

UNDERSTANDING MEDICAL NECESSITY IN THE EYES OF CERTs, MACs AND RACs

REDUCING IMPROPER PAYMENT

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DISCLOSURE

- Consultant for the FDA Orthopedic and Rehabilitation Medical Devices Panel of the Medical Devices Advisory Committee
- Advisory Board of Covenant Orthopedics
- Consultant to Accretive Health
- Board of Directors of OrthoCentrix Solutions
- Sg2 Clinical Advisor
- Consultant for Access Mediquip
- Consultant for Zimmer (product liability)
- Consultant for Breg (business development)
- Royalties from Innomed
- Equity in OrthoIndex
- Speaking honorariums



KEY TERMS

CERT = Comprehensive Error Rate Testing

MAC = Medicare Administrative Contractor

RAC = Recovery Audit Contractor Program



IT BEGAN IN 2002 ...

Improper Payments Information Act (IPIA)

- Signed into law on November 26, 2002
- Intended to increase financial accountability in the federal government and reduce wasteful spending
- Required agencies to estimate overpayments and under payment and report steps taken to reduce improper payments
- By strengthening financial management controls so that Federal agencies can better detect and prevent improper payments, the Federal Government can better ensure that taxpayer dollars are spent wisely and efficiently.



CAMPAIGN TO CUT WASTE

| | Government Programs With Highest Amount of Improper Payments, 2010 | Improper Payments (Billions) |
|---|---------------------------------------------------------------------------|-------------------------------------|
| ✓ | Medicare (FFS) | \$28.8 |
| ✓ | Medicaid | \$21.9 |
| | Unemployment Insurance (UI) | \$13.7 |
| ✓ | Medicare Advantage (Part C) | \$12.4 |
| | Supplemental Security Income (SSI) | \$4.6 |
| | Retirement, Survivors, and Disability Insurance (RSDI) | \$4.5 |
| | Supplemental Nutrition Assistance Program (SNAP) | \$2.5 |
| ✓ | Medicare Prescription Drug Benefit (Part D) | \$1.7 |
| | Pell Grants | \$1.0 |
| | Rental Housing Assistance Programs | \$1.0 |
| | Total | \$125.0 |

FFS = Fee-for-service.



THE SCOPE OF THE PROBLEM

Medicare Claim Submissions:

- 1.2 Billion per year
- 4.6 Million per work day
- 575,000 per hour
- 9,580 per minute
- 160 per second



