

**Memorandum**

Date · FEB 16 1995

From June Gibbs Brown  
Inspector General *June G Brown*

Subject Medicare Hospital Patient Transfers Improperly Reported and Paid as Hospital Discharges (A-06-93-00095)

To Bruce C. Vladeck  
Administrator  
Health Care Financing Administration

Attached are two copies of our final report entitled, "Medicare Hospital Patient Transfers Improperly Reported and Paid as Hospital Discharges." This report provides the results of our work on the Medicare prospective payment system (PPS) hospital transfer recovery projects. These projects were undertaken jointly by the Office of Inspector General (OIG), the Health Care Financing Administration (HCFA), and Medicare fiscal intermediaries (FI). Our work in the PPS hospital transfer area consisted of (1) a pilot project conducted in Region VI, (2) an analysis of HCFA's edit implemented to prevent overpayments from transfers, and (3) a nationwide project to recover overpayments made to hospitals. In total, these joint projects resulted in Medicare Part A trust fund recoveries totaling \$219 million and annual savings totaling \$8 million. In addition, we estimate that \$22 million will be recovered from transfer transactions that warrant further resolution.

The overall objectives of these projects were to:

- ▶ Identify incorrectly reported PPS transfers and establish the feasibility of recovering overpayments.
- ▶ Determine if HCFA's PPS transfer edit would effectively prevent future overpayments.
- ▶ Initiate and monitor, in conjunction with HCFA, the results of a nationwide recovery action.

To meet these objectives, we identified incorrectly reported PPS transfers in Part A paid claims data received at HCFA from January 1985 to November 1991 (time periods differed from project to project).

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The overpayments identified in our project occurred because transfers between PPS hospitals were erroneously reported and paid as discharges. Further, the Medicare claims processing system was not designed to detect and correct claims that were incorrectly reported as discharges. As a result of our pilot project, HCFA developed an edit that provided the Medicare FIs with the means to detect and correct transfer transactions coded as discharges.

As of April 1, 1994, there were 15,536 unresolved transfers, and 11,985 of the unresolved transfers warrant further action on the part of the FIs. We are sending, under separate cover, the details of these transactions to HCFA's regional administrators for final resolution.

During our recovery project, hospitals, FIs, and HCFA raised questions regarding the authority to recover the identified overpayments for older claims. Based on the advice of the Office of General Counsel, we conclude that the regulations did not limit the time period for recovery of the older claims.

We recommended that HCFA instruct its FIs to (1) place a high priority on recovering the remaining overpayments, including those over 4 years old, and (2) inform the OIG of the final resolution on the remaining unresolved cases.

The HCFA Administrator responded to our draft report in a memorandum dated January 6, 1995. The HCFA agreed with our recommendations and will issue a memorandum to all Associate Regional Administrators advising them to instruct their FIs to comply with the OIG's recommendations and take immediate steps to complete the recovery project. The HCFA also included technical comments which we considered in finalizing our draft report.

We would also appreciate your views and the status of any further action taken or contemplated on our recommendations within the next 60 days. If you have any questions, please call me or have your staff contact George M. Reeb, Assistant Inspector General for Health Care Financing Audits, at (410) 966-7104. Copies of this report are being sent to other interested Department officials.

To facilitate identification, please refer to Common Identification Number A-06-93-00095 in all correspondence relating to this report.

Attachment

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**MEDICARE HOSPITAL PATIENT  
TRANSFERS IMPROPERLY REPORTED  
AND PAID AS HOSPITAL DISCHARGES**



**JUNE GIBBS BROWN**  
Inspector General

**FEBRUARY 1995**  
A-06-93-00095

**Memorandum**

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Inspector General

Subject Medicare Hospital Patient Transfers Improperly Reported and Paid as Hospital Discharges (A-06-93-00095)

To Bruce C. Vladeck  
Administrator  
Health Care Financing Administration

This report provides the results of our work in the Medicare prospective payment system (PPS) hospital transfer recovery projects. These projects were undertaken jointly by the Office of Inspector General (OIG), the Health Care Financing Administration (HCFA), and Medicare fiscal intermediaries (FI). Our work in the PPS hospital transfer area consisted of (1) a pilot project conducted in Region VI, (2) an analysis of HCFA's edit implemented to prevent overpayments from transfers, and (3) a nationwide project to recover overpayments made to hospitals. In total, these joint projects resulted in Medicare Part A trust fund recoveries totaling \$219 million and annual savings totaling \$8 million. In addition, we estimate that \$22 million will be recovered from transfer transactions that warrant further resolution. (See details in Attachment A.)

