



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

November 20, 2002

Common Identification Number A-06-02-00002

Mr. Bob Brown, Director
Provider Audit
United Government Services, LLC
5151B Camino Ruiz
Camarillo, CA 93012-8645

Dear Mr. Brown:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' final report entitled "Review of Compliance with Medicare Regulations Related to the Consolidation of Two Sharp HealthCare Hospitals located in San Diego, California". A copy of this report will be forwarded to the action official noted below for his 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, 5 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS 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.)

To facilitate identification, please refer to Common Identification Number A-06-02-00002 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink that reads "Gordon L. Sato".

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosures -- as stated

Page 2 – Mr. Bob Brown

Direct Reply to HHS Action Official:

Elizabeth C. Abbott
Regional Administrator
U.S. Department of Health and Human Services
Centers for Medicare & Medicaid Services
75 Hawthorne St.
San Francisco CA 94105

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF COMPLIANCE
WITH MEDICARE REGULATIONS
RELATED TO THE
CONSOLIDATION OF TWO SHARP
HEALTHCARE HOSPITALS
LOCATED IN SAN DIEGO, CALIFORNIA**



JANET REHNQUIST
Inspector General

NOVEMBER 2002
A-06-02-00002

Office of Inspector General

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

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Mr. Bob Brown, Director
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Dear Mr. Brown:

This final audit report provides you with the results of our review of the Medicare fiscal intermediary (FI) files related to the consolidation of two Sharp HealthCare hospitals-- Sharp Cabrillo (Cabrillo) and Sharp Memorial (Memorial) located in San Diego, California.¹ The objective of our review was to determine whether the FI and the hospitals complied with Medicare's regulations set forth in 42 Code of Federal Regulations (CFR) 412.125, which pertains to Medicare reimbursement when a hospital has a change of ownership. The consolidation of two hospitals is considered a change of ownership.

According to the FI's records, Cabrillo and Memorial consolidated on February 1, 1996, and there are indications that the consolidation may have occurred earlier. The Medicare regulations in 42 CFR 412.125 state that in a change of ownership, only the legal owner on the date of discharge is authorized to submit claims to Medicare for reimbursement for the patient's entire stay. Because their consolidation was a change of ownership, only Memorial was authorized to submit claims to Medicare for reimbursement for the services provided in both hospitals. In our opinion, the errors identified in this audit indicate that neither the FI nor the hospitals had procedures in place to comply with the Medicare regulations that applied to this consolidation. As a result, Cabrillo improperly received \$100,340 in payments for 18 claims that should not have been submitted to or paid by Medicare.

As the successor FI, United Government Services, LLC (UGS) and Sharp HealthCare needed to work together to make the adjustments needed to correct the amount improperly paid by Medicare. There were a number of factors that needed to be considered in making the adjustments:

¹ At the time of the consolidation examined in this audit and our visit to the FI, Blue Cross of California was the Medicare FI for California hospitals. United Government Services, LLC has since assumed the Medicare FI responsibilities for California hospitals. Our report refers to United Government Services, LLC or UGS because it will be responsible for carrying out corrective actions identified in this report.

- Cabrillo submitted 18 claims to the FI incorrectly reporting patients transferred to another hospital. Memorial subsequently discharged the patients. After the consolidation, Memorial as the legal owner was entitled to submit claims for the entire stay of the patients represented in Cabrillo's claims. The UGS and Sharp HealthCare needed to determine the extent to which these claims led to errors in the submitted and audited cost reports for Cabrillo and Memorial.
- Because Cabrillo should not have submitted these claims, the inpatient deductibles and coinsurance amounts related to these 18 claims should have been assessed at Memorial and not at Cabrillo.
- Any observation services or outpatient services provided by Cabrillo to patients who were admitted to Memorial on or after the consolidation needed to be reviewed to ensure that the correct hospital received reimbursement for these services.
- We verified from the FI's files that Cabrillo and Memorial consolidated on February 1, 1996. However, documents in the FI's files also indicated that a consolidation of Cabrillo and Memorial took place from January 1, 1995, through the first part of March 1995. Other FI files indicated that a consolidation between the two hospitals could have taken place as early as October 1, 1994. The UGS needed to determine the exact date of the consolidation and make any adjustments necessary as a result of this determination.

These adjustments and other factors that needed to be considered in making adjustments to the amounts paid by Medicare are discussed in more detail in the Findings and Recommendations section of this report.

Our findings were discussed with UGS² and a Sharp HealthCare representative. We recommended that UGS and Sharp HealthCare work together to:

- Determine the correct consolidation date for Cabrillo and Memorial;
- Determine and make the necessary adjustments (including any adjustments for preadmission services) to Medicare claims and cost reports based on the confirmed consolidation date; and
- Report the results of the corrective actions taken to the Office of Inspector General (OIG).

