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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

HUMAN RESOURCES
DIVISION

JAN 13 1983

Carolyn K. Davis, Ph.D.
Administrator
Health Care Financing Administration
Department of Health and Human
Services



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Dear Dr. Davis

Subject Improper Hospital Charges for Priority
Tests Claimed for Medicare Reimbursement'
(GAO/HRD-83-36)

Our office is currently reviewing ancillary service utilization in 16 selected hospitals in seven states-- California, Colorado, Florida, Massachusetts, New Hampshire, South Carolina, and Utah. The main purpose of the review is to assess the reasonableness and medical necessity of the ancillary services claimed for Medicare reimbursement. Eight PSROs are participating in our study and are reviewing patient records for a sample of Medicare discharges at each of the hospitals.

During the medical review, the PSROs found that many hospitals claimed 'stat charges' for Medicare reimbursement which is not allowed. These charges ('stat' taken from the latin statim, meaning immediately) represent an extra charge for diagnostic tests performed on a priority basis. Stat charges were found at three of four New England hospitals, at both Utah hospitals, and at two of four hospitals in California. Our work in Florida and Colorado is not yet completed. Because the principal focus of our study was the reasonableness and medical necessity of the services provided, we did not pinpoint the total amount of stat charges involved. At two of the New England hospitals, however, we found that for the 130 cases reviewed, the excess charges above standard charges amounted to \$9,262.¹

¹Under Medicare, charges are used as the basis to apportion costs between Medicare and non-Medicare patients. Consequently, the extent to which a hospital may actually be overpaid by Medicare because of the inclusion of stat charges would depend on the hospital billing practices for non-Medicare patients and the relative proportion of such charges between Medicare and non-Medicare patients.

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Medicare's Provider Reimbursement Manual is silent on the allowability of stat charges. The view that they are not allowable, however, is contained in an October 23, 1980 letter to a consultant to the Blue Cross Association who requested a specific determination from HCFA on the allowability of the charges. In the letter, the Director of the Division of Institutional Services Reimbursement, Bureau of Program Policy, stated that

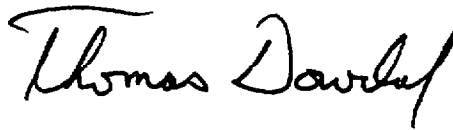
...Medicare should not recognize 'stat' charges for cost apportionment because the priority of the test request in and of itself does not represent a direct patient care service. As stated in regulations at 42 CFR 405.452, 'Implicit in the use of charges as the basis for apportionment is the objective that charges for services be related to the cost of the services.' Ancillary charges are to reflect the total cost elements of the ancillary service. Costs related to the priority test request represent only the cost associated with the priorities of the departmental workload and do not represent an actual health care service. Thus, a separate ancillary charge for 'stat' test requests is not recognized by Medicare for cost apportionment purposes.

According to the consultant, a ruling on stat charges was requested because Blue Cross plans were uncertain about how to treat such charges and some were reimbursing hospitals for the charges.

Because many of the hospitals we reviewed were claiming stat charges and because of the problems encountered by Blue Cross Plans, claiming stat charges for Medicare reimbursement may be a fairly widespread practice. Further, in discussing this matter with officials of the New England hospitals who routinely claimed them, they told us they were not aware that stat charges were not allowable. We recommend, therefore, that the non-allowability of stat charges be specifically addressed in Medicare's Provider Reimbursement Manual. We also recommend that intermediary auditors be required to spot check for the inclusion of stat charges during their on-site audits of hospitals. The Medicare claim form (HCFA 1453) does not breakout the specific ancillary charges claimed and whether or not stat charges are included can only be verified through an examination of hospital records and billing procedures.

We would appreciate hearing from you within 30 days on whatever action you take or plan to take on this matter.

Sincerely yours,

A handwritten signature in black ink that reads "Thomas Dowdal". The signature is written in a cursive style with a large, sweeping initial 'T'.

Thomas Dowdal
Group Director