

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MEDICARE COMPLIANCE
REVIEW OF
MERCY MEDICAL CENTER IN
MASON CITY
FOR CALENDAR YEARS
2010 AND 2011**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Patrick J. Cogley
Regional Inspector General

November 2013
A-07-12-05030

Office of Inspector General

<https://oig.hhs.gov/>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <https://oig.hhs.gov/>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

Mercy Medical Center in Mason City did not fully comply with Medicare requirements for billing inpatient and outpatient services, resulting in overpayments of approximately \$224,000 over more than 2 years.

WHY WE DID THIS REVIEW

This review is part of a series of hospital compliance reviews. Using computer matching, data mining, and data analysis techniques, we identified hospital claims that were at risk for noncompliance with Medicare billing requirements. For calendar year (CY) 2011, Medicare paid hospitals \$151 billion, which represents 45 percent of all fee-for-service payments; therefore, the Office of Inspector General must provide continual and adequate oversight of Medicare payments to hospitals.

The objective of this review was to determine whether Mercy Medical Center in Mason City (the Hospital) complied with Medicare requirements for billing inpatient and outpatient services on selected claims.

BACKGROUND

The Centers for Medicare & Medicaid Services (CMS) pays inpatient hospital costs at predetermined rates for patient discharges. The rates vary according to the diagnosis-related group (DRG) to which a beneficiary's stay is assigned and the severity level of the patient's diagnosis. The DRG payment is, with certain exceptions, intended to be payment in full to the hospital for all inpatient costs associated with the beneficiary's stay. CMS pays for hospital outpatient services on a rate-per-service basis that varies according to the assigned ambulatory payment classification.

The Hospital is a 245-bed acute care hospital located in Mason City, Iowa. Medicare paid the Hospital approximately \$158 million for 12,634 inpatient and 276,636 outpatient claims for services provided to beneficiaries during CYs 2010 and 2011 based on CMS's National Claims History data.

Our audit covered \$2,178,364 in Medicare payments to the Hospital for 145 claims that we judgmentally selected as potentially at risk for billing errors. These claims consisted of 66 inpatient and 79 outpatient claims. Of the 145 claims, 136 claims had dates of service in CYs 2010 or 2011, and 9 claims (involving inpatient and outpatient manufacturer credits for replaced medical devices) had dates of service in CY 2009.

WHAT WE FOUND

The Hospital complied with Medicare billing requirements for 98 of the 145 inpatient and outpatient claims we reviewed. However, the Hospital did not fully comply with Medicare billing requirements for the remaining 47 claims, resulting in overpayments of \$223,627 for CYs 2010 and 2011 (38 claims) and CY 2009 (9 claims). Specifically, 26 inpatient claims had billing

errors, resulting in overpayments of \$165,037, and 21 outpatient claims had billing errors, resulting in overpayments of \$58,590. These errors occurred primarily because the Hospital did not have adequate controls to prevent the incorrect billing of Medicare claims within the selected risk areas that contained errors.

WHAT WE RECOMMEND

We recommend that the Hospital:

- refund to the Medicare contractor \$223,627, consisting of \$165,037 in overpayments for 26 incorrectly billed inpatient claims and \$58,590 in overpayments for 21 incorrectly billed outpatient claims, and
- strengthen controls to ensure full compliance with Medicare requirements.

AUDITEE COMMENTS

In written comments on our draft report, the Hospital concurred with our recommendations and described corrective actions that it had taken or was taking. The Hospital stated that it had rebilled many of the claims and was in the process of determining the remaining balance that needed to be refunded or rebilled.

TABLE OF CONTENTS

INTRODUCTION	1
Why We Did This Review	1
Objective	1
Background	1
The Medicare Program	1
Hospital Inpatient Prospective Payment System	1
Hospital Outpatient Prospective Payment System	1
Hospital Claims at Risk for Incorrect Billing	2
Medicare Requirements for Hospital Claims and Payments	2
Mercy Medical Center in Mason City	3
How We Conducted This Review	3
FINDINGS	3
Billing Errors Associated With Inpatient Claims	4
Incorrectly Billed as Inpatient	4
Manufacturer Credits for Replaced Medical Devices Not Reported	4
Incorrectly Billed as Separate Inpatient Stays	4
Incorrectly Billed Diagnosis-Related Group Codes	5
Billing Errors Associated With Outpatient Claims	5
Manufacturer Credits for Replaced Medical Devices Not Reported	5
Insufficiently Documented Procedures	6
Incorrectly Billed Evaluation and Management Services	6
RECOMMENDATIONS	6
AUDITEE COMMENTS	6
APPENDIXES	
A: Audit Scope and Methodology	7
B: Results of Review by Risk Area	9
C: Auditee Comments	10

