the paid claims files nor did we evaluate the adequacy of the input controls.

Our review of internal controls was limited to an evaluation of that part of the claims processing function that related to the processing of claims for clinical laboratory services. Specifically, we reviewed State agency policies and procedures and instructions to providers related to the billing of clinical laboratory services. We also reviewed State agency documentation relating to edits for bundling of chemistry and urinalysis tests.

Details of the methodology used in selecting and appraising the sample are contained in APPENDIX A to this report. APPENDIX B contains the CPT codes included in our review. We performed our review during May and June 1996. During this period we visited the State agency office in Richmond, Virginia.

## **RESULTS OF REVIEW**

Our review of 100 selected claims--50 chemistry claims and 50 urinalysis claims--showed that 99 of the claims were overpaid by the State agency. The overpayments occurred because the State agency reimbursed providers: (1) higher individual test fees rather than bundling the tests into an appropriate lower panel or an all-inclusive fee; and (2) Medicaid fees that were higher than the Medicare fee schedule established by the Medicare carrier.

Projecting the results of our sample over the population using standard statistical methods, we estimate that the State agency overpaid providers during the 2-year audit period, \$1,355,680 for chemistry tests and \$91,245 for urinalysis tests for a total of \$1,446,925 (Federal share \$723,463). At the 90 percent confidence level, the precision of this estimate is plus or minus 12.87 percent.

### **CHEMISTRY TESTS**

Our review of the 50 claims for chemistry tests showed that all 50 were overpaid by the State agency. The claims were reimbursed at either the individual test fees or the individual test fee(s) and the individual panel fee(s) rather than being bundled into and reimbursed as one automated multichannel panel. Twenty-eight of the claims included tests for triglycerides, creatinine phosphokinase (CPK), and/or glutamyltransferase, gamma test (GGT). We also noted that the State agency paid higher fees than the Virginia Medicare carrier for 24 of the claims. This violates Medicaid guidelines that state that Medicaid reimbursement for clinical laboratory tests may not exceed the amount that Medicare recognizes for such tests (section 6300.2 of the State Medicaid Manual).

The unbundling of chemistry tests occurred primarily because the State agency did not have adequate edits to detect the unbundling of laboratory services. The State agency had edits to

detect the same test performed on the same day. While these edits should prevent duplicate payments, they cannot detect different tests performed on the same day that should be bundled into a single billing code for reimbursement purposes.

We also noted that the State agency did not follow Medicare guidelines with regard to chemistry tests for triglycerides, CPK, and GGT. The Medicare carrier for Virginia requires that these tests be bundled into a multichannel panel. The State agency requires providers to follow coding guidelines specified in CPT when billing for clinical laboratory services. The 1993 and 1994 CPT did not include the three tests as part of its automated multichannel codes.

The following chart illustrates two examples of the types of overpayments that we are reporting.

Sample No.	VA Services Billed	VA Medicaid Paid Amount	Audited Services	Audited Amount	Overpayment
2	84478	\$ 9.41	80019	\$17.12	\$16.36
	82250	7.52			
	<u>80018</u>	<u>16.55</u>			
	Total	<u>\$33.48</u>			
5	82977	\$10.78	80019	\$16.44	\$20.30
	84478	9.41			
	<u>80018</u>	<u>16.55</u>			
	Total	<u>\$36.74</u>			

In the first example, in CY 1993 the provider was paid \$33.48 for 3 services--84478 which is a triglycerides test; 82250 which is a bilirubin-total or direct test; and 80018 which is a multichannel panel that includes 17 to 18 clinical chemistry tests. We concluded that the 3 services should have been bundled into code 80019 which is a multichannel panel that includes 19 or more clinical chemistry tests. The provider should have been reimbursed \$17.12, or \$16.36 less than what the State agency paid.

In the second example, in CY 1994 the provider was paid \$36.74 for the three services--82977 which is a GGT; and 84478 and 80018 which are described above. We concluded that the three services should have been bundled into code 80019. We noted that the State agency's fee for 80019 in CY 1994 was \$17.12 or 68 cents higher than the Medicare fee schedule. We computed the overpayment to be \$20.30 which is the difference between the amount reimbursed by the State agency and the amount allowed by Medicare for 80019.

