DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

November 20,2003

Report Number: A-05-03-00053

Mr. Michael McCarron
President and COO
AdminaStar Federal, Inc.
8115 Knue Road
Indianapolis, Indiana 46250

Dear Mr. McCarron:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "End Stage Renal Disease Pricing Errors at Independent Facilities." A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

The objective of the audit was to determine the extent of Medicare overpayments made to independent End Stage Renal Disease (ESRD) providers resulting from AdminaStar Federal's reimbursement calculation for supplies used to administer separately billable injectable drugs.

AdminaStar Federal overpaid independent ESRD facilities as much as $407,300, relative to a universe of 6,756 ESRD billable lines of service processed during the period January 1, 1999 through December 31, 2001. In accordance with CMS's Intermediary Manual, Section 3644; the Provider Reimbursement Manual, Section 2711; and the Renal Dialysis Facility Manual, Section 319; independent ESRD facilities are limited to a $0.50 supply reimbursement per administration of separately billable drugs. All of the 6,756 billed lines in the universe were amounts that exceeded this mandated limit.

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), Office of Inspector General, Office of Audit Services 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 Act which the department chooses to exercise. (See 45 CFR Part 5.)

If you have any questions or comments about this report, please do not hesitate to call me or Stephen Slamar, Audit Manager, at 312-353-7905 or through e-mail at sslamar@oig.hhs.gov. To facilitate identification, please refer to report number A-05-03-00053 in all correspondence.

Sincerely,

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Jacqueline Garner
Regional Administrator
Centers for Medicare and Medicaid Services
U.S. Department of Health and Human Services
233 North Michigan Ave., Suite 600
Chicago, Illinois 60601

Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

END STAGE RENAL DISEASE PRICING ERRORS AT INDEPENDENT FACILITIES

ADMINASTAR FEDERAL, INC. INDIANAPOLIS, INDIANA

November 2003
A-05-03-00053

Office of Inspector General

http://oig.hhs.gov/

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In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.

EXECUTIVE SUMMARY

OBJECTIVE

The audit objective was to determine the extent of Medicare overpayments made to independent End Stage Renal Disease (ESRD) providers resulting from AdminaStar Federal's reimbursement of supplies used to administer separately billable injectable drugs.

FINDINGS

AdminaStar Federal overpaid independent ESRD facilities as much as $407,300 relative to our universe of 6,756 ESRD billable lines of service processed during the period January 1, 1999 through December 31, 2001. In accordance with CMS's Intermediary Manual, Section 3644; the Provider Reimbursement Manual, Section 2711; and the Renal Dialysis Facility Manual, Section 319; independent ESRD facilities are limited to a $0.50 supply reimbursement per administration of separately billable drugs. All of the 6,756 billed lines in our universe were amounts that exceeded this mandated limit.

AdminaStar instructed independent ESRD providers to bill for supplies used to administer separately billable injectable drugs; using a specific revenue code (270) together with a HCFA Common Procedure Coding System (HCPCS) code (W3011). The overpayments occurred when AdminaStar failed to load pricing limits for the HCPCS code into their automated claims processing system. The HCPCS maintenance file for several locations did not limit the allowed reimbursement for the supplies to $0.50 per administration.

RECOMMENDATIONS

We recommend that AdminaStar:

- Recalculate the Medicare reimbursement for billed services in our universe and initiate recovery actions on identified overpayments, calculated to be as much as $407,300.

- Strengthen procedures for loading HCPCS codes into the claims processing system.

AUDITEE COMMENTS

In a written response to our draft report, AdminaStar Federal concurred with our finding and recommendations. The auditee's response is appended to this report in its entirety. (See Appendix)

TABLE OF CONTENTS

Page

INTRODUCTION

BACKGROUND

End Stage Renal Disease (ESRD) Facilities

ESRD services can be performed at either hospital-based or independent facilities. Hospital-based facilities must be an integral and subordinate part of a hospital and be operated with other departments under common licensure, governance, and professional supervision. All services of the hospital and facility must be fully integrated. An independent facility is any ESRD facility that fails to qualify as a hospital-based facility.

Payments for dialysis services furnished by renal dialysis facilities are made under Medicare Supplementary Medical Insurance (Part B). Payments are made to non-hospital dialysis facilities only if it agrees to accept 80 percent of their reasonable charges. Patients are responsible for a 20 percent coinsurance and the Medicare Part B cash deductible. The deductible must be satisfied before payment can be made under Part B.

The Medicare reimbursement for a particular ESRD service may differ depending on whether the service was rendered in a hospital-based or independent facility. One such item is supplies used to administer separately billable ESRD injectable drugs. The Centers for Medicare & Medicaid Services (CMS) reimbursement regulations state that these supplies should be limited to a rate of $0.50 per administration, when these drugs are administered in an independent ESRD facility. Further, AdminaStar Federal's standard operating procedures state that independent facilities will be paid the lower of the fee amount or billed charge for the supplies. Hospital-based facilities are reimbursed for these supplies on a reasonable cost basis.

For the supplies mentioned above, AdminaStar established their own assigned HCFA Common Procedure Coding System (HCPCS) code W3011. Our survey work revealed that AdminaStar established HCPCS code W3011 at the correct pricing level for some locations, but failed to load the HCPCS code W3011 record into the maintenance file for other locations. They instructed the independent facilities to bill for supplies used to administer separately billable ESRD injectable drugs using the revenue code 270 together with the HCPCS code W3011. These supply items are billed on a claim line item basis, with the number of administrations shown in the units field, and are part of a total claim that may include other lines of other billable services.

Regulations

The governing regulations for ESRD facilities are contained in Title 42 of the Code of Federal Regulations (CFR) The CMS reimbursement guidelines for supplies used to administer separately billable ESRD injectable drugs are found in the Intermediary Manual, Section 3644; the Provider Reimbursement Manual, Section 2711; and the Renal Dialysis Facility Manual, Section 319.

Universe of Payment Errors

During the fiscal year 2000 Chief Financial Officers Act Audit at AdminaStar, we identified ESRD claims for supplies used to administer separately billable injectable drugs that were incorrectly priced in excess of the $0.50 per administration limit, established by the Medicare regulations for independent facilities. We expanded our current review to all billed lines of supply service from independent ESRD facilities that were potentially overpaid by AdminaStar during the calendar years 1999 through 2001.

In developing a universe, we extracted claims for ESRD facilities, which were paid by AdminaStar during calendar years 1999 through 2001, from CMS's National Claim History File. We limited our extraction to claims that included one or more lines of service billed under revenue code 270 and the HCPCS code W3011 and were reimbursed in an amount in excess of $0.50. From this file, we eliminated any line of service associated with a hospital-based ESRD facility. The resulting universe of potential overpayments consisted of 6,756 ESRD lines of service. The information provided in our universe was sufficient to calculate the amount of overpayment for every line. These overpayments are the difference between the incorrectly reimbursed amount and the $0.50 limit per administration. For the period January 1, 1999 through December 31, 2001, this analysis resulted in a universe of potential overpayments, subject to audit confirmation, of $407,300.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The audit objective was to determine the extent of Medicare overpayments made to independent ESRD providers resulting from AdminaStar Federal's reimbursement calculation for supplies used to administer separately billable injectable drugs.

Scope

We performed our audit in accordance with generally accepted government auditing standards. Our review was limited to reviewing overpayments to independent ESRD facilities, during calendar years 1999 through 2001, as a result of an error in pricing ESRD claims. Because of the limited scope of our review, we did not review the overall internal control structure of AdminaStar Federal. Our internal control testing was limited to those procedures related to pricing claims with the line of service that includes HCPCS code W3011.

Methodology

We developed a universe of potential overpayments attributable to the error in AdminaStar's claim processing system. To confirm the existence of overpayments in our created universe, we randomly selected a sample of 100 lines of service and obtained the claim submitted by the provider. Applying the cited Medicare reimbursement regulations, we manually recalculated the

claim reimbursement for each of our sample line items and confirmed that our previous calculated differences in our universe of 6,756 lines of service agreed with all manual recalculations.

Our fieldwork was performed at our field office in St. Paul, Minnesota, between February 2003 and June 2003.

FINDINGS AND RECOMMENDATIONS

Independent ESRD facilities were overpaid, as much as $407,300, because the HCPCS code and its pricing limitation was omitted from AdminaStar's claim processing system. The error affected the reimbursement calculation of supplies used to administer separately billable injectable drugs. In accordance with CMS's Intermediary Manual, Section 3644; the Provider Reimbursement Manual, Section 2711; and the Renal Dialysis Facility Manual, Section 319; independent ESRD's are limited to a $0.50 supply reimbursement per administration of separately billable drugs. Our developed universe of potential overpayments reflected payments in excess of the mandated limit.

Error In AdminaStar's Claims Processing System

We attribute overpayments to AdminaStar's failure to load the HCPCS code W3011 and its pricing limitation into the maintenance file of the claims processing system. AdminaStar established the HCPCS code, to implement CMS's payment limit of $0.50 per administration for supplies used to administer separately billable injectable drugs, but did not load the HCPCS and its payment limit information for several locations into the automated system. When billing for such supplies, independent ESRD facilities in Illinois, Indiana and Kentucky were instructed to use the local code along with revenue code 270, "Medical/Surgical Supplies." The system will process claims with revenue code 270 entries regardless of whether the HCPCS code and its payment limits were loaded. The automated system could not distinguish lines of service with the HCPCS W3011 code and, therefore, merely paid the line of service on the basis of the billed charge.

We confirmed that all lines of service in our developed universe were incorrectly calculated by AdminaStar's claim processing system. The system incorrectly allowed the charged amount rather than the intended payment limit of $0.50 per administration. This resulted in overpayments of $407,300.

RECOMMENDATIONS

We recommend that AdminaStar:

- Recalculate the Medicare reimbursement for billed services in our universe, and initiate recovery actions on all determined overpayments, calculated to be as much as $407,300.

- Strengthen procedures for loading HCPCS codes into the claims processing system.

AUDITEE COMMENTS

In a written response to our draft report, AdminaStar Federal concurred with our finding and recommendations. AdminaStar identified and adjusted over 50% of the claims within the OIG universe upon recognition of the problem in 2002. To date, all adjustments have been initiated with the exception of 371 claims that have not been completed due to an incorrect Health Insurance Claim Number (HIC). Once AdminaStar Federal obtains the correct HIC, adjustments will be initiated within 30 days.

AdminaStar Federal implemented an enhanced Change Control Process in 2002 to ensure files are updated accurately and timely. The Standard Operating Procedures were further defined and enhanced to minimize the risks associated with file maintenance. The auditee's response is appended to this report in its entirety. (See Appendix)

APPENDIX

APPENDIX

CMS
CENTERS for MEDICARE & MEDICAID SERVICES

Medicare
PART A INTERMEDIARY/PART B

October 30, 2003

Mr. Stephen Slamar
HHS-OIG Office of Audit Services
233 North Michigan Avenue, Suite 1360
Chicago, Illinois 60601

Re: A-05-03-00053

Dear Mr. Slamar:

AdminaStar Federal (ASF) has reviewed your report "End Stage Renal Disease Pricing Errors at Independent Facilities" and concurs that some claims were incorrectly priced during 1999 through 2001.

Upon recognition of the problem in 2002, ASF began to identify the localities where HCFA Common Procedure Code System (HCPCS) code W3011was not loaded to pay $.50 per unit and adjusted the claims accordingly. As a result of our actions, ASF had adjusted over 50% of the claims identified within the OIG universe.

Once ASF received the universe of all claims in question, we began to validate which claims still needed corrective actions taken and began the retrieval process and adjustment of the claims. As of today, all adjustments have been initiated for Illinois, Indiana, and Kentucky. There are 371 claims that have not been completed due to an incorrect Health Insurance Claim Number (HIC#). We are currently researching to obtain correct HIC# and adjustments will be initiated within the next 30 days. If we are unable to obtain the number, we will contact your office for further guidance.

ASF implemented an enhanced Change Control Process in 2002 to ensure files are updated accurately and timely. The Standard Operating Procedures (SOPs) were further defined and enhanced to minimize the risks associated with file maintenance.

In addition, the ASF system staff is working to develop an automated file maintenance process which will ensure all localities are loaded consistently to all ASF regions.

Should you have any additional questions, please contact Sharon Weddel at 317-841-4644.

Sincerely,

Michael McCarron
President

cc: Sarah Litteral
Sharon Weddel

ACKNOWLEDGMENTS

This report was prepared under the direction of Paul Swanson, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

Stephen Slamar, *Audit Manager*
Jeff Bry, *Senior Auditor*
Lynn Hanson, *Auditor*

Technical Assistance
Tammie Anderson, *Advanced Audit Techniques*

For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.