



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

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

JAN 07 1997

CIN: A-06-96-00064

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

Dear Mr. Hanchey:

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

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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

To facilitate identification, please refer to Common Identification Number A-06-96-00064 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink that reads "Donald L. Dille".

Donald L. Dille
Regional Inspector General
for Audit Services

Handwritten initials "JAN" in black ink, positioned to the left of the typed name.

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF A LIMITED SCOPE AUDIT
OF SKILLED NURSING FACILITY
MEDICAL SUPPLY AND EQUIPMENT
ITEMS BILLED TO MEDICARE AS
ANCILLARY BY METHODIST HOSPITAL**



JUNE GIBBS BROWN
Inspector General

JANUARY 1997
A-06-96-00064



JAN 07 1995

Common Identification Number: A-06-96-00064

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

Dear Mr. Hanchey:

This report provides you with the results of a limited scope audit (CIN: A-06-96-00064) of Skilled Nursing Facility (SNF) medical supply and equipment items billed to Medicare as ancillary by Methodist Hospital between June 1, 1992 and May 31, 1994, fiscal years (FYs) 1993 and 1994. During this period, Methodist Hospital, located in Lubbock, Texas, billed Medicare \$1,666,416 for these ancillary items. The objective of our audit was to determine whether medical supply and equipment items were properly billed as ancillary under Medicare guidelines.

The Methodist Hospital improperly billed routine medical supply and equipment items as ancillary. As a result, overcharges totaling \$503,590 (\$252,223 for FY 1993 and \$251,367 for FY 1994) were made to the Medicare program. Ancillary charges were overstated and the SNF's routine costs were understated. However, because the SNF's routine costs were above the Medicare cost limitation for both FYs 1993 and 1994 an overpayment occurred totaling about \$200,000. According to Blue Cross Blue Shield of Texas (BCBSTX), this overpayment amount may vary after reclassifications are made and the cost-to-charge ratios are modified.

The Methodist Hospital's billing system has not changed significantly since FY 1994. According to a Methodist Hospital official, essentially, the medical supply and equipment items that were billed for FY 1994 were also billed for FYs 1995 and 1996. This official stated that better communication between BCBSTX and the Methodist Hospital would ensure the proper classification of SNF medical supply and equipment items.

We recommend that for FYs 1993, 1994, 1995, and 1996 BCBSTX require that Methodist Hospital:

- reclassify medical supply and equipment items improperly charged as ancillary to routine on the cost reports;

- submit a revised cost report for each year to correct medical supply and equipment overcharges and related overpayments. This correction should include identified overcharges of \$503,590 and related overpayments of about \$200,000 for FYs 1993 and 1994; and
- ensure that routine medical supply and equipment items are not billed as ancillary in subsequent years.

The BCBSTX and Methodist Hospital concurred with our findings and recommendations. The full text of auditee comments are shown as Appendices A and B of this report.

INTRODUCTION

Background

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

Medicare reimburses SNFs on a reasonable cost basis. In order to determine reasonable costs, providers are required to submit cost reports annually. Costs are classified on the cost report as either routine or ancillary. The misclassification of routine items as ancillary may result in higher Medicare reimbursement because Federal law imposes certain limits on routine costs of SNFs.

The Methodist Hospital is a hospital-based SNF. To facilitate accurate and equitable cost apportionment within a single hospital-SNF complex, the classification of items as routine or ancillary may continue to be used by a participating hospital-based SNF as is used by the related hospital for Medicare reimbursement purposes.

Routine items for the hospital are not separately billable to Medicare. According to the Provider Reimbursement Manual (PRM), Section 2202.6, routine services in a hospital or SNF are generally included by the provider in a daily service charge--sometimes referred to as the "room and board" charge. Items directly identifiable to individual patients, and not generally furnished to most patients, may be charged as ancillary. According to the PRM, Section 2202.8, ancillary charges may include special items for which charges are customarily made in addition to a routine service charge. A provider's customary charging practice is recognized so long as it does not result in an inequitable apportionment of cost to the Medicare program.

Scope

Our review was made in accordance with generally accepted government auditing standards. Our objective was to determine whether SNF medical supply and equipment items were properly billed as ancillary under Medicare guidelines. To accomplish this objective we:

- determined whether routine items inappropriately billed in FY 1994 were also being billed in FY 1993, and
- reviewed 100 percent of the medical supply and equipment items billed as ancillary for FY 1994.