The overall objectives of these projects were to:

- ▶ Identify incorrectly reported PPS transfers and establish the feasibility of recovering overpayments.
- ▶ Determine if HCFA's PPS transfer edit would effectively prevent future overpayments.
- ▶ Initiate and monitor, in conjunction with HCFA, the results of a nationwide recovery action.

To meet these objectives, we identified incorrectly reported PPS transfers in Part A paid claims data received at HCFA from January 1985 to November 1991 (time periods differed from project to project).

The overpayments identified in our project occurred because transfers between PPS hospitals were erroneously reported and paid as discharges. Further, the Medicare

claims processing system was not designed to detect and correct claims that were incorrectly reported as discharges. As a result of our pilot project, HCFA developed an edit that provided the Medicare FIs with the means to detect and correct transfer transactions coded as discharges.

As of April 1, 1994, there were 15,536 unresolved transfers, and 11,985 of the unresolved transfers warrant further action on the part of the FIs. We are sending, under separate cover, the details of these transactions to HCFA's regional administrators for final resolution.

During our recovery project, hospitals, FIs, and HCFA raised questions regarding the authority to recover the identified overpayments for older claims. Based on the advice of the Office of General Counsel (OGC), we conclude that the regulations did not limit the time period for recovery of the older claims.

We are recommending that HCFA instruct its FIs to (1) place a high priority on recovering the remaining overpayments, including those over 4 years old, and (2) inform the OIG of the final resolution on the remaining unresolved cases.

The HCFA Administrator responded to our draft report in a memorandum dated January 6, 1995. The HCFA agreed with our recommendations and will issue a memorandum to all Associate Regional Administrators advising them to instruct their FIs to comply with the OIG's recommendations and take immediate steps to complete the recovery project. The HCFA also included technical comments which we considered in finalizing our draft report. A copy of HCFA's memorandum is included as Attachment D to this report.

## **BACKGROUND**

Section 1886(d) of the Social Security Act, enacted as part of the Social Security Amendments of 1983 (Public Law 98-21) on April 20, 1983, established PPS for Medicare inpatient hospital services. Under this system, the diagnoses for hospital admissions are grouped into diagnosis related groups (DRG) and payment amounts are prospectively determined by DRG. A DRG payment amount is designed to cover an average hospital's operating costs necessary to treat a patient to the point that a discharge is medically appropriate.

Hospitals that admit, stabilize, and transfer patients to other hospitals generally use fewer resources than hospitals providing the full scope of medical treatment. In view

of this, PPS payments for patient transfers to other PPS hospitals are limited to per diem payments. A receiving hospital is normally paid the full amount of the DRG. An improperly reported transfer (discharge reported) normally results in an overpayment when both hospitals receive full DRG payments.

Under Federal regulations (42 CFR 412.4(d)), the per diem payment to the transferring hospital is determined by dividing the appropriate payment for the discharge by the average length of stay for that DRG. Except for cases that meet the criteria for cost outliers, payment to a transferring hospital may not exceed the full DRG payment rate.

### SCOPE

The overall objectives of our projects were to (1) identify incorrectly reported PPS transfers and establish the feasibility of recovering overpayments; (2) determine if HCFA's PPS transfer edit would effectively prevent future overpayments; and (3) in conjunction with HCFA, initiate and monitor the results of a nationwide recovery action. The OIG's work in these joint projects did not encompass the normal efforts associated with the types of audits covered by the government auditing standards. We adhered, however, to those applicable general auditing and field work standards that applied to the projects.