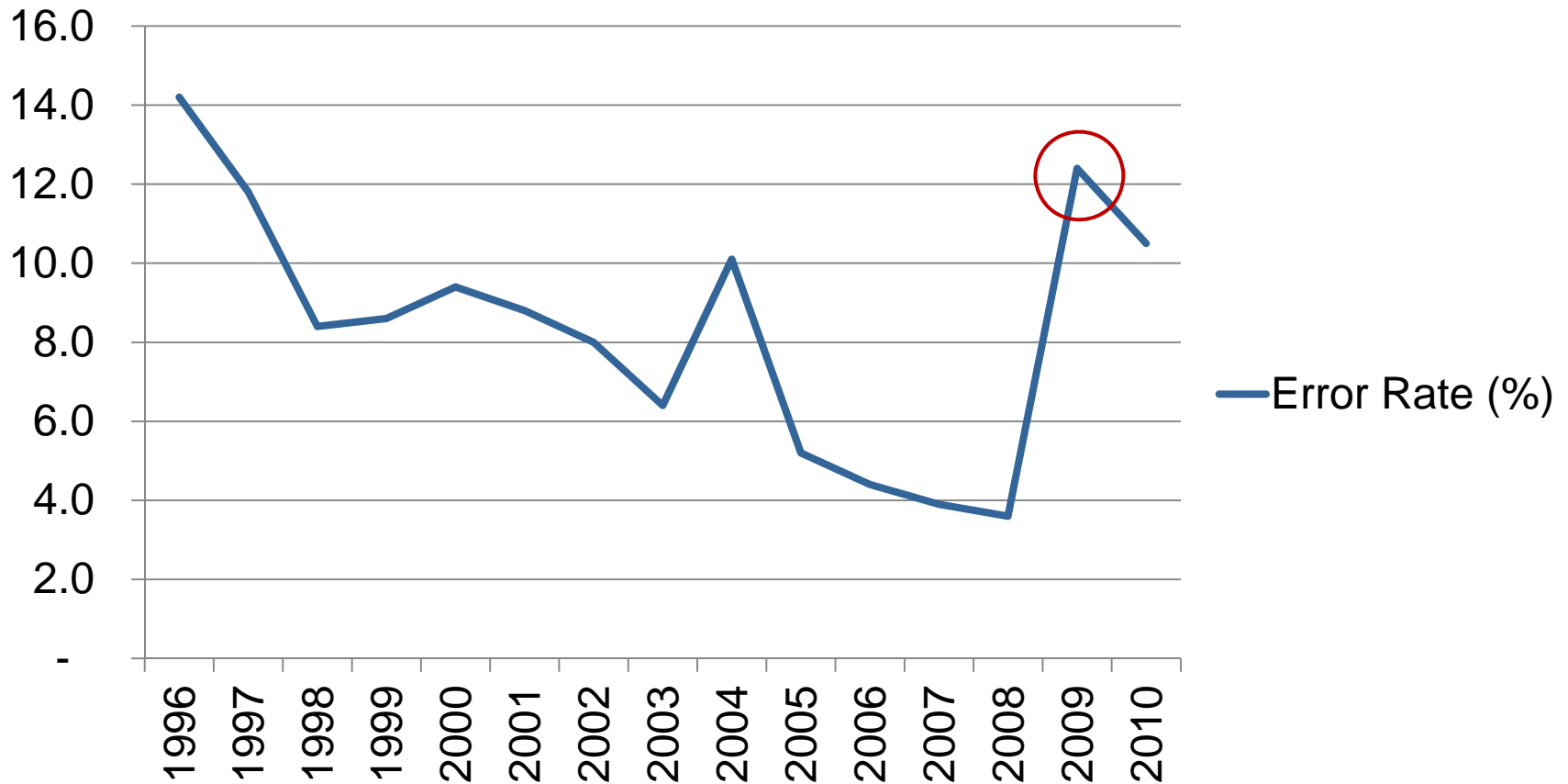
10,000 new Medicare enrollees a day

Source: OrthoIndex Analysis, 2012.