**URINALYSIS TESTS**

Our review of the 50 claims for urinalysis tests showed that 49 were overpaid by the State agency. The payment errors associated with these claims are noted below:

- ▶ 17 claims for CPT code 81000 (Urinalysis with microscopy - complete exam) were billed along with one or more urinalysis test. The tests were reimbursed at the individual test fee rather than being bundled into and reimbursed under CPT code 81000.
- ▶ 16 claims for CPT codes 81002 (Urinalysis without microscopy - non-automated) and 81015 (Urinalysis microscopy only). The tests were reimbursed at the two individual test fees rather than being bundled into and reimbursed under CPT code 81000.
- ▶ 16 claims for CPT codes 81003 (Urinalysis without microscopy - automated) and 81015 (Urinalysis microscopy only). The tests were reimbursed at the two individual test fees rather than being bundled into and reimbursed under CPT code 81000.

We also noted that the State agency paid higher fees than the Virginia Medicare carrier for 28 of these claims.

A complete urinalysis (CPT code 81000) includes testing for components and a microscopic examination; however, providers can perform and bill different levels of urinalysis testing. In this regard, providers can perform an urinalysis with microscopic examination, an urinalysis without microscopic examination or a microscopic examination only. Based on the test performed and billed, unbundling or duplication of billing can occur among these tests. For the 17 claims above, the other urinalysis tests billed fell under the bundled CPT code 81000.

With regard to CPT codes 81002 and 81003, the tests are the same except that one is performed in a non-automated mode and the other is performed in an automated mode. Section 5114.1.F. of the Medicare Carriers Manual states that if an urinalysis without microscopy (81002) and an urinalysis microscopy only (81015) are both billed, payment should be as though the combined service (81000) had been billed.

The section does not refer to CPT code 81003. However, section 5114.1.L.2 states that if the carrier receives claims for laboratory services in which the physician or laboratory has separately billed for tests that are available as part of an automated battery test, and, in the carrier's judgement, such battery tests are frequently performed and available for physicians' use, the carrier should make payment at the lesser amount for the battery regardless of whether a particular laboratory has or does not have the automated equipment. Since CPT code 81003 represents the same test as 81002 except for how the test is conducted, the same

Medicare policy that applies to 81002 and 81015 should also apply to 81003 and 81015 when billed together.

The following chart illustrates two examples of the types of overpayments that we are reporting.

Sample No.	VA Services Billed	VA Medicaid Paid Amount	Audited Services	Audited Amount	Overpayment
4	81002	\$3.96	81000	\$4.92	\$3.71
	<u>81015</u>	<u>4.67</u>			
	Total	<u>\$8.63</u>			
9	81000	\$4.92	81000	\$4.70	\$4.89
	<u>81015</u>	<u>4.67</u>			
	Total	<u>\$9.59</u>			

In the first example, in CY 1993 the provider was reimbursed \$8.63 for two services--81002 which is an urinalysis without microscopy (non-automated) and 81015 which is an urinalysis only. We concluded that the two services should have been bundled into code 81000 which is an urinalysis with microscopy (complete examination). The provider should have been reimbursed \$4.92 (both the Medicaid and Medicare fee schedule amount), or \$3.71 less than what the State agency paid.

In the second example, in CY 1994 the provider was reimbursed \$9.59 for two services 81000 and 81015. We concluded that the provider should have been reimbursed only for the 81000 service since the 81015 service is duplicative of it. We noted that the State agency's fee for 81000 was \$4.92, or 22 cents higher than the Medicare fee schedule. We computed the overpayment to be \$4.89 which is the difference between the amount reimbursed by the State agency and the amount allowed by Medicare for 81000.

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**CONCLUSIONS AND RECOMMENDATIONS**

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The State agency overpaid providers for chemistry and urinalysis tests because it did not have adequate procedures to

prevent the unbundling of services or to ensure that its Medicaid fee schedule did not exceed the Medicare fee schedule established by the local Medicare carrier. We estimate that the State agency overpaid providers \$1,446,925 (Federal share \$723,463) for chemistry and urinalysis tests during CY 1993 and 1994.