For the projects, the OIG limited its work to (1) identifying potential overpayments with a series of computer applications; (2) transmitting, through HCFA, those potential overpayments to participating Medicare FIs; (3) monitoring the results of HCFA's and the FI's recovery efforts; and (4) receiving, compiling, and presenting the recovery results reported by the FIs. An assessment of applicable internal or administrative controls was unnecessary to meet the objectives of this assignment. Further, an assessment of compliance with applicable requirements of law and regulations was unnecessary to meet the objectives of this assignment. We did not verify the recovery information reported by 60 FIs for about 5,800 hospitals involved in this project.

The final database for the recovery project covered the period January 1986 through November 1991.

## RESULTS OF PROJECTS

The joint PPS projects of OIG, HCFA, and FIs have resulted in recoveries for the Medicare Part A trust fund totaling about \$219 million. We estimate that FIs will recover an additional \$22 million from transactions that have not been worked or require further resolution. Further, our PPS work identified and recommended improvements to HCFA's PPS transfer edit that will result in estimated cost savings totaling about \$8.1 million annually. These recoveries and cost savings were the result of joint efforts in a pilot project conducted in Region VI, a review of the common working file edit for incorrectly reported PPS transfers, and a nationwide recovery project. Details on each of these projects and our recommendations for completion of the nationwide recovery project are presented in the following narrative.

### **PPS TRANSFER PILOT PROJECT (A-06-89-00021)**

This project was a pilot limited to Region VI. The objectives were to determine the significance of overpayments for incorrectly reported PPS transfers and whether recovery of the overpayments was feasible. We identified 13,582 incorrectly reported PPS transfers in the pilot project. For the transfers with an overpayment, Region VI's FIs recovered about \$13.1 million. (See details in Attachment B.)

Based on results of the pilot project, OIG and HCFA staff concluded that overpayments from PPS transfers were significant and recovery of the overpayments was feasible. We recommended that a nationwide effort be initiated to recover overpayments made to PPS hospitals and that HCFA develop the necessary internal controls to prevent similar overpayments in the future.

The HCFA officials agreed with our recommendation to initiate a joint national effort to recover PPS transfer overpayments. Further, to prevent similar overpayments in the future, HCFA developed and implemented a PPS transfer edit in the new common working file. The HCFA informed FIs in November 1990 (Transmittal No. A-90-16) of the prepayment edit and its expected implementation date of January 1, 1991.

**REVIEW OF HCFA'S PPS TRANSFER EDIT (A-06-91-00061)**

The objective of this review was to determine whether the edit would prevent overpayments for all incorrect usages of the patient status codes. While the edit detected most overpayment situations, it did not detect transfers that were improperly coded as transfers to hospitals, or distinct parts of hospitals, which were not participating in PPS. We estimated that correction of this deficiency would result in annual cost savings of \$8.1 million and recommended that HCFA revise the transfer edit to detect incorrect usage of the patient status code for transfers to non-PPS hospitals.

The HCFA officials concurred with our recommendation and revised the transfer edit to detect and correct claims that are incorrectly coded as transfers to non-PPS hospitals. Subsequently, HCFA officials notified us that an additional edit would be added to the common working file effective March 28, 1994.

**NATIONWIDE RECOVERY PROJECT**

In an early alert memorandum (A-06-92-00030) issued August 11, 1993, we provided you with the preliminary results of the joint recovery project. At that time, FIs reported recoveries on 77,649 overpayments totaling about \$146 million.

As of April 1, 1994, actual recoveries have increased to \$166.3 million for 90,196 of the incorrectly reported PPS transfers. Further, FIs adjusted but did not specifically identify, 21,485 of the transfers, prior to receiving our listings. We estimate that these transfer adjustments resulted in recoveries totaling \$39.6 million.

As of April 1, 1994, 15,536 transfers were not resolved.<sup>1</sup> We believe that 11,985 of these unresolved transfers require additional or final resolution that will result in estimated recoveries totaling about \$22 million. (See Attachment C for further details.)