INTRODUCTION

WHY WE DID THIS REVIEW

This review is part of a series of hospital compliance reviews. Using computer matching, data mining, and data analysis techniques, we identified hospital claims that were at risk for noncompliance with Medicare billing requirements. For calendar year (CY) 2011, Medicare paid hospitals \$151 billion, which represents 45 percent of all fee-for-service payments; therefore, the Office of Inspector General (OIG) must provide continual and adequate oversight of Medicare payments to hospitals.

OBJECTIVE

Our objective was to determine whether Mercy Medical Center in Mason City (the Hospital) complied with Medicare requirements for billing inpatient and outpatient services on selected claims.

BACKGROUND

The Medicare Program

Medicare Part A provides inpatient hospital insurance benefits and coverage of extended care services for patients after hospital discharge, and Medicare Part B provides supplementary medical insurance for medical and other health services, including coverage of hospital outpatient services. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare program.

CMS contracts with Medicare contractors to, among other things, process and pay claims submitted by hospitals.

Hospital Inpatient Prospective Payment System

CMS pays hospital costs at predetermined rates for patient discharges under the inpatient prospective payment system (IPPS). The rates vary according to the diagnosis-related group (DRG) to which a beneficiary's stay is assigned and the severity level of the patient's diagnosis. The DRG payment is, with certain exceptions, intended to be payment in full to the hospital for all inpatient costs associated with the beneficiary's stay.

Hospital Outpatient Prospective Payment System

CMS implemented an outpatient prospective payment system (OPPS), which is effective for services furnished on or after August 1, 2000, for hospital outpatient services. Under the OPPS, Medicare pays for hospital outpatient services on a rate-per-service basis that varies according to the assigned ambulatory payment classification (APC). CMS uses Healthcare Common Procedure Coding System (HCPCS) codes and descriptors to identify and group the services

within each APC group.¹ All services and items within an APC group are comparable clinically and require comparable resources.

Hospital Claims at Risk for Incorrect Billing

Our previous work at other hospitals identified these types of claims at risk for noncompliance:

- inpatient short stays,
- inpatient and outpatient manufacturer credits for replaced medical devices,
- inpatient same-day discharges and readmissions,
- inpatient and outpatient claims paid in excess of charges,
- inpatient claims billed with high severity level DRG codes,
- inpatient hospital-acquired conditions,
- outpatient claims paid in excess of \$25,000,
- outpatient claims billed with modifier -25,
- outpatient claims billed with other modifiers, and
- outpatient claims billed with Doxorubicin Hydrochloride.

For the purposes of this report, we refer to these areas at risk for incorrect billing as “risk areas.” We reviewed these risk areas as part of this review.

Medicare Requirements for Hospital Claims and Payments

Medicare payments may not be made for items or services that “... are not reasonable and necessary for the diagnosis or treatment of illness or injury or to improve the functioning of a malformed body member” (the Social Security Act (the Act), § 1862(a)(1)(A)). In addition, the Act precludes payment to any provider of services or other person without information necessary to determine the amount due the provider (§ 1833(e)).

Federal regulations state that the provider must furnish to the Medicare contractor sufficient information to determine whether payment is due and the amount of the payment (42 CFR § 424.5(a)(6)).

¹ HCPCS codes are used throughout the health care industry to standardize coding for medical procedures, services, products, and supplies.

The *Medicare Claims Processing Manual* (the Manual) requires providers to complete claims accurately so that Medicare contractors may process them correctly and promptly (Pub. No. 100-04, chapter 1, § 80.3.2.2). The Manual states that providers must use HCPCS codes for most outpatient services (chapter 23, § 20.3).

Mercy Medical Center in Mason City

The Hospital is a 245-bed acute care hospital located in Mason City, Iowa. Medicare paid the Hospital approximately \$158 million for 12,634 inpatient and 276,636 outpatient claims for services provided to beneficiaries during CYs 2010 and 2011 based on CMS's National Claims History data.