In addition, we recommended that UGS, as the successor FI, determine whether it needed to establish procedures to (1) identify when hospital consolidations occur and (2) ensure that all of the hospitals involved in a consolidation comply with the Medicare regulations set forth in 42 CFR 412.125.

² At the time the consolidation of Cabrillo and Memorial was discussed the UGS officials were employees of the former FI.

In their written response to our draft report, UGS officials agreed with our recommendations and have worked with Sharp to resolve the issues identified in our draft report. At this time UGS and Sharp have voided and adjusted claims as appropriate, but the final cost report corrections have not been finalized. These need to be finalized in order to determine how Medicare will be affected by the corrective action. The UGS has indicated that the corrective action will be finalized during the first quarter of fiscal year 2003. Additionally, UGS has established procedures that should prevent similar errors in the future.

We have summarized UGS's comments and our response to those comments in the CONCLUSIONS and RECOMMENDATIONS section of the report. The UGS's entire written response is included as APPENDIX A to our report.

INTRODUCTION

BACKGROUND

Public Law 98-21 enacted by Congress in 1983 established a discharge based Prospective Payment System (PPS) for hospitals rendering general acute care services that took effect with cost reporting periods beginning on or after October 1, 1983. The PPS established patient discharges as the basis for payment and distinguished between patient discharges and patient transfers. Hospitals paid under PPS receive a predetermined amount based on the assigned diagnosis related group for a discharge, and receive a per diem payment for services provided to patients who are transferred to other PPS hospitals. The Medicare program also has specific regulations that apply to a change of ownership such as when two or more hospitals consolidate.

The consolidation of two hospitals is considered a change of ownership and reimbursement to the hospitals for their inpatients at the consolidation is governed by 42 CFR 412.125. As such, the hospital being consolidated should not submit claims for its inpatients at the time of consolidation. For example, assume that there is a consolidation of Hospital A and Hospital B. Hospital A is the consolidating hospital and will lose its identity. Hospital B will continue to exist and bill Medicare under its Medicare provider number for services provided to Medicare patients at both locations. Hospital A can no longer bill Medicare and is not allowed to consider its Medicare patients to have been transferred to Hospital B. After the consolidation, Hospital B can bill Medicare under its provider number as if all of the Medicare services provided to the Medicare patients at Hospital A had been provided by Hospital B. Because Medicare views the consolidation as a change of ownership, payment is not allowed to Hospital A for any PPS transfer claims submitted to Medicare.

The Fiscal Intermediaries (FIs), such as UGS, that contract with the Centers for Medicare and Medicaid Services (CMS) are responsible for ensuring that payments to hospitals are made in accordance with Medicare regulations. The FIs need procedures in place to review the consolidating hospital's PPS transfer claims submitted on or after the consolidation date. In addition, the FIs need procedures in place to make sure that other reimbursements such as capital related costs, cost outliers, observation services, or medical education costs, which may be

affected by the consolidation, are properly treated during the cost report settlements for both hospitals.

An OIG computer match of PPS claims posted to the National Claims History (NCH) file between January 1, 1992 and June 30, 1998, identified transfers between PPS hospitals. Using this claims information, we identified potential hospital consolidations by (1) identifying an unusual number of transfers on one day made by one PPS hospital with one other PPS hospital receiving most or all of the transferred patients and (2) finding no transfers reported by the first hospital after the date identified in the NCH file.

The UGS contracts with the CMS and serves as a current FI for the state of California. Both Cabrillo and Memorial submitted Medicare claims and cost reports to the former FI. In addition, both hospitals are or were owned by Sharp HealthCare located in San Diego, California.

SCOPE AND METHODOLOGY

The objective of our review was to determine whether the FI and the hospitals complied with Medicare's regulations set forth in 42 Code of Federal Regulations (CFR) 412.125 which pertains to Medicare reimbursement when a hospital has a change of ownership. To accomplish our objectives, we:

- Accessed the NCH file to obtain claims information necessary for an identification of patterns indicating a potential hospital consolidation with one of the hospitals reporting that all of its inpatients were transferred to the same hospital;
- Identified from claims posted to the NCH file between January 1, 1992 and June 30, 1998, the amount paid by Medicare and the amount of inpatient deductible or coinsurance assessed the Medicare beneficiary for potential consolidation transfers;
- Confirmed the consolidation of Cabrillo and Memorial through a review of the FI's files and information at the web site of Sharp HealthCare, the parent organization of these two hospitals;
- Discussed the change of ownership regulations with FI officials and the procedures they follow during the audit or reimbursement of consolidating hospitals; and
- Discussed with a Sharp HealthCare representative the need for them to work together with their FI to determine whether the consolidation of Cabrillo and Memorial did result in incorrect Medicare reimbursement, and if so, to initiate corrective action.