We recommend that the State agency:

1. Implement a policy change that would clearly define and mandate the use of bundled services for chemistry and urinalysis tests.
2. Install edits to detect and prevent payments for unbundled services and billings which contain duplicative tests.
3. Recover Medicaid overpayments for clinical laboratory services identified in this review. Based on our audit, we estimate that \$1,446,925 should be recovered for CY 1993 and 1994.
4. Make adjustments for the Federal share of the amounts recovered by the State agency on its Quarterly Report of Expenditures to HCFA.

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**STATE AGENCY RESPONSE  
AND OIG COMMENTS**

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The State agency disagreed with all four of our recommendations, stating that it is inappropriate to apply Medicare reimbursement guidelines to Medicaid claims, and that its current edits meet the requirements of the Medicaid program. The State agency also contested the potential amount of overpayment identified in our report and intends to analyze the 100 sampled claims using its Medicaid reimbursement policies to determine the potential amount of overpayments.

The State agency noted that the largest portion of the OIG identified overpayment relate to Medicare reimbursement rates versus Medicaid reimbursement rates. The majority of this discrepancy in payment relates to several tests that Medicare requires to be in a multichannel chemistry test which neither State agency or the CPT manual considers to be part of the automated multichannel chemistry test. The State agency contends that the OIG violated the State Medicaid Manual guidelines by not allowing for separate payment for chemistry tests performed that are not defined by either the State agency or CPT as being included in the automated multichannel panels.

We strongly disagree with the State agency. Our recommendations are consistent with the State Medicaid Manual guidelines for clinical laboratory tests. These guidelines implement provisions of the Social Security Act (Act).

Section 1903 (i) (7) of the Act limits Federal reimbursement for clinical laboratory services under the Medicaid program to that amount that would be recognized by Medicare under section 1833 (h) of the Act. Moreover, section 1833 (h) (2) (A) (i) of the Act authorizes the Secretary of Health and Human Services to make adjustments to fee schedules as are justified by technology changes. The Virginia Medicare Carrier's requirement that triglycerides, CPK, and GGT are to be bundled into the automated multichannel panel reflects the exercise of that authority. The requirement is reasonable and justified because the Medicare Carrier

determined that those tests are commonly performed on automated equipment by Virginia laboratory providers. Pricing to reflect this practice is therefore reasonable.

Our calculation of the potential amount of overpayment is consistent with those rules. Therefore, we believe that the State agency should implement our recommendations for procedural improvements and pursue collection of the overpayments identified during our review and make the appropriate adjustments on its Quarterly Report of Expenditures.

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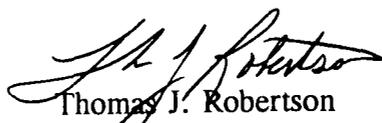
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Final determination as to actions to be taken on all matters will be made by the HHS official named below. The HHS action official will contact you to resolve the issues in the audit report. Any additional comments or information that you believe may have a bearing on the resolution of this audit may be presented at that time. Should you have any questions please direct them to the HHS official named below.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of Inspector General, Office of Audit Services 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 the referenced common identification number in all correspondence relating to this report.

Sincerely yours,

  
Thomas J. Robertson  
Regional Inspector General  
for Audit Services

HHS Official

Associate Regional Administrator  
Division of Medicaid  
Health Care Financing Administration  
Mail Stop 13  
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Philadelphia, Pennsylvania 19101

## **APPENDICES**

## **SAMPLE METHODOLOGY**

From the Commonwealth of Virginia Department of Medical Assistance Services (State agency) paid claims file for CY 1993 and 1994, we utilized computer applications to extract all claims containing automated multichannel chemistry panels and panel tests for chemistry procedure codes and urinalysis tests listed in the CPT handbook (See APPENDIX B). We then performed computer applications to extract all records for the same Medicaid recipient for the same date of service with:

- CPT line item charges for more than one chemistry test or panel;
- a chemistry panel and at least one individual panel tests; or
- two or more panel tests; and
- two or more urinalysis tests.

