# Memorandum

Date FEB 14 2002

From Thomas D. Roslewicz
Deputy Inspector General
for Audit Services

Subject Office of Inspector General's Partnership Plan - State of Arizona, Office of Program Integrity's Medicaid Report on *Audit of End Stage Renal Disease Services* (A-09-01-00095)

To Neil Donovan
Director, Audit Liaison Staff
Centers for Medicare & Medicaid Services

As part of our partnership efforts with State auditors, we are transmitting the final report entitled, *Audit of End Stage Renal Disease Services* (Report No. A00-01). The audit addressed Medicaid payments for end stage renal disease (ESRD) services for the period January 1, 1996 through June 30, 1999. The Arizona Office of Program Integrity (OPI) performed the audit. Our work was conducted as part of a partnership effort with Arizona's OPI to expand audit coverage of the Medicaid program. We have performed sufficient work to satisfy ourselves that the attached audit report can be relied upon and used by the Centers for Medicare & Medicaid Services (CMS) in meeting its program oversight responsibilities.

We suggest you share this report with CMS components involved with program integrity, provider issues, and State Medicaid agency oversight, particularly the Center for Medicaid and State Operations.

The objectives of the review were to: (1) determine proper billing protocols for ESRD services, (2) identify inappropriate payments made by the Arizona Health Care Cost Containment System (AHCCCS) and its contractors, (3) assess the adequacy of controls and edits that address these payments, (4) develop more effective controls to prevent improper payments, (5) eliminate improper payments from encounter data, and (6) explore the feasibility of recouping the improper payments.

The OPI identified potential overpayments of nearly $3.4 million (Federal share, approximately $2.2 million). The potential overpayments include claims with separate charges for laboratory tests included in the composite rates (unbundling), services and charges exceeding authorized amounts and frequency limits without appropriate medical documentation, and billing for laboratory tests without Clinical Laboratory Improvement Amendments certification.

The OPI developed the following recommendations.

1) The AHCCCS administration should:

   - continue to review and update the system edits and other controls related to ESRD services, including pre- and post-payment reviews;
   - continue to review the billing from all ESRD facilities and recoup the erroneous payments;
   - provide technical assistance to providers and contractors regarding proper ESRD billing; and
   - conduct a review of ESRD claims for both the AHCCCS fee-for-service program and the contractors, in 2 years, to determine compliance.

2) The AHCCCS contractors should:

   - work with OPI personnel to identify billings, from January 1, 1996 to present, with erroneous payments;
   - adjust or void those payments on the AHCCCS encounters system as payments made in error may not be reported as Medicaid encounters; and
   - consider recouping the payments made in error.

As we do with all audit reports developed by non-federal auditors, we have provided, as an attachment, a listing of the coded recommendations for your staff's use in working with the State to resolve the findings and recommendations.

If you have any questions about this review, please let me know or have your staff contact George M. Reeb, Assistant Inspector General for Health Care Financing Audits, at (410) 786-7104.

Attachment

**Attachment**
A-09-01-00095

Summary of Recommendations
Contained in Report No. A00-01

| Recommendation Codes | Page | Federal Share Amount | Resolution Agency | Recommendations |
|---|---|---|---|---|
| | | | | The AHCCCS administration should: |
| 2129191001 | 6 | N/A | CMS | 1. continue to review and update the system edits and other controls related to ESRD services, including pre- and post- payment reviews; |
| 2040090301 | 6 | $1,879,000 | CMS | 2. continue to review the billings from all ESRD facilities and recoup the erroneous payments.[1] |
| 3029011001 | 6 | N/A | CMS | 3. provide technical assistance to providers and contractors regarding proper ESRD billing; |
| 2129151001 | 6 | N/A | CMS | 4. conduct a review of ESRD claims for both the AHCCCS fee-for-service program and the contractors, in 2 years, to determine compliance. |
| | | | | The AHCCCS contractors should: |
| 3023471001 | 6 | N/A | CMS | 1. work with OPI personnel to identify billings, from January 1, 1996 to present, with erroneous payments; |
| 2999161001 | 6 | N/A | CMS | 2. adjust or void those payments on the AHCCCS encounters system as payments made in error may not be reported as Medicaid encounters; and |
| 2040090302 | 6 | $323,000 | CMS | 3. consider recouping the payments made in error.[1] |

[1]As Medicaid funds are recovered, AHCCCS should make adjustments for the Federal share on its Quarterly Medicaid Statement of Expenditures to CMS.

AHCCCS

Jane Dee Hull
Governor

Phyllis Biedess
Director

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

***MEMORANDUM***

**DATE:** October 31, 2001

**TO:** AHCCCS Executive Management
AHCCCS Claims Administration
AHCCCS Health Plans and Program Contractors

**FROM:** Peter N. Francis
Program Integrity Director

**SUBJECT:** Audit of End Stage Renal Disease Services (A00-01)

The AHCCCS Office of Program Integrity (OPI) has completed an audit of program payments made for End Stage Renal Disease Services (ESRD). The final report detailing the results of our audit is attached. Comments we received on an earlier draft are included in the final report.