Our review was conducted in accordance with generally accepted government auditing standards. A review of internal controls was not required at the FI in order to meet our objectives. Fieldwork for this review was performed in Baton Rouge, Louisiana and Camarillo, California.

FINDINGS AND RECOMMENDATIONS

Cabrillo improperly received \$100,340 in payments for 18 claims that it should not have submitted to Medicare. The claims should not have been submitted because Cabrillo consolidated with Memorial and according to 42 CFR 412.125 Memorial was the legal entity entitled to submit these 18 claims. In our opinion, the errors identified in this audit indicate that neither the FI nor the hospitals had procedures in place to comply with the Medicare regulations that applied to this consolidation. It will be necessary for both UGS, as the successor FI, and Sharp HealthCare to work together to make sure that all applicable adjustments are considered when correcting errors made in claims or cost reports related to the consolidation of Cabrillo and Memorial. These adjustments are discussed below.

42 CFR 412.125 APPLIES TO CONSOLIDATIONS

The PPS regulations included at 42 CFR 412.125 addresses which owner is entitled to submit claims for patients involving a change of ownership. This regulation restricts Medicare's payment to the entity that is the legal owner on the date of discharge and provides that this owner should submit a claim for all inpatient hospital services furnished to a beneficiary regardless of when the beneficiary's coverage began or ended during a stay, or how long the stay lasted. It also provided that this claim include all information necessary for the intermediary to compute the payment amount, whether or not some of that information is attributable to a period during which a different party legally owned the hospital.

These regulations apply to the consolidation of Cabrillo and Memorial on February 1, 1996. As a result of these regulatory requirements, it will be necessary to adjust both the claims submitted to Medicare by Cabrillo and Memorial and, where applicable, the cost reports of each of the hospitals involved.

Entitlement to Submit Claims

The Medicare regulations only permits Memorial to submit a claim for all inpatient hospital services, furnished to a beneficiary regardless of when the beneficiary's coverage began or ended during a stay, or of how long the stay lasted. Therefore, Cabrillo should not have submitted the 18 claims identified in this audit. Rather, Memorial's 18 claims should have incorporated the inpatient hospital services represented in Cabrillo's 18 claims. We also noted \$1,656 of inpatient deductible and coinsurance amounts that were assessed in the 18 claims submitted by Cabrillo. Because Cabrillo should not have submitted these claims, we believe that the deductible and coinsurance amounts will need to be transferred to Memorial's claims.

Correction of the claims errors identified in this audit will require the voiding of Cabrillo's 18 claims by either the FI or by Sharp HealthCare. The corresponding claims for Memorial will

need to be adjusted to incorporate the inpatient hospital services consisting of utilization and charges from the voided Cabrillo claims. These changes will result in increases in the total charges for each of the adjusted Memorial claims, and may result in payment of cost outliers to Memorial where the unadjusted claims did not qualify for cost outliers.

Cost Report Effect

In addition to the claim actions that need to be taken, changes need to be made to the cost reports for both Cabrillo and Memorial. Cost, charge, and utilization data presently in Cabrillo's cost report related to the 18 claims needs to be moved to Memorial's cost report. Without this information, Memorial cannot provide the FI with all the information necessary to process the adjusted claims.

The FI files reviewed, including the cost reports submitted by Cabrillo and Memorial, and the FI's audited cost reports did not reveal that the related cost, charge and utilization data were transferred to Memorial's cost report by either the hospitals or the FI. Corrective action will require the identification and removal of the cost, charge, and utilization data related to the 18 claims in question from Cabrillo's cost report and transferring this data to the correct cost report for Memorial.

Other Claims and Cost Report Considerations

Medicare regulations at 42 CFR 412.2(c)(5) require preadmission services otherwise payable under Medicare Part B furnished within 3 calendar days of the beneficiary's inpatient admission to the hospital to be included in the inpatient operating costs. Since the consolidation made Memorial the owner of Cabrillo, proper consideration must be given to preadmission services that were claimed by Cabrillo that should have been claimed by Memorial for those beneficiaries who were admitted to Memorial.