The extract resulted in a sample population of 109,847 claims totaling \$2,845,161 consisting of 2 strata. The first stratum of 1993 and 1994 chemistry data consisted of 89,347 claims totaling \$2,656,386 for potentially unbundled chemistry panel tests. The second stratum of 1993 and 1994 urinalysis data consisted of 20,500 claims totaling \$188,775 for potentially unbundled urinalysis tests. Each claim is a potential payment error in that the State agency may have paid providers for clinical laboratory tests (on behalf of the same recipient on the same date of service) that were billed individually instead of as part of a group, or were duplicative.

On a scientific stratified selection basis, we examined 100 claims from the 2 strata. The first stratum consisted of a randomly generated statistical sample of 50 chemistry claims with a potential error totaling \$808.92. The second stratum consisted of a randomly generated statistical sample of 50 urinalysis claims with a potential error totaling \$243.78. For the sample claims, we requested and reviewed supporting documentation from the State agency consisting of copies of physician, hospital or independent laboratory claims, electronic paid claims detail for claims submitted electronically, explanation of benefits paid, and related paid claims history.

We utilized a standard scientific estimation process to quantify overpayments for unbundled or duplicate chemistry panel tests and urinalysis tests as shown on the following page.

Stratum	Number of Items	Number Sampled	Examined Value	Number of Errors	Error in Sample	Estimated Recovery
1993/1994 Chemistry Tests	89,347	50	\$808.92	50	\$758.66	\$1,355,680
1993/1994 Urinalysis Tests	20,500	50	\$243.78	49	\$222.55	\$91,245
Total	109,847	100	\$1052.70	99	\$981.21	\$1,446,925

The results of the scientific sample of stratum 1, chemistry tests, disclosed that all 50 claims we reviewed represented overpayments for unbundled chemistry panel tests. Projecting the results of the statistical sample over the population using standard statistical methods, we estimate that \$1,355,680 paid for unbundled chemistry panel tests can be recovered. At the 90 percent confidence level, the precision of this estimate is plus or minus 13.97 percent.

The results of the scientific sample of stratum 2, urinalysis tests, disclosed that 49 of 50 claims we reviewed represented overpayments for unbundled urinalysis tests. Projecting the results of the statistical sample over the population using standard statistical methods, we estimate that \$91,245 paid for unbundled urinalysis tests can be recovered. At the 90 percent confidence level, the precision of this estimate is plus or minus 12.27 percent.

The results of the total sample of chemistry and urinalysis tests disclosed that 99 of the claims we reviewed contained overpayments. Projecting the results of the statistical sample over the population using standard statistical methods, we estimate that \$1,446,925 in duplicate payments for chemistry and urinalysis tests can be recovered. At the 90 percent confidence level, the precision of this estimate is plus or minus 12.87 percent.

**AUTOMATED MULTICHANNEL CHEMISTRY PANEL TESTS**

<u>Chemistry Panel</u>	<u>CPT Code</u>
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
More than 19 clinical chemistry automated multichannel tests	80019
General Health Panel	80050
Hepatic Function Panel	80058

24 Chemistry Tests Subject to Panels (34 CPT Codes)

1. Albumin	82040
2. Albumin/globulin ratio	84170
3. Bilirubin Total OR Direct	82250
4. Bilirubin Total AND Direct	82251
5. Calcium	82310, 82315, 82320, 82325
6. Carbon Dioxide Content	82374
7. Chlorides	82435
8. Cholesterol	82465
9. Creatinine	82565
10. Globulin	82942
11. Glucose	82947
12. Lactic Dehydrogenase (LDH)	83610, 83615, 83620, 83624
13. Alkaline Phosphatase	84075
14. Phosphorus	84100
15. Potassium	84132
16. Total Protein	84155, 84160
17. Sodium	84295
18. Transaminase (SGOT)	84450, 84455
19. Transaminase (SGPT)	84460, 84465
20. Blood Urea Nitrogen (BUN)	84520
21. Uric Acid	84550
22. Triglycerides	84478
23. Creatinine Phosphokinase (CPK)	82550, 82555
24. Glutamyltransferase, gamma (GGT)	82977

## URINALYSIS TESTS

1.	Urinalysis with microscopy (complete exam)	81000
2.	Urinalysis without microscopy (non-automated)	81002
3.	Urinalysis without microscopy (automated)	81003
4.	Urinalysis microscopy only	81015



# COMMONWEALTH of VIRGINIA

## *Department of Medical Assistance Services*

ROBERT C. METCALF  
DIRECTOR

August 29, 1996

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Mr. Thomas J. Robertson  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
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3535 Market Street  
Philadelphia, Pennsylvania 19104

Dear Mr. Robertson:

This letter is in response to your letter to the Virginia Department of Medical Assistance Services (DMAS) dated July 30, 1996, and referenced as Common Identification Number A-03-96-00202. Your correspondence included a draft report entitled **REVIEW OF CLINICAL LABORATORY SERVICES UNDER VIRGINIA'S MEDICAID PROGRAM FOR CALENDAR YEARS 1993 and 1994**. The report indicated the Department had 30 days from the date of your letter to make written comments related to concurrence or nonconcurrence to each recommendation found in the report.

The Department has reviewed the draft report and is in disagreement with some of the recommendations made in the report. I wanted to ensure that the Department responded to the draft report in a timely manner and that is the purpose of this correspondence. However, in order for the Department to be able to review your allegations of monetary liability, especially the assertion that Virginia DMAS should repay the Health Care Financing Administration (HCFA) based upon Medicare rates, additional time will be needed beyond the 30 days. Further research of the 100 claims audited by the OIG is necessary to determine if appropriate Medicaid reimbursement policies were followed in the billing process by providers. Also, we believe it is inappropriate to apply Medicare reimbursement guidelines to Medicaid claims, and this is supported by both the HCFA State Medicaid Manual and conversation with the Virginia HCFA Medicaid representative.

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The following is a response to the recommendations outlined in your report on  
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(1) Recommendation: Implement a policy change that would clearly define and mandate the use of bundled services for chemistry and urinalysis tests.

**Response:** The provider manuals currently state the following related to chemistry tests:

“Whenever laboratory tests are performed that are generally part of a profile, the maximum payment is the appropriate automated profile rate, regardless of how the specimen is tested. This includes, but is not limited to, chemistry and hematology testing:

The CPT/HCPCS delineates tests that are frequently done as part of a chemistry profile. When two or more of these tests are performed on the same specimen, in any combination, the lesser automated rate is to be billed regardless of how the specimen is tested. CPT/HCPCS Codes 80002-80019 are to be used, and the code must correlate with the number of tests performed. Only one panel code is to be used per specimen. If only one procedure is performed, use the appropriate CPT/HCPCS procedure code which describes the individual test.”

During the audit of claims, the OIG identified 4 additional chemistry tests that the Medicare carrier (MetraHealth Medicare, formerly Travelers Insurance) identified to be included in the “automated chemistry panels” even though these 4 chemistry tests are not identified by the Physicians’ Current Procedural Terminology Fourth Edition (CPT-4) as being inclusive in the automated chemistry panel. The “panel” components identified by Medicare were utilized by the OIG auditors in the evaluation of the claims paid by Medicaid. To support these adjustments, the OIG cited the State Medicaid Manual as published by HCFA, which indicates Medicaid reimbursement shall not exceed the amount that Medicare recognizes for such tests. To apply Medicare billing requirements is not supported by the State Medicaid Manual. In fact, the State Medicaid Manual 6300.1 states “The applicable Medicare assignment and billing requirements are not necessarily to be incorporated into the State Medicaid Program.”

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The State Medicaid Manual, Section 6300.2, Paragraph C., also states the following:  
“Clinical Diagnostic Laboratory Services. For purposes of the fee schedule, clinical diagnostic laboratory services include laboratory tests listed in codes 80002-89399 of the Current Procedural Terminology Fourth Edition, 1986 printing (CPT-4).” This entry is interpreted by DMAS that the program is to follow the guidelines of the CPT-4.