For the period January 1986 through November 1991 a total of 123,311 transfers were identified as incorrectly reported by 5,801 hospitals and paid by 60 FIs. On September 10, 1992, OIG and HCFA transmitted 123,293 (18 transactions were deleted for immateriality) of these transfers to the FIs for resolution.

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<sup>1</sup> *The 15,536 unresolved transactions include a variance of about 3,900 transactions resulting from errors and/or omissions in FI reports. Therefore, the number of transactions resolved and to be resolved, does not reconcile to the 123,293 sent to the FIs.*

While FIs have resolved the majority of transactions on our listings, 15,536 transfers are unresolved. Of the unresolved transfers, 11,985 transfers require additional action on the part of 47 FIs. We believe that HCFA's regional offices are in the best position to work with FIs to finalize the unresolved transfers that warrant further action. We will provide the necessary transaction details to the appropriate HCFA regional administrators.

### **STATUTE OF LIMITATION CONCERNS**

During the recovery phase of this project, questions were raised about an FI's authority to recover a portion of the identified overpayments. The HCFA regulations generally limit the time in which a claims determination or decision regarding a cost report may be reopened to within 3 years from the date of such determination or decision (42 CFR 405.1885) or, for a determination regarding an individual provider's claim, to within 4 years from an initial determination, upon a showing of good cause (42 CFR 405.750(b)). On the basis of this general limitation, HCFA at one stage instructed its regional offices to direct FIs not to pursue overpayments on claims over 4 years old.

Nevertheless, as HCFA is aware, both of these regulatory limitations contain an exception for "fraud or similar fault," in which case there is an unlimited time period for reopening. Based upon advice of OGC, we believe that the "fraud or similar fault" exception applies.

### **CONCLUSIONS AND RECOMMENDATIONS**

Based on the results reported to us by the FIs, we believe that:

- ▶ recovery on identified overpayments is nearly complete,
- ▶ remaining overpayments need to be recovered, and
- ▶ systemic problems have been corrected.

To conclude work in this area, we recommend that HCFA instruct its FIs to (1) place a high priority on recovering the remaining overpayments, including those over 4 years old, and (2) inform the OIG of the final resolution on the remaining unresolved cases.

**HCFA'S COMMENTS AND OIG'S RESPONSE**

The HCFA Administrator responded to our draft report in a memorandum dated January 6, 1995. In that memorandum, HCFA agreed with our recommendations and will issue a memorandum to all Associate Regional Administrators advising them to instruct their FIs to comply with the OIG's recommendations and take immediate steps to complete the recovery project. The HCFA also included technical comments which we considered in finalizing our draft report. A copy of HCFA's memorandum is included as Attachment D to this report.

# *ATTACHMENTS*

**Table of Recoveries and Savings  
PPS Transfer Projects**

Region VI Pilot Project:

Pilot Project Reported Recoveries	\$8,415,899	
Estimated Unreported Recoveries	1,361,040	
Estimated Recovered Prior to Receipt of OIG Lists	<u>3,323,736</u>	\$13,100,675

Nationwide Recovery Project:

Current Recoveries	\$166,326,445	
Estimated Recovered Prior to Receipt of OIG Lists	<u>39,619,629</u>	<u>205,946,074</u>
Subtotal Actual and Estimated Recoveries		\$219,046,749
PPS Transfer Edit Savings: Annual Savings		<u>8,094,549</u>
Recoveries and Savings Achieved		\$227,141,298
Estimated Remaining Recoveries in the Nationwide Project		<u>\$ 22,023,608</u>
Total Recoveries and Savings Achieved and Projected		<u>\$249,164,906</u>