This audit was authorized by AHCCCS Executive Management after concerns about ESRD billings were referred to OPI by AHCCCS Claims Administration. The audit was conducted as part of the Department of Health and Human Services, Office of Inspector General (OIG) State Partnership program. We express our appreciation to the OIG for its assistance and support throughout this audit.

For the period January 1996 through June 1999, AHCCCS and its contractors expended over $48 million for ESRD services. Of this amount, we estimate that nearly $3.4 million was paid in error. Most of the overpayments were made by the AHCCCS fee-for-service program, not by health plans and program contractors. ESRD providers overcharged for erythropoietin (EPO) and other medications not included in the composite rate, and improperly charged for laboratory tests included in the composite rates.

Overpayments occurred primarily because system edits and other controls designed to identify billing discrepancies were lacking. However, after identifying the problem, AHCCCS Claims Administration acted timely to improve system edits, institute pre-payment reviews, and recoup misspent funds. In addition, approximately $1.7 million has been recovered through OPI case investigations and settlements. Several AHCCCS contractors have also taken steps to recoup funds that were overpaid to ESRD providers.

If you have any questions about the audit, please contact me at (602) 417-4830 or Marieann Ballerino at (602) 417-4274.

Attachment

# ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

## OFFICE OF PROGRAM INTEGRITY

# AUDIT OF END STAGE RENAL DISEASE SERVICES

AHCCCS

**October 2001**
**Report No. A00-01**

# Table of Contents

# Arizona Health Care Cost Containment System
# Audit of End Stage Renal Disease Services

**Introduction**

The AHCCCS Office of Program Integrity (OPI) has conducted an audit of End Stage Renal Disease (ESRD) services reimbursed by the AHCCCS fee-for-service (FFS) program and AHCCCS Contractors. This audit resulted from issues raised by the AHCCCS Claims Policy Unit.

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**Purpose**

The Office of Program Integrity conducted the audit of ESRD services to:

- Determine the proper billing protocols for ESRD services;
- Identify the inappropriate payments made by AHCCCS and its Contractors;
- Assess the adequacy of controls and edits that address these payments;
- Develop more effective controls to prevent improper payments;
- Eliminate improper payments from encounter data; and
- Explore the feasibility of recouping the improper payments.

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**Background**

ESRD services are provided in freestanding dialysis clinics, hospital-based dialysis clinics and inpatient hospital settings. These services are .008 percent of the AHCCCSA budget for the time period reviewed. AHCCCS follows Medicare guidelines and pays for ESRD services using composite rates. The composite rate is a comprehensive payment that includes certain medications, supplies, administration of hemodialysis, and laboratory services determined to be integral to the delivery of dialysis services. Medications, medical services, supplies and laboratory services that are included in the composite rate may not be billed separately. Services outside the composite rate may be paid if the medical necessity is justified through medical documentation. Facilities billing for additional laboratory tests are required to have a Clinical Laboratory Improvement Amendments (CLIA) certification.

For AHCCCS patients with Medicare, the providers are reimbursed, by AHCCCS, for the Medicare coinsurance and deductible amounts. The provider must bill AHCCCS for the actual cost of the treatment and must include the Medicare explanation of medical benefits.

The majority of dialysis services are provided in free-standing dialysis clinics where patients usually receive up to three treatments per week. Because most of the money paid for ESRD services are paid to free-standing clinics, the focus of this audit was on the claims from these facilities.

**Scope and Methodology** Methods used in the development of this report include:

- Researching federal and state statutes, rules and regulations, as well as AHCCCS and Contractor policies and procedures;
- Conducting interviews with AHCCCS personnel regarding procedural coding, edits and policy;
- Touring free-standing and hospital based dialysis clinics and observing their operations; and
- Meeting with Contractor personnel to discuss how they administer their ESRD service program, how their providers bill for dialysis and how the Contractors submit the encounter data to AHCCCS.

In addition to the research and interviews conducted, OPI developed a system-generated report to identify dialysis claims based on the following criteria:

- Paid UB92 claims for AHCCCS FFS and Contractor encounters;
- With dates of service from 01/01/96 – 06/30/99 (42 months);
- For dialysis facilities (provider type 41); and
- With dialysis facility UB92 bill types (721 through 728).