HOW WE CONDUCTED THIS REVIEW

Our audit covered \$2,178,364 in Medicare payments to the Hospital for 145 claims that we judgmentally selected as potentially at risk for billing errors. These claims consisted of 66 inpatient and 79 outpatient claims. Of the 145 claims, 136 claims had dates of service in CYs 2010 or 2011, and 9 claims (involving inpatient and outpatient manufacturer credits for replaced medical devices) had dates of service in CY 2009.² We focused our review on the risk areas that we had identified as a result of previous OIG reviews at other hospitals. We evaluated compliance with selected billing requirements but did not use medical review to determine whether the services were medically necessary. This report focuses on selected risk areas and does not represent an overall assessment of all claims submitted by the Hospital for Medicare reimbursement.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

See Appendix A for the details of our scope and methodology.

FINDINGS

The Hospital complied with Medicare billing requirements for 98 of the 145 inpatient and outpatient claims we reviewed. However, the Hospital did not fully comply with Medicare billing requirements for the remaining 47 claims, resulting in overpayments of \$223,627 for CYs 2010 and 2011 (38 claims) and CY 2009 (9 claims). Specifically, 26 inpatient claims had billing errors, resulting in overpayments of \$165,037, and 21 outpatient claims had billing errors, resulting in overpayments of \$58,590. These errors occurred primarily because the Hospital did not have adequate controls to prevent the incorrect billing of Medicare claims within the selected risk areas that contained errors. For the results of our review by risk area, see Appendix B.

² We selected these nine claims for review because the risk area that involves manufacturer credits for replaced medical devices has a high risk of billing errors.

BILLING ERRORS ASSOCIATED WITH INPATIENT CLAIMS

The Hospital incorrectly billed Medicare for 26 of 66 sampled inpatient claims that we reviewed. These errors resulted in overpayments of \$165,037.

Incorrectly Billed as Inpatient

Medicare payments may not be made for items or services that "... are not reasonable and necessary for the diagnosis or treatment of illness or injury or to improve the functioning of a malformed body member" (the Act, § 1862(a)(1)(A)).

For 12 out of 66 selected claims, the Hospital incorrectly billed Medicare Part A for beneficiary stays that should have been billed as outpatient or outpatient with observation services. The Hospital attributed these overpayments to the complexity associated with accurate assignment of level of care (inpatient as opposed to outpatient). As a result of these errors, the Hospital received overpayments of \$64,425.³

Manufacturer Credits for Replaced Medical Devices Not Reported

Federal regulations require reductions in the IPPS payments for the replacement of an implanted device if (1) the device is replaced without cost to the provider, (2) the provider receives full credit for the device cost, or (3) the provider receives a credit equal to 50 percent or more of the device cost (42 CFR § 412.89). The Manual states that to bill correctly for a replacement device that was provided with a credit, hospitals must code Medicare claims with a combination of condition code 49 or 50, along with value code "FD" (chapter 3, § 100.8).

For 8 out of 66 selected claims, the Hospital received reportable medical device credits from manufacturers but did not adjust its inpatient claims with the appropriate condition and value codes to reduce payment as required. (Of the eight claims, six had dates of service in CY 2009 and two had dates of service in CYs 2010 and 2011). These overpayments occurred because the Hospital did not have adequate controls to report the appropriate condition and value codes in order to accurately reflect credits it had received from manufacturers. As a result of these errors, the Hospital received overpayments of \$40,959.

Incorrectly Billed as Separate Inpatient Stays

The Manual (chapter 3, § 40.2.5) states:

When a patient is discharged/transferred from an acute care Prospective Payment System (PPS) hospital, and is readmitted to the same acute care PPS hospital on the same day for symptoms related to, or for evaluation and management of, the

³ The Hospital may be able to bill Medicare Part B for all services (except for services that specifically require an outpatient status) that would have been reasonable and necessary had the beneficiary been treated as a hospital outpatient rather than admitted as an inpatient. We were unable to determine the effect that billing Medicare Part B would have on the overpayment amount because these services had not been billed and adjudicated by the Medicare administrative contractor before the issuance of our report.

prior stay's medical condition, hospitals shall adjust the original claim generated by the original stay by combining the original and subsequent stay on a single claim.

For 4 out of 66 selected claims, the Hospital billed Medicare separately for related discharges and readmissions that occurred within the same day. The Hospital attributed these overpayments to human error. As a result of these errors, the Hospital received overpayments of \$31,980.