**Table of Estimates For Pilot Project**

I.	Estimate of Amount Recovered But Not Reported:	
A.	Transfers Worked and Reported	11,692
B.	Transfers With Recovery	6,616
C.	Transfers Without Recovery (I. A minus I. B)	5,076
D.	Rate of Recovery in Pilot Project (I. B divided by I. A)	56.59%
E.	Transfers Not Reported On In Pilot Project (II. A minus I. A)	1,890
F.	Average Recovery Amount In Pilot Project	\$1,272
G.	Estimated Recovery in Unreported Transfers (I. D x I. E x I. F)	<u>\$1,361,040</u>
II.	Estimate of Recoveries for Previously Adjusted Transfers in Pilot Project:	
A.	Transfers Assigned to Intermediaries in Pilot Project	13,582
B.	Previous Adjusted Rate Current Project	19.24%
C.	Estimated Number of Previously Adjusted Pilot Project Transfers (II. A x II. B)	2,613
D.	Estimated Recovery Amount for Transfers Adjusted Prior to Pilot Project But Not Specifically Reported (II. C x I. F)	<u>\$3,323,736</u>

Note: Due to computer rounding functions, all calculations will not compute exactly as shown.

**Table of Estimates For Pilot Project**

III. Pilot Project Totals:

A.	Pilot Project Reported Recoveries	\$ 8,415,899
B.	Estimated Unreported Recoveries (I. G)	1,361,040
C.	Estimated Recovered Prior To Receipt of OIG Lists (II. D)	<u>3,323,736</u>
	TOTAL	<u>\$13,100,675</u>

**Estimation Of Amount Recoverable  
In Unresolved Transfer Transactions  
Considered To Have a Recovery**

I. Unresolved Transfers Data:

A.	Transfers Sent to FIs	123,311
B.	Transfers Reported Adjusted Prior to Receipt of OIG Transfer Listings	21,485
C.	Transfers Unresolved at April 1, 1994	15,536
D.	Unresolved Transfers OIG Believes HCFA Can Accept:	
	Hospital Closed/Terminated/Changed FIs	207
	Receiving Hospital Excluded From PPS	137
	Originally Processed As A Transfer	47
	DRG Not PPS	2
	Service Prior to PPS	<u>1</u>
	Total	394

II. Recovery Project Recovery Data:

A.	Amount Reported Recovered as of April 1, 1994	\$166,326,445
B.	Transfers Reported With A Recovery	90,196
C.	Previous Adjustment Rate Current Project (I. B divided by I. B + I. D + II. B)	19.24%
D.	Average Recovery for Transfer With Recovery (II. A divided by II. B)	\$1,844
E.	Estimated Amount Not Specifically Reported for Previous Adjustments (II. D x I. B)	\$39,619,629
F.	Estimated Recovery Rate (I. B + II. B) divided by (I. B + II. B + I. D)	99.65%

**Estimation Of Amount Recoverable  
In Unresolved Transfer Transactions  
Considered To Have a Recovery**

II.	Recovery Project Recovery Data (Continued):	
G.	Number of Unresolved Transfers Warranting Further Resolution	11,985
H.	Estimated Number of Unresolved Transfers With A Potential Recovery or Previously Unreported Recovery (II. G x II. F)	11,943
I.	Estimated Recovery Available In Unresolved Transfers (II. H x II. D)	\$22,023,608

Note: Due to computer rounding functions, all calculations will not compute exactly as shown.



DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Health Care Financing Administration

The Administrator  
Washington, D.C. 20201

**DATE** JAN 6 1995

**FROM** Bruce C. Vladeck *Bruce Vladeck*  
Administrator

**SUBJECT** Office of Inspector General (OIG) Draft Report: "Medicare Hospital Patient Transfers Improperly Reported and Paid as Hospital Discharges," (A-06-93-00095)

**TO** June Gibbs Brown  
Inspector General

We reviewed the subject draft report which provided the results of the Medicare Prospective Payment System hospital transfer recovery projects.

The Health Care Financing Administration (HCFA) concurs with the report's recommendations that HCFA instruct its fiscal intermediaries (FIs) to (1) place a high priority on recovering the remaining overpayments, including those over 4 years old, and (2) inform OIG of the final resolution on the remaining unresolved cases. HCFA will issue a memorandum to all Associate Regional Administrators advising them to instruct their FIs to comply with OIG's recommendations and take immediate steps to complete the recovery project initiated in 1992. Also, we have attached technical comments for your consideration.

Thank you for the opportunity to review and comment on this report. Please advise us at your earliest convenience if you would like to discuss our position on the report's recommendations.

Attachment