CONSOLIDATION DATE IN QUESTION

We determined from the FI's files that the FI and the hospitals used the consolidation date of February 1, 1996, which is supported by Provider Tie-In Notices. The tie-in notice is prepared by the CMS regional office and is sent to the FI to inform them about changes such as a change of ownership that effect the FI's records applicable to the provider. However, these files also contained information disclosing an anticipated consolidation of Cabrillo and Memorial on January 1, 1995, and showed that hospital services at Cabrillo began to be billed under Memorial's provider number. According to correspondence from Sharp HealthCare, this consolidation was ended in early March of 1995 and schedules were attached to the correspondence for the FI to use in reversing the effect of having billed all services under Memorial's provider number. Although no tie-in notices or terminating cost reports were found in the FI's files for the 1995 consolidation, we believe that this consolidation and subsequent reversal raise questions that the FI needs to address with CMS.

Additional documentation available in the FI's files indicated that a consolidation of Cabrillo and Memorial was planned for October 1, 1994. The FI's working paper files

did not disclose any indication that the FI made an effort to determine whether or not a consolidation may have occurred on this date.

CONCLUSIONS AND RECOMMENDATIONS

The consolidation of Cabrillo and Memorial resulted in claim submission errors and cost report errors that neither the hospitals nor the FI had procedures in place to recognize and correct. Therefore, we recommend that UGS and Sharp HealthCare work together to:

- Determine the correct consolidation date for Cabrillo and Memorial;
- Determine and make the necessary adjustments (including any adjustments for preadmission services) to Medicare claims and cost reports based on the confirmed consolidation date; and
- Report the results of the corrective actions taken to the OIG.

In addition, we recommend that UGS, as the successor FI, determine whether it needs to establish procedures to (1) identify when hospital consolidations occur and (2) ensure that all of the hospitals involved in a consolidation comply with the Medicare regulations set forth in 42 CFR 412.125.

AUDITEE COMMENTS

The UGS agreed with our recommendations and has worked with Sharp to resolve the issues identified in our draft report. At this time, UGS and Sharp have voided and adjusted claims as appropriate, but the final cost report corrections have not been finalized. These need to be finalized in order to determine how Medicare will be affected by the corrective action. According to UGS, their preliminary analysis indicates that the reimbursement increases to Sharp Memorial will surpass the reimbursement decreases to Sharp Cabrillo. The UGS projects that the corrective action will be finalized during the first quarter of fiscal year 2003.

Additionally, although they did not mention it in their written response, UGS officials have informed us that they have established procedures that should prevent similar errors in the future when two or more hospitals consolidate.

The UGS's entire written response is included as APPENDIX A to our report.

OIG RESPONSE

We believe that UGS has taken the appropriate steps needed to finalize the adjustments related to the Sharp Memorial and Sharp Cabrillo consolidation. We will continue to monitor UGS's efforts to finalize their review of the consolidation and make any needed adjustments to the Medicare program. We will be available, as needed, to assist UGS in finalizing its review.

Sincerely,

A handwritten signature in black ink that reads "Gordon L. Sato". The signature is written in a cursive style with a large initial "G".

Gordon L. Sato
Regional Inspector General
for Audit Services



PART A INTERMEDIARY

NATIONAL FQHC INTERMEDIARY

MEDICARE

REGIONAL HOME HEALTH INTERMEDIARY

PHONE 805-367-0800

August 23, 2002

Mr. Sam Patterson, Audit Manager
DHHS/OIG/Office of Audit Services
3625 N. W. 56th Street, Rm 101
Oklahoma City, OK 73112

**RE: SHARP CABRILLO AND SHARP MEMORIAL
PROVIDER NO. 05-0233 AND 05-0100
COMMON IDENTIFICATION NUMBER A-06-02-00002**

Dear Mr. Patterson:

We are in agreement with your recommendation for corrective action, and have been working with Sharp Healthcare to resolve the issues your report identified regarding the consolidation of Sharp Cabrillo and Sharp Memorial Hospitals.

At this time, the claims requiring voiding (those submitted by Sharp Cabrillo) have been voided, and the corresponding claims of Sharp Memorial have been adjusted accordingly.

Because Sharp Healthcare was delayed in submitting the claim voids and adjustments, our need to meet workload requirements set by the Centers for Medicare and Medicaid Services prevents the processing of the required cost report adjustments at this time. We project completion of the cost report adjustments during the first quarter of fiscal year 2003.

Our preliminary analysis of the adjustments to be made lead us to believe that Sharp Memorial will receive reimbursement increases surpassing the reimbursement decreases at Sharp Cabrillo. However, we are unable to estimate the amount of additional reimbursement that will result from correcting the errors resulting from the consolidation of Sharp Cabrillo and Sharp Memorial hospitals. We will provide you with the results when the remaining work is completed.

Sincerely,

Robert Brown, Director
Provider Audit Department

rb82302

UNITED GOVERNMENT SERVICES, LLC.

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