Once the claims were identified, we applied the U.S. Department of Health and Human Services (HHS), Officer of the Inspector General (OIG), Office of Audit Services (OAS) statistical software sampling method to select a sample of 979 claims for review. The selected claims were reviewed to determine:

- If the services received in a free-standing facility overlap dates of service where the recipient was in a hospital;
- If the hematocrit levels were within range for the services billed;
- Whether the number of ESRD treatments exceed the allowed amount per month;
- If the frequency of related procedures exceed the allowed amount;
- If charges for erythropoietin (EPO) matched the charges on file with the Arizona Department of Health Services (as required);

**Scope and Methodology (continued)**

- If medications and laboratory tests included in the composite rates were billed separately (unbundling);
- If facilities that are billing for additional lab tests have CLIA Certification; and
- Whether providers are billing within the AHCCCS/Medicare guidelines and/or contractual agreements;

**Audit Standards** – In order to accomplish the objectives, OPI conducted this audit in accordance with Government Auditing Standards promulgated by the U.S. Comptroller General. Audit activities were conducted from March 2000 through April 2001.

We would like to thank the HHS-OIG-OAS for their assistance in developing the sampling methodology used in this audit.

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**Results in Brief**

For the three and a half year period, January 1, 1996 through June 30, 1999, OPI identified potential overpayments in excess of three million dollars. The potential overpayments include claims with separate charges for laboratory tests included in the composite rates (unbundling), services and charges exceeding authorized amounts and frequency limits without appropriate medical documentation, and billing for laboratory tests without CLIA certification.

The major underlying reasons for these payments made in error were the lack of system edits and other controls designed to identify billing discrepancies. The complexity of the ESRD protocol linked with the lack of controls allows for erroneous payments. The AHCCCS FFS program sustained the greatest amount of overpayments but **system edits and controls have since been put in place to avoid future ESRD overpayments and recoupments have been made.**

It should be noted that most claims for recipients covered by Medicare, at the time of service, were paid appropriately, although the majority of them were also **overbilled.** For these patients, AHCCCS and Contractors are only required to pay the Medicare deductible and coinsurance amounts.

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**Results in Detail**

For the review period January 1, 1996 through June 30, 1999, OPI identified a total of 48,971 ESRD claims for both AHCCCS FFS and Contractor encounters. Table 1, on the following page, displays the total amounts billed and paid for these dialysis claims.

**Results in Detail**
(continued)

**Table 1**

**Total Dialysis Services Billed And Paid For 01/01/96 – 06/30/99**

| | Total Billed | Total Paid | Number of Claims |
|---|---|---|---|
| **AHCCCS FFS** | $75,604,068 | $25,021,182 | 18,192 |
| **Contractors** | $87,861,490 | $23,224,026 | 30,779 |
| ***TOTAL*** | ***$163,465,558*** | ***$48,245,208*** | ***48,971*** |

From the 48,971 claims identified above, 979 were selected in our sample for detailed review (513 FFS and 466 encounters). Table 2 displays the total amounts billed, paid, overbilled and overpaid for the 979 claims examined.

**Table 2**

**TOTAL DIALYSIS SERVICES BILLED AND PAID FOR THE 979 SAMPLE CLAIMS**

| | AHCCCS FFS | Contractors | Total |
|---|---|---|---|
| **Total Billed** | $2,049,927 | $1,535,529 | **$3,585,456** |
| **Total Paid** | $ 684,956 | $ 378,765 | **$1,063,721** |
| **Number of Claims** | 513 | 466 | **979** |
| **Total Overbilled** | $ 981,956 | $ 540,615 | **$1,522,571** |
| **Total Overpaid** | $ 81,122 | $ 7,490 | **$ 88,612** |
| **Percentage Overbilled** | 48.0% | 35.2% | **(42.5%)** |
| **Percentage Overpaid** | 11.8% | 2.0% | **( 8.3%)** |

Most of the overpayments were made for charges beyond the allowed amounts for EPO and other medications not included in the composite rate, and charging for laboratory tests included in the composite rates (unbundling) such as chemical screens, ferritin levels and glucose levels.

Table 3, on the following page, displays the projected losses of nearly $3.4 million resulting from these billing errors. Attachment I details our sample appraisal methodology.[1]

[1] At a confidence level of 90 percent, the dollar value of the over-payment errors is between $2,601,089 and $4,141,896 and the over-billing errors is between $63,846,987 and $77,211,744.

**Results in Detail (continued)**

Table 3

**PROJECTED LOSSES**

| | Total Overbilled | Total Overpaid |
|---|---|---|
| **AHCCCS FFS** | $34,822,121 | $2,876,756 |
| **Contractors** | $35,707,244 | $ 494,737 |
| ***TOTAL*** | ***$70,529,365*** | ***$3,371,493*** |

Although the Contractors were overbilled by 35.2%, only 2.0% of their payments are overpaid. In contrast, the AHCCCS FFS program was overbilled by 48% and 11.8% of the payments issued were overpayments (see Table 2 on the previous page). Of the combined overpayments, $3,371,493, the Contractors were responsible for approximately 14.7% of the overpayments and the AHCCCS FFS program paid 85.3% of the overpayments (based on the projections listed in Table 3).