Incorrectly Billed Diagnosis-Related Group Codes

Medicare payments may not be made for items or services that "... are not reasonable and necessary for the diagnosis or treatment of illness or injury or to improve the functioning of a malformed body member" (the Act, § 1862(a)(1)(A)). In addition, the Manual states: "In order to be processed correctly and promptly, a bill must be completed accurately" (chapter 1, § 80.3.2.2).

For 2 out of 66 selected claims, the Hospital billed Medicare for incorrect DRG codes that, specifically, were not supported in the medical records. The Hospital attributed these overpayments to human error. As a result of these errors, the Hospital received overpayments of \$27,673.

BILLING ERRORS ASSOCIATED WITH OUTPATIENT CLAIMS

The Hospital incorrectly billed Medicare for 21 of 79 sampled outpatient claims that we reviewed. These errors resulted in overpayments of \$58,590.

Manufacturer Credits for Replaced Medical Devices Not Reported

Federal regulations require a reduction in the OPPS payment for the replacement of an implanted device if (1) the device is replaced without cost to the provider or the beneficiary, (2) the provider receives full credit for the cost of the replaced device, or (3) the provider receives partial credit equal to or greater than 50 percent of the cost of the replacement device (42 CFR § 419.45). For services furnished on or after January 1, 2007, CMS requires the provider to report the modifier "FB" and reduced charges on a claim that includes a procedure code for the insertion of a replacement device if the provider incurs no cost or receives full credit for the replaced device. If the provider receives a replacement device without cost from the manufacturer, the provider must report a charge of no more than \$1 for the device.⁴

For 8 out of 79 selected claims, the Hospital received full credit for replaced medical devices but did not report the "FB" modifier and reduced charges on its claims. (Of the eight claims, three had dates of service in CY 2009 and five had dates of service in CYs 2010 and 2011). These overpayments occurred because the Hospital did not have adequate controls to report the appropriate modifier and charges to reflect credits received from manufacturers. As a result of these errors, the Hospital received overpayments of \$56,373.

⁴ CMS provides guidance on how a provider should report no-cost and reduced-cost devices under the OPPS (CMS Transmittal 1103, dated November 3, 2006, and the Manual, chapter 4, § 61.3).

Insufficiently Documented Procedures

The Act precludes payment to any provider of services or other person without information necessary to determine the amount due the provider (§ 1833(e)).

For 2 out of 79 selected claims, the Hospital submitted the claims to Medicare with unsupported HCPCS codes. The Hospital attributed these overpayments to coding errors. As a result of these errors, the Hospital received overpayments of \$1,858.

Incorrectly Billed Evaluation and Management Services

The Manual states that a Medicare contractor pays for an evaluation and management (E&M) service that is significant, separately identifiable, and above and beyond the usual preoperative and postoperative work of the procedure (chapter 12, § 30.6.6(B)).

For 11 out of 79 selected claims, the Hospital incorrectly billed Medicare for E&M services that were not significant, not separately identifiable, and not above and beyond the usual preoperative and postoperative work of the procedure. The Hospital attributed these overpayments to human error. As a result of these errors, the Hospital received overpayments of \$359.

RECOMMENDATIONS

We recommend that the Hospital:

- refund to the Medicare contractor \$223,627, consisting of \$165,037 in overpayments for 26 incorrectly billed inpatient claims and \$58,590 in overpayments for 21 incorrectly billed outpatient claims, and
- strengthen controls to ensure full compliance with Medicare requirements.

AUDITEE COMMENTS

In written comments on our draft report, the Hospital concurred with our recommendations and described corrective actions that it had taken or was taking. The Hospital stated that it had rebilled many of the claims and was in the process of determining the remaining balance that needed to be refunded or rebilled.

The Hospital's comments appear in their entirety as Appendix C.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered \$2,178,364 in Medicare payments to the Hospital for 145 claims that we judgmentally selected as potentially at risk for billing errors. These claims consisted of 66 inpatient and 79 outpatient claims. Of the 145 claims, 136 claims had dates of service in CYs 2010 or 2011, and 9 claims (involving inpatient and outpatient manufacturer credits for replaced medical devices) had dates of service in CY 2009 (see footnote 2).

We focused our review on the risk areas that we had identified as a result of previous OIG reviews at other hospitals. We evaluated compliance with selected billing requirements, but did not use medical review to determine whether the services were medically necessary.