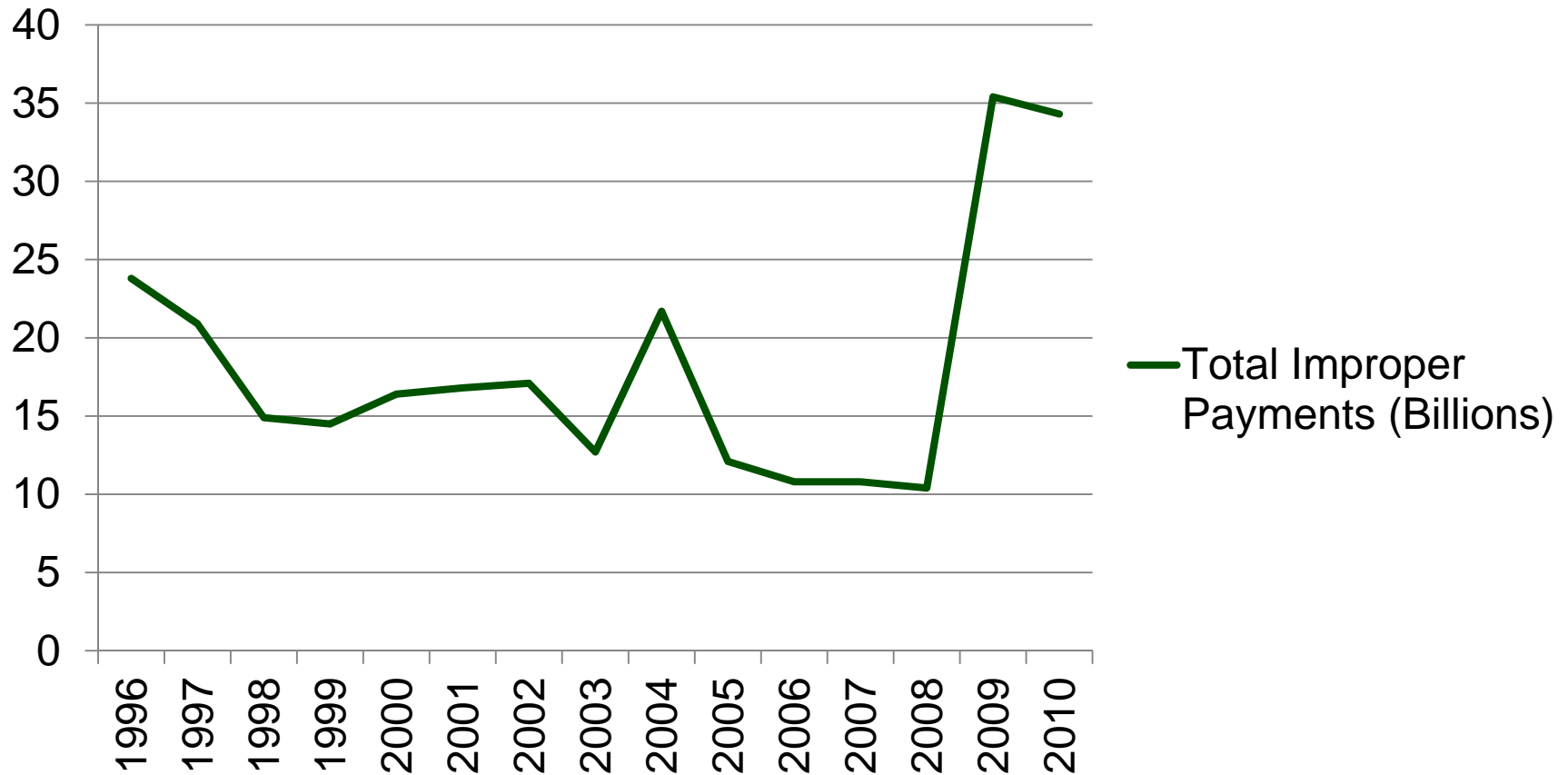
NATIONAL MEDICARE FEE-FOR-SERVICE ERROR RATES