(2) Recommendation: Install edits to detect and prevent payments for unbundled services and billings which contain duplicative tests.

**Response:** Current edits meet those requirements of the Medicaid program. As the Medicare program is administered at the federal level and Medicaid is administered at the state level, it is possible for automated claims processing systems to differ between the two programs. Billing instructions and program policies have been provided to the Medicaid provider population. These policies and instructions are to be followed by the provider population when billing services to the Medicaid program. It should be noted that Virginia Medicaid consistently scores extremely high on the System Performance Review (SPR) which includes review of the MMIS edits and audits. Our most recent SPR review (1993) resulted in a score of 99.92.

(3) Recommendation: Recover overpayments for clinical laboratory services identified in this review.

**Response:** The state will need time to analyze the 100 claims reviewed by the OIG auditors to determine the potential amount of overpayments that have occurred applying Medicaid reimbursement policies.

(4) Recommendation: Make adjustments for the federal share of the amounts recovered by the state agency on its Quarterly Report of Expenditures to the Health Care Financing Administration (HCFA).

**Response:** The state agency contests the amount of overpayment identified by the OIG and requests time to evaluate the financial impact of claims billed and paid incorrectly. As previously stated, the state contests the application of Medicare billing policies being applied to Medicaid reimbursements. In reviewing the report, it appears that the largest portion of the overpayments identified by the OIG relate to Medicare reimbursement rates

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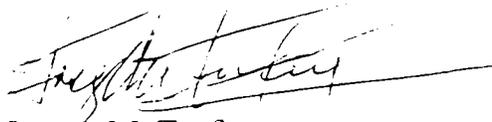
versus Medicaid reimbursement rates. The majority of this discrepancy in payment is the difference between what Medicare requires to be in a multichannel chemistry test and what Medicaid considers to be part of the automated multichannel test. The report states "Medicare regulations provide that claims for laboratory services in which a provider bills separately for tests that are available as part of an automated multichannel chemistry panel or an all-inclusive urinalysis test should be paid at the lesser amount." Medicaid does have a policy related to the multichannel chemistry panel, and we rely upon the components listed in the CPT-4 which define "multichannel chemistry panels." Medicaid does not limit its policy to only multichannel chemistry panel tests to be billed as a panel but also requires providers to bill the appropriate CPT code to describe the service rendered and when services are available as a "profile" that the appropriate "profile" code be billed. This policy statement would incorporate the requirement that urinalysis testing which includes both a dipstick and microscopic exam be billed as the appropriate CPT code 81000.

The report stated that DMAS violated Medicaid guidelines which state that Medicaid reimbursement for clinical laboratory tests may not exceed the amount that Medicare recognizes from such tests (Section 6300.2 of the State Medicaid Manual). Two things resulted when the OIG applied this ruling. First, they considered it to be a rate difference when Medicaid did not include the same chemistry components in an automated multichannel test as those required by Medicare. The State Medicaid Manual Section 6300.1 states "The applicable Medicare assignment and billing requirements are not necessarily to be incorporated into the State Medicaid Program." However, that is exactly what the OIG did during the audit in not allowing separate payment for chemistry tests performed that are not defined, by either DMAS or CPT, as being included in the automated multichannel panels. Secondly, contact with the Medicaid representative for Virginia at HCFA agreed with Medicaid officials that Medicaid is not required to have fees less than Medicare fees, that these requirements of equal or less than Medicare fees should apply only to recipients covered under both programs. The State Medicaid Manual states "If a State agency has a buy-in arrangement with Part B of the Medicare program, it should ensure that the combined amounts of the Medicaid payment and the Medicare payment do not exceed the allowable Medicare fee or national limitation amount." The Virginia DMAS does follow this requirement in the reimbursement of dually eligible Medicare/Medicaid recipients.

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At this time, the Department anticipates that the initial review of the 100 sample claims will be completed by November 1, 1996. Thank you for giving us the opportunity to respond to the findings of the OIG auditors.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph M. Teefey", written over a horizontal line.

Joseph M. Teefey  
Director

JMT:cc

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