We limited our review of the Hospital's internal controls to those applicable to the inpatient and outpatient areas of review because our objective did not require an understanding of all internal controls over the submission and processing of claims. We established reasonable assurance of the authenticity and accuracy of the data obtained from the National Claims History file, but we did not assess the completeness of the file.

This report focuses on selected risk areas and does not represent an overall assessment of all claims submitted by the Hospital for Medicare reimbursement.

We conducted our fieldwork at the Hospital from July 2012 to August 2013.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- extracted the Hospital's inpatient and outpatient paid claim data from CMS's National Claims History file for CYs 2010 and 2011;
- obtained information on known credits for replacement medical devices from the device manufacturers for CYs 2009 through 2011;
- used computer matching, data mining, and other data analysis techniques to identify claims potentially at risk for noncompliance with selected Medicare billing requirements;
- judgmentally selected 145 claims (66 inpatient and 79 outpatient) for detailed review;
- reviewed available data from CMS's Common Working File for the selected claims to determine whether the claims had been cancelled or adjusted;

- reviewed the itemized bills and medical record documentation provided by the Hospital to support the selected claims;
- requested that the Hospital conduct its own review of the selected claims to determine whether the services were billed correctly;
- discussed the incorrectly billed claims with Hospital personnel to determine the underlying causes of noncompliance with Medicare requirements;
- calculated the correct payments for those claims requiring adjustments; and
- discussed the results of our review with Hospital officials on August 29, 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B: RESULTS OF REVIEW BY RISK AREA

Risk Area	Selected Claims	Value of Selected Claims	Claims With Over-payments	Value of Over-payments
Inpatient				
Short Stays	30	\$158,348	12	\$64,425
Manufacturer Credits for Replaced Medical Devices	8	194,991	8	40,959
Same-Day Discharges and Readmissions	6	55,160	4	31,980
Claims Paid in Excess of Charges	4	104,493	1	18,466
Claims Billed With High Severity Level Diagnosis-Related Group Codes	16	683,214	1	9,207
Hospital-Acquired Conditions	2	34,892	0	0
Inpatient Totals	66	\$1,231,098	26	\$165,037
Outpatient				
Manufacturer Credits for Replaced Medical Devices	10	\$86,008	8	\$56,373
Claims Paid in Excess of Charges	10	13,705	1	1,207
Claims Paid in Excess of \$25,000	12	399,170	1	651
Claims Billed With Modifier -25	17	235,771	11	359
Claims Billed With Other Modifiers	27	205,208	0	0
Claims Billed With Doxorubicin Hydrochloride	3	7,404	0	0
Outpatient Totals	79	\$947,266	21	\$58,590
Inpatient and Outpatient Totals	145	\$2,178,364	47	\$223,627

Notice: The table above illustrates the results of our review by risk area. In it, we have organized inpatient and outpatient claims by the risk areas we reviewed. However, we have organized this report's findings by the types of billing errors we found at the Hospital. Because we have organized the information differently, the information in the individual risk areas in this table does not match precisely with this report's findings.

APPENDIX C: AUDITEE COMMENTS



1000 4th Street SW
Mason City, IA 50401
641.428.7000

Report Number A-07-12-05030

Patrick Cogley
Regional Inspector General for Audit services
Office of Audit Services Region VII
601 East 12th Street Room 0429
Kansas City, MO 64106

Dr Patrick Cogley,

We have received our Draft Report for Medicare Compliance Review of Mercy Medical Center in Mason City for Calendar Years 2010 and 2011. The Report # is A-07-12-05030.

As an outcome of the report, there were 2 recommendations;

1) Recommendation: Refund to the Medicare contractor \$223,627, consisting of \$165,037 in overpayments for 26 incorrectly billed inpatient claims and \$58,590 in overpayments for 21 incorrectly billed outpatient claims.

Our Response is; We concur with this recommendation. Many of these claims were re-billed as part of the audit process while working with the auditors. We are in the process of determining the remaining balance that needs to be refunded or rebilled.

2) Recommendation: Strengthen controls to ensure full compliance with Medicare requirements.

Our Response is; We concur with this recommendation. We continue to implement the corrections, audits and further controls, as defined in our responses each Internal Control Questionnaire (ICQ) response dated July of 2013.

Please let me know of questions, or anything else you need from us.

Sincerely,

Kurt Harle
Compliance Officer
Mercy Medical Center-NI
641-428-7298