Claims system edits and other controls, including policies and contracts, account for the difference in payment errors. Out of the 16 Contractors, 13 have contracts with ESRD facilities that specify payment arrangements. (Two Contractors subcontract with other health plans to provide medical services to their members.) Of the 13 Contractors that have subcontracts with ESRD facilities, 12 specifically list rates for the composite billings, laboratory tests, medicines and supplies. The remaining Contractor specifically states that they will reimburse ESRD services at the Medicare allowed rates.

As a fee-for-service program, AHCCCS does not have specific ESRD contracts listing allowed rates for individual facilities. However, since the initial discovery of the payment errors, AHCCCS FFS has implemented new controls designed to regulate ESRD payments from that point forward. It should be noted that AHCCCS has recouped over $1,685,000 through case investigations and adjusted the payments made to several ESRD providers. The Health Plans and Program Contractors have also recovered significant erroneous overpayments.

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**Best Practices**

The majority of Contractors addressed acceptable billing practices, schedules of payment, and laws and regulations relating to ESRD services in their contractual agreements with ESRD facilities. Most Contractors have also employed system edits that aid in the detection of inappropriate billings including unbundling, procedure frequency limits, and services not normally associated with ESRD procedures.

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**Recommendations**

The Office of Program Integrity has developed the following recommendations:

1) The AHCCCS Administration should:

- continue to review and update the system edits and other controls related to ESRD services, including pre and post payment reviews;
- continue to review the billings from all ESRD facilities and recoup the erroneous payments;
- provide technical assistance to providers and Contractors regarding proper ESRD billing;
- conduct a review of ESRD claims for both the AHCCCS FFS and the Contractors, in two years, to determine compliance; and

2) AHCCCS Contractors should:

- work with OPI personnel to identify billings, from January 1, 1996 to present, with erroneous payments;
- adjust or void those payments on the AHCCCS encounters system as payments made in error may not be reported as Medicaid encounters; and
- consider recouping the payments made in error.

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**AHCCCS Claims Administration Comments**

The AHCCCS Claims Department has agreed with the recommendations, in the OPI report, and has been working to deal with the problems identified. Weaknesses that resulted in overpayments were addressed by: changing from post-payment audits to manual review prior to payment, training for the Health Plans, providing technical assistance to providers and implementing a new claims processing system.

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**Contractor Comments**

Comments received from Contractors indicated general agreement with OPI's recommendations and since our original draft report was issued significant progress has been made implementing our recommendations, with the only concern being the length of the review period for dialysis claims. This concern will be addressed in an upcoming meeting to be held by OPI. One Health Plan reported recouping $57, 961, as a result of a four year post-payment review which was independent of OPI's audit.

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# ATTACHMENT I

## TOTAL ESTIMATE OF POTENTIAL OVERPAYMENTS

| STRATUM | CLAIMS UNIVERSE | POINT ESTIMATE | LOWER LIMIT | UPPER LIMIT | PRECISION* (+/-PERCENT) |
|---|---|---|---|---|---|
| AHCCCS FFS | 18,192 | $2,876,756 | $ 2,168,656 | $ 3,584,855 | 24.61% |
| CONTR ENC | 30,779 | $ 494,737 | $ 187,645 | $ 801,828 | 62.07% |
| TOTAL EST OVPMT | 48,971 | $3,371,493 | $ 2,601,089 | $ 4,141,896 | 22.85% |

Based on our sample appraisal methodology, we are 90 percent confident that the dollar value of errors is between $2,601,089 and $4,141,896. The midpoint confidence level is $3,371,493. At the 90% confidence level, the precision is $770,404. Accordingly, we are 95 percent confident that the dollar value of the overpayment errors is $2,601,089 or greater.

## TOTAL ESTIMATE OF POTENTIAL OVERBILLINGS

| STRATUM | CLAIMS UNIVERSE | POINT ESTIMATE | LOWER LIMIT | UPPER LIMIT | PRECISION* (+/-PERCENT) |
|---|---|---|---|---|---|
| AHCCCS FFS | 18,192 | $34,822,121 | $ 31,472,753 | $ 38,171,490 | 9.62% |
| CONTR ENC | 30,779 | $35,707,244 | $ 29,909,809 | $ 41,504,680 | 16.24% |
| TOTAL EST OVBIL | 48,971 | $70,529,365 | $ 63,846,987 | $ 77,211,744 | 9.47% |

Based on our sample appraisal methodology, we are 90 percent confident that the dollar value of errors is between $63,846,987 and $77,211,744. The midpoint confidence level is $70,529,365. At the 90% confidence level, the precision is $6,682,378. Accordingly, we are 95 percent confident that the dollar value of the overbilling errors is $63,846,987 or greater.