We limited the scope of our review for FY 1993 because Methodist Hospital was unable to generate annual charges for each item billed due to a computer system change during that period.

The BCBSTX determined whether the items reviewed were properly classified as ancillary using Medicare guidelines.

Our field work was performed at Methodist Hospital in Lubbock, Texas during October 1996 and at the Office of Audit Services, Austin Field Office, during the period June 1996 through November 1996.

FINDINGS AND RECOMMENDATIONS

The Methodist Hospital improperly classified and billed routine medical supply and equipment items as ancillary. The BCBSTX does not recognize the practice of charging these items as ancillary because they are not separately billable to Medicare. The cost of routine items is included in the SNF's per diem reimbursement rate.

As a result of the misclassifications, overcharges totaling \$503,590 were made to the Medicare program for the period June 1, 1992 through May 31, 1994. Ancillary medical supply and equipment charges were overstated and the SNF's routine costs were understated. However, because the SNF's routine costs were above the Medicare cost limitation for both FYs 1993 and 1994 an overpayment occurred totaling about \$200,000. According to BCBSTX, this overpayment amount may vary after the reclassifications are made and the cost-to-charge ratios are modified.

According to a Methodist Hospital official, better communication between BCBSTX and the Methodist Hospital would ensure the proper classification of SNF supply and equipment items.

Fiscal Year 1994

Seventy-five of the 360 medical supply and equipment items billed for FY 1994, or 22 percent, were misclassified and charged as ancillary. As a result of the misclassifications, overcharges of \$251,367 were made to the Medicare program - see Attachment, pages 1 and 2. Applying the cost-to-charge ratio, the related overpayment totaled about \$94,000.

Fiscal Year 1993

Fifty-five of the 75 medical supply and equipment items misclassified and billed as routine for FY 1994 were also misclassified and billed as routine for FY 1993. Methodist Hospital was unable to generate annual charges for the misclassified supply and equipment items for FY 1993 due to a computer system change during that period. However, based on the Provider Statistical Reimbursement System provided by BCBSTX, overcharges for misclassified routine equipment totaled \$252,223 - see Attachment, pages 3 and 4. Associated overpayments totaled about \$104,000 using the applicable cost-to charge ratio. Further review is needed to determine the overcharges for the misclassified routine supply items.

Fiscal Years 1995 and 1996

Methodist Hospital also improperly billed for routine medical supply and equipment items for FYs 1995 and 1996. According to a Methodist Hospital official, essentially, the medical supply and equipment items billed for FY 1994 were also billed for FYs 1995 and 1996.

Recommendations

We recommend that for FYs 1993, 1994, 1995, and 1996 BCBSTX require that Methodist Hospital:

- reclassify medical supply and equipment items improperly charged as ancillary to routine on the cost reports;
- submit a revised cost report for each year to correct medical supply and equipment overcharges and related overpayments. This correction should include identified overcharges of \$503,590 and related overpayments of about \$200,000 for FYs 1993 and 1994; and
- ensure that routine medical supply and equipment items are not billed as ancillary in subsequent years.

BCBSTX's Comments

The BCBSTX did not have any comments related to the facts as presented. The BCBSTX's response states that it will require Methodist Hospital to reclassify medical supplies and equipment items improperly charged to routine on the cost reports. The BCBSTX will reopen the cost reports for FYs 1993 and 1994, and will require that the provider submit amended cost reports for FYs 1995 and 1996.

The BCBSTX will sample SNF claims from Methodist Hospital on a prepay review basis until it verifies that Methodist Hospital is not improperly billing for routine SNF medical supplies and equipment items. At that time, BCBSTX will perform a postpay audit at 6-month intervals for 1 year to ensure continued compliance.

Methodist Hospital's Comments

Methodist Hospital officials felt that the draft report presented fairly the facts and that correct billing could best be accomplished with better communication through the intermediary. Methodist Hospital officials have made corrections to their master records based on the OIG's list of medical supplies and equipment items which were deemed to be nonbillable as ancillary. Methodist Hospital officials will wait for further instructions from the OIG or the intermediary before proceeding any further.

Sincerely,



DONALD L. DILLE
Regional Inspector General
for Audit Services



Direct Reply to HHS Action Official:

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

**FISCAL YEAR 1994 OVERCHARGES FOR ROUTINE
ITEMS MISCLASSIFIED AS ANCILLARY**

ITEM	DESCRIPTION	QUANTITY	AMOUNT
1	Abduction Pillow - Medium	6	\$560.70
2	Abduction Pillow - Small	4	367.20
3	Bath Oil Alpha Keri 4oz	20	144.00
4	Bed Cradle per Day	2	28.00
5	Board IV Adult	9	120.60
6	Bone Wax	1	12.50
7	Bumper Pads	156	1,846.00
8	Cleanser Wound Care	38	795.60
9	Cream Hair Removal	1	13.40
10	Cream Foot and Body	7	64.20
11	Diaper Adult Large	157	2,399.80
12	Diaper Adult Medium	96	889.00
13	Enema Adult	67	97.60
14	Enema Mineral Oil	6	12.60
15	Enema Unit O	17	52.00
16	Foley Insertion/Removal	83	1,282.00
17	Hibiclens 4oz	2	15.00
18	Hydrogen Peroxide	231	296.80
19	Hyperthermia Per Day	2	72.00
20	Intubation Assist N/P	23	621.00
21	IV Start/Re-start	276	5,039.00
22	Jelly Vaseline 1oz	16	28.80
23	Kit Short Term Mouth Care	57	443.70
24	Linen Saver Large	2	2.30
25	Lotion Baby	62	154.00
26	Lotion Keri	99	842.80
27	Lotion Massage Bottle	1	1.20
28	Mattress Foam Eggcrate	6	298.20
29	Mitt Hand Control Adult	2	117.20
30	Oral Suction Per Day	2	68.00
31	Oxygen Transport	2	60.00
32	Pad Dri-Flo Kinair/PK	945	45,458.40
33	Pad Foam	13	984.10
34	Pad Reston 8 1/2 X 11	1	3.30
35	Pad Sanitary Maternity	15	9.00
36	Pad Wheelchair	17	243.10
37	Pants Promise Large	1	5.10
38	Powder Baby	106	191.90
39	Prep Skin	2	26.80
40	Protector Heelbone	27	330.20
41	Razor Prep	1	1.60
42	Restraint Vest Ex Large	7	206.10
43	Restraint Vest Small	4	181.95
44	Restraint Vest XXLarge	2	108.60
45	Restraint Wrist Adult	30	507.00
46	Shampoo Baby	200	545.20
47	Shaving Cream Lotion	64	197.10

**FISCAL YEAR 1994 OVERCHARGES FOR ROUTINE
ITEMS MISCLASSIFIED AS ANCILLARY**

ITEM	DESCRIPTION	QUANTITY	AMOUNT
48	Siderail Pads	11	227.00
49	Sol Alcohol Rubbing 16oz	1	0.90
50	Sol Betadine 2 oz	20	28.00
51	Sol Container Evacuated 1000	33	635.80
52	Swabstick Cinnamon	7	3.50
53	Swabstick Oral	579	245.00
54	Tape Dermiclear 2"	27	100.00
55	Tape Micropore 1"	329	450.00
56	Tape Micropore 2"	37	96.20
57	Tape Transpore 1"	213	509.60
58	Theraband	68	6.80
59	Tissue Facial	5	3.20
60	Towel Sterile	488	2,646.00
61	Traction per Day	5	125.00
62	Traction Set Up	2	146.00
63	Trapeze per Day	305	4,148.00
64	Tray Dressing - small	1	11.00
65	Tube O2	53	92.40
66	Tube Connecting	54	81.00
67	Tucks Pads #40	2	29.60
68	Underpads	735	3,774.95
69	Vaginal Irrigation Bag	1	17.00
70	Wipe Baby	90	315.90
	Subtotal for Supply Items	5,954	\$79,437.50
71	Companion Feeding Pump	2,654	61,423.00
72	Companion Pump Set Screw Cap	2,721	29,422.80
73	Alternating Pressure Pad per Day	2,113	40,384.00
74	Ted Comp. Controller w/Tub	211	5,732.00
75	Suction Regulator per Day	2,319	44,887.00
	Subtotal for Equipment Items	10,018	\$181,848.80
	Subtotal Supply and Equipment Items	15,972	\$261,286.30
	Less *		(\$9,919.00)
	Total		\$251,367.30

* The overcharges were offset by the difference between the cost report amount for SNF medical supplies charged and the support amount for these charges provided by Methodist Hospital.

**ROUTINE ITEMS BILLED FOR FISCAL YEAR 1994
THAT WERE ALSO BILLED FOR FISCAL YEAR 1993**

<u>ITEM</u>	<u>DESCRIPTION</u>
1	Abduction Pillow - Medium
2	Abduction Pillow - Small
3	Bath Oil Alpha Keri 4oz
4	Bed Cradle per Day
5	Bumper Pads
6	Cleanser Wound Care
7	Diaper Adult Large
8	Diaper Adult Medium
9	Enema Adult
10	Enema Mineral Oil
11	Enema Unit O
12	Hibiclens 4oz
13	Hydrogen Peroxide
14	Hyperthermia Per Day
15	IV Start/Re-start
16	Jelly Vaseline 1oz
17	Kit Short Term Mouth Care
18	Linen Saver Large
19	Lotion Baby
20	Lotion Keri
21	Lotion Massage Bottle
22	Mattress Foam Eggcrate
23	Mitt Hand Control Adult
24	Oral Suction Per Day
25	Pad Dri-Flo Kinair/PK
26	Pad Foam
27	Pad Sanitary Materity
28	Pad Wheelchair
29	Powder Baby
30	Protector Heelbone
31	Shampoo Baby
32	Siderail Pads
33	Sol Betadine 2 oz
34	Swabstick Oral
35	Tape Dermiclear 2"
36	Tape Micropore 1"
37	Tape Micropore 2"
38	Tape Transpore 1"
39	Theraband
40	Tissue Facial
41	Towel Sterile
42	Traction per Day
43	Traction Set Up
44	Trapeze per Day
45	Tray Dressing - small
46	Tube O2
47	Tube Connecting

**ROUTINE ITEMS BILLED FOR FISCAL YEAR 1994
THAT WERE ALSO BILLED FOR FISCAL YEAR 1993**

<u>ITEM</u>	<u>DESCRIPTION</u>
48	Tucks Pads #40
49	Underpads
50	Wipe Baby
	50 Supply Items
51	Companion Feeding Pump
52	Companion Pump Set Screw Cap
53	Alternating Pressure Pad per Day
54	Ted Comp. Controller w/Tub
55	Suction Regulator per Day
	5 Equipment Items

Based on the Provider Statistical Reimbursement System provided by Blue Cross and Blue Shield of Texas, total overcharges for routine equipment totaled \$252,223.



Date: December 30, 1996

To: Amy Voight, Office of Inspector General

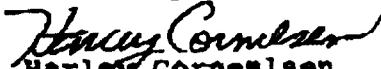
From: Harley Cornelsen, Director of Reimbursement
Methodist Hospital - Lubbock Texas

Re: Case Common Identification Number A-06-96-00064

Amy,

I was able to communicate with our business services department and with Byron Hale, Methodist, Vice President and CFO. We felt your letter presented fairly the facts and the correct billing could best be accomplished with better communication through the intermediary. We have also taken your list of procedures deemed to be non billable as ancillary and made corrections to our charge description master to get current billing on the right track. We will await further instructions from you or the intermediary before we proceed any further.

Sincerely,


Harley Cornelsen

MEDICARE Part A

Blue Cross and Blue Shield of Texas, Inc.
Provider Reimbursement Division
P.O. Box 660263/Dallas, Texas 75266-0263

December 13, 1996

Mr. Donald L. Dille
Regional Inspector General
for Audit Services
Office of Audit Services
1100 Commerce, Room 4A5
Dallas, Texas 75242

Dear Mr. Dille:

Per your November 15, 1996 request, following are our comments on your report related to improper billing by Methodist Hospital's Skilled Nursing Facility (SNF), Lubbock, Texas:

We do not have any comments related to the facts as presented. We will require Methodist Hospital's SNF to reclassify medical supplies and equipment items improperly charged to routine on cost reports. For FYs 1993, and 1994, we will reopen these cost reports and for FYs 1995 and 1996 require that the provider submit amended cost reports.

We will sample claims from Methodist Hospital's SNF on a prepay review basis until we have verified that Methodist Hospital's SNF is not improperly billing for routine medical supplies and equipment items. At that time, we will perform a postpay audit at six month intervals for one year to ensure continued compliance.

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

Sincerely,



Dave Korn
Director
Provider Audit

DK:ls

c: Mr. Ed Hanchey
Mr. Phil Horsch
Ms. Amy Drake