Annual Medicare Payment Error Rate

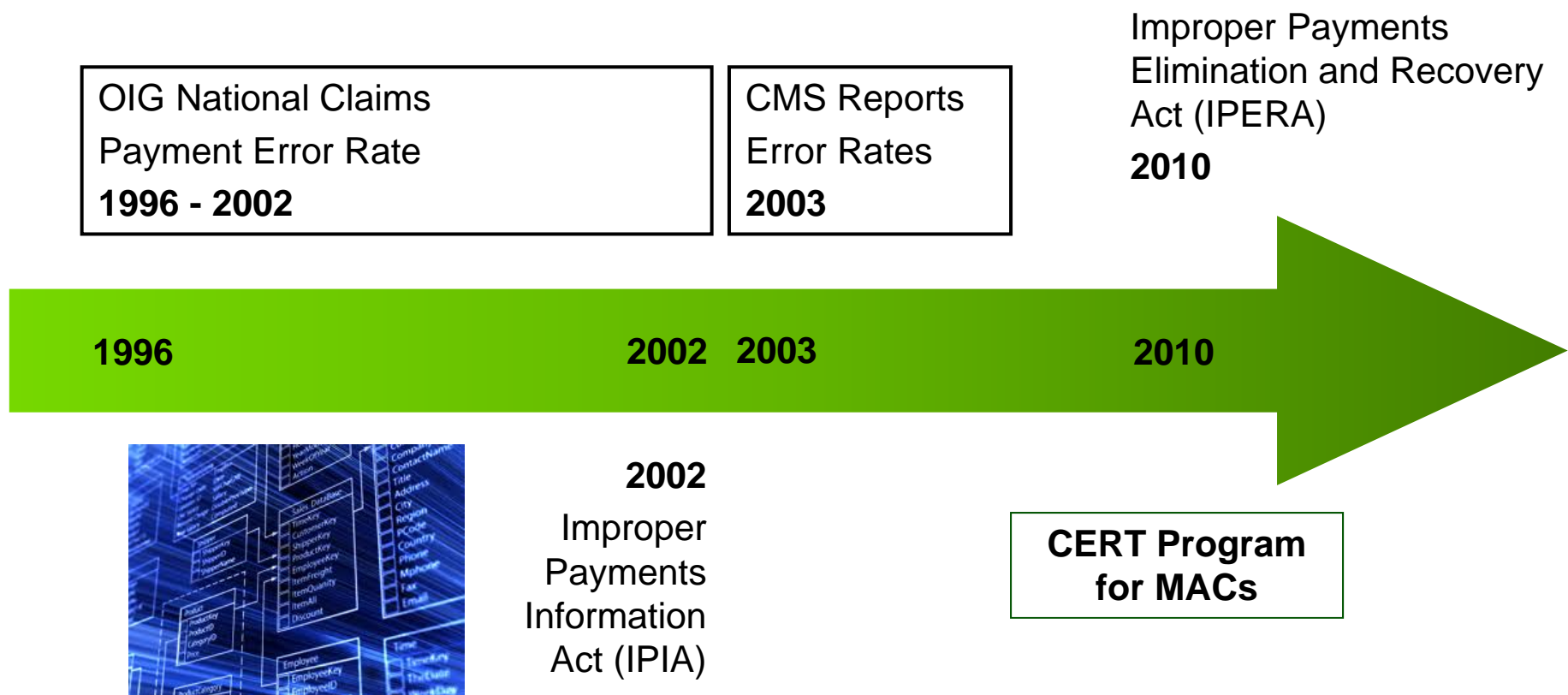


NATIONAL MEDICARE FEE-FOR-SERVICE IMPROPER PAYMENTS

Annual Medicare Improper Payments (Billions)



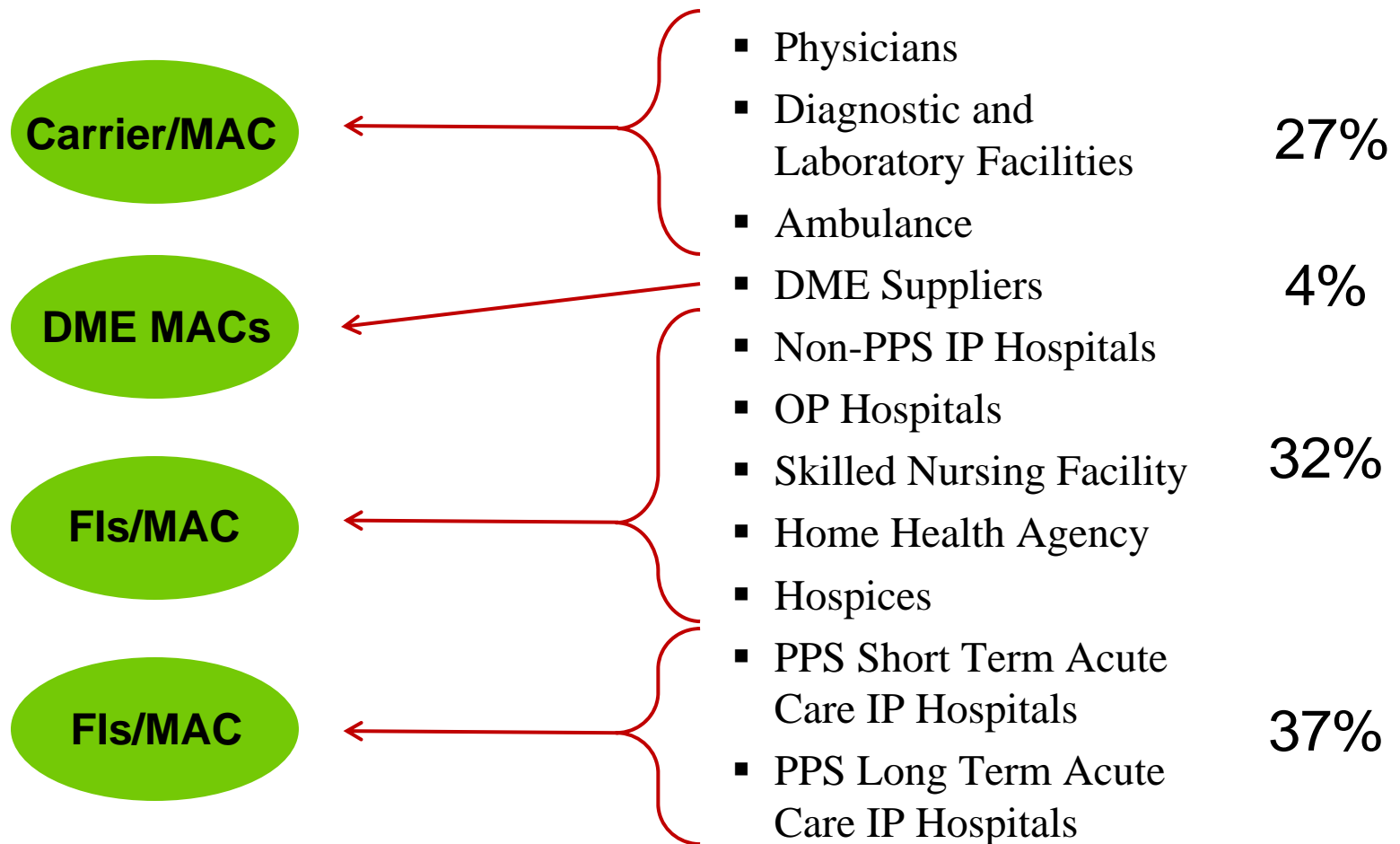
COMPREHENSIVE ERROR RATE TESTING (CERT) HISTORY



OIG = Office of the Inspector General, CMS = Centers for Medicare & Medicaid, Services, CERT = Comprehensive Error Rate Testing, MAC = Medicare Administrative contractor.



CMS ESTABLISHED THE CERT PROGRAM TO PROTECT THE TRUST FUND



DME = durable medical equipment, PPS = prospective payment system, IP = inpatient, OP = outpatient, FI = fiscal intermediary.



IMPROPER PAYMENTS

Goals set by President Obama: Reduce the Medicare FFS

improper payment rate from 12.4% (2009) to 8.5% by Nov 2011 and 6.2% by Nov 2012

- Identify past improper payments through data analysis (CERT)
- Correct past improper payments through post pay review (RAC)
- Prevent future improper payments through provider education
- New tactics:
 - Prepayment review
 - Medical necessity documentation
 - Prior authorization
 - Predictive modeling
 - Data mining



FFS = fee-for-service.

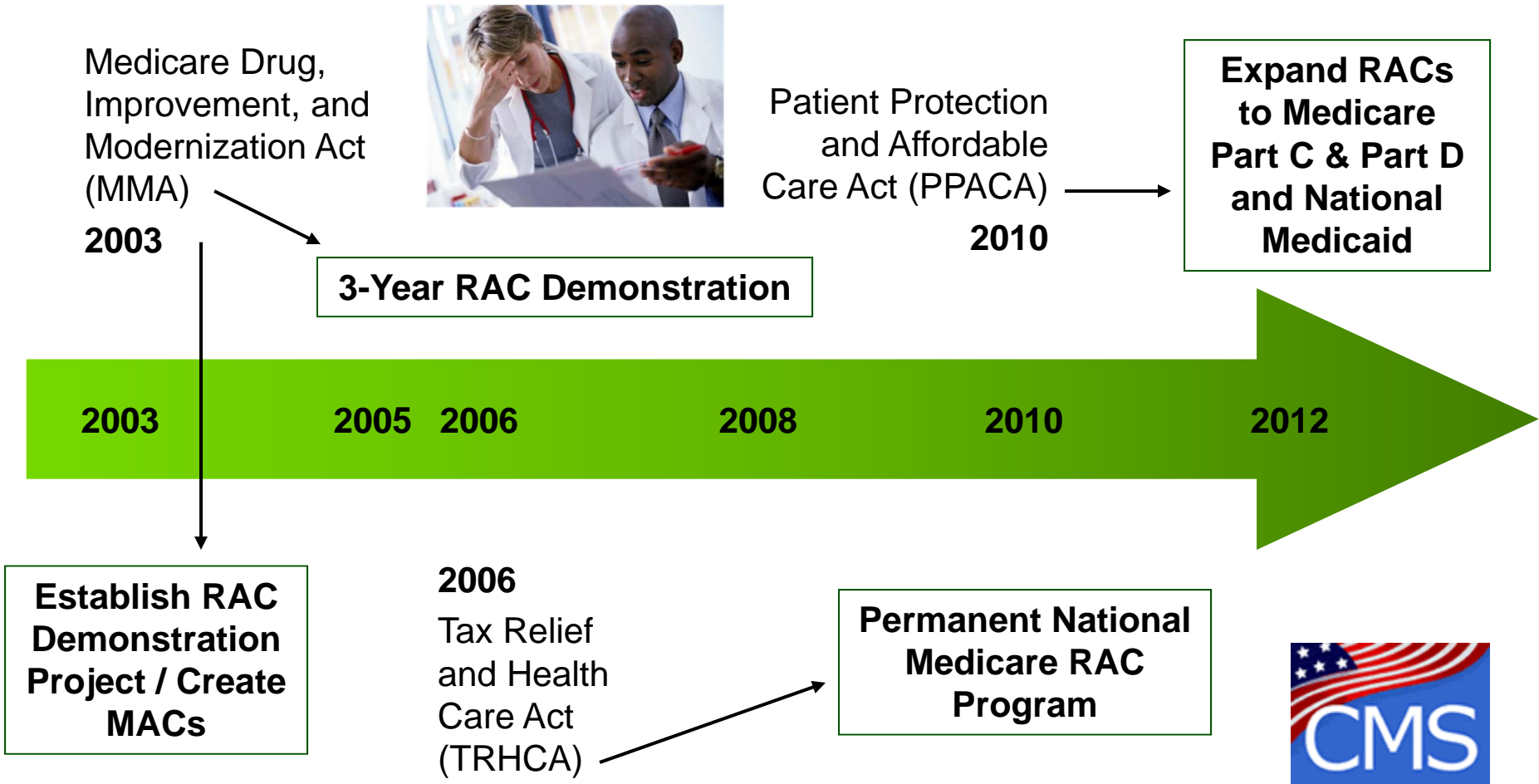


RAC TARGETS FOR OVERPAYMENT RECOVERY

- Incorrect level of care: Inpatient vs. Outpatient (Observation)
- Incorrect setting (office surgery vs. outpatient hospital)
- Lack of legible documentation to support billing
 - Documentation doesn't support medical necessity
 - Lack of physician orders
 - Illegible or missing signatures
 - No records sent to auditor
- Services that are not “reasonable and necessary”
 - Local or national coverage policies
- Incorrect coding / wrong DRG
- Incorrect payments
- Ineligible beneficiaries
- Non-covered or duplicate services paid



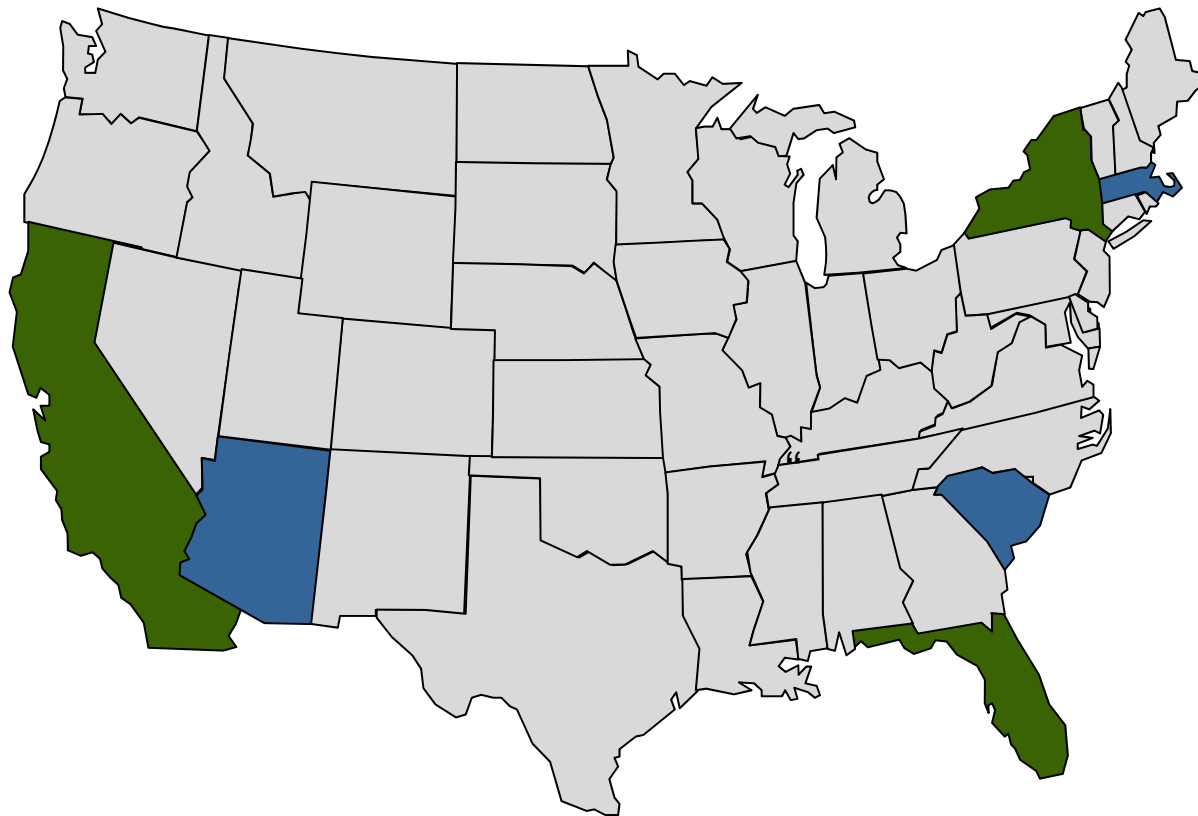
RAC EVOLUTION – PAYMENT ERROR REDUCTION TIMELINE



RAC = recovery audit contractor, MAC = Medicare administrative contractor, CERT = Comprehensive Error Rate Testing.



MMA (2003) MANDATES RAC DEMONSTRATION PROJECT



2005 to 2008

Original States

Project Expansion

Over \$1.03 billion in Medicare improper payments

MMA = Medicare Modernization Act (Medicare Drug, Improvement and Modernization Act).



THE BIG FIND IS OVERPAYMENT

| | | |
|-----------------|-----|---------------|
| \$992.7 Million | 96% | Overpayments |
| \$37.8 Million | 4% | Underpayments |

\$1.03 Billion

\$954.9 Million Net

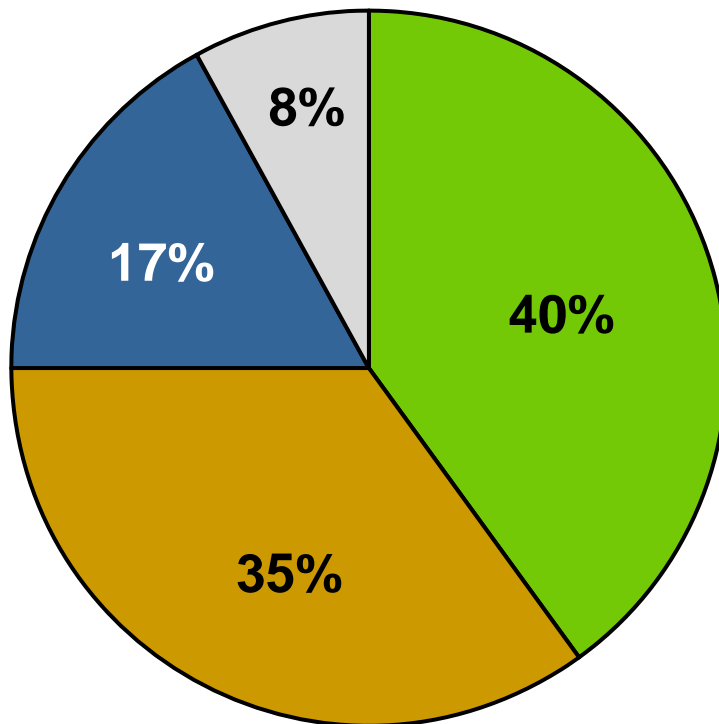


Largely focused on hospital inpatient care

Source: OrthoIndex Analysis, 2012.



INITIAL RAC DEMONSTRATION SUCCESSES



- Not Medically Necessary
- Incorrect Coding
- Clerical Errors (i.e., Duplicate Claims)
- Insufficient Documentation

Improper payment, not necessary fraud or abuse

Source: OrthoIndex Analysis, 2012.



INITIAL FOCUS ON HOSPITALS

Coding and Medical Necessity Policies

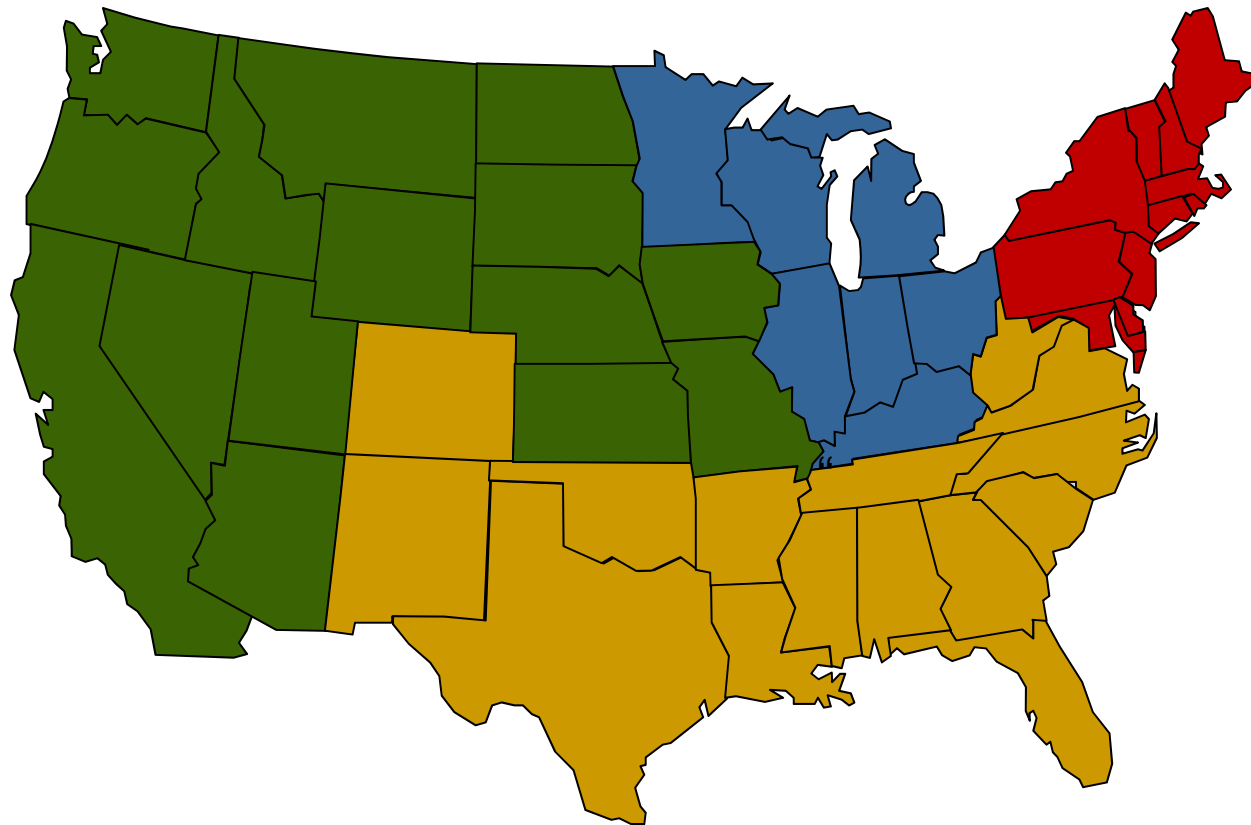
- ✓ Hospitals (95%)
 - Physician practices
 - Nursing homes
 - Home health agencies
 - Durable medical equipment suppliers
 - Any other provider or supplier that bills Medicare Parts A and B



Source: OrthoIndex Analysis, 2012.



4 RAC REGIONS ESTABLISHED



Region A:
Diversified
Collection Services
("DCS") Healthcare

Region B: CGI
Federal

Region C: Connolly
Healthcare

Region D:
HealthDataInsights

Source: OrthoIndex Analysis, 2012.



2012: THREE NEW RAC DEMONSTRATION PROJECTS

1. Recovery Audit Prepayment Reviews

- 3 years / 11 states
- Expanded scope
- No longer “pay and chase”
- Focus on medical necessity

2. Prior Authorization of Power Mobility Devices (PMDs)

- 3 years / 7 states
- Requires prior authorization for PMD

3. Part A to Part B Rebilling

- 3 years / 380 hospital enrollment
- Agree to 90% Part B reimbursement
- Forego appeal rights



APPEAL OF AN ADVERSE AUDIT

■ Discussion and Rebuttal

- Discussion – 40 day period to discuss the denial with the RAC
- Rebuttal – the provider’s opportunity to explain financial hardships

■ Five Stages of Appeal

1. Request for Redetermination before the RAC
2. Request for Reconsideration with the Qualified Independent Contractor
3. Administrative Law Judge (ALJ) Review
4. Medicare Appeals Council (MAC) Review
5. Judicial Review



Source: OrthoIndex Analysis, 2012.



ROLE OF THE MEDICARE ADMINISTRATIVE CONTRACTORS (MAC)

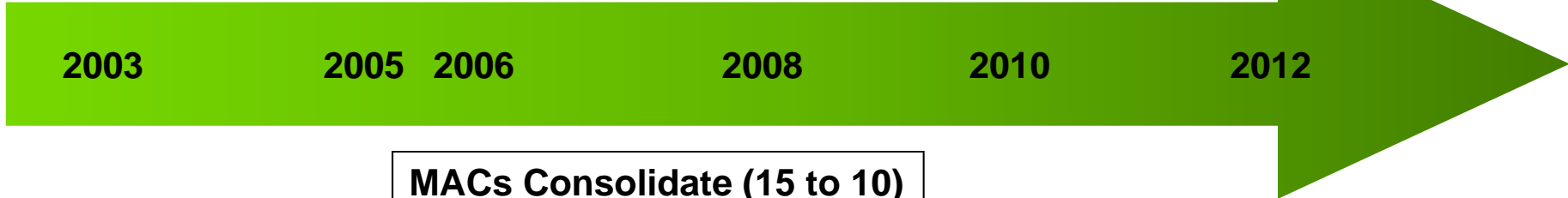
Medicare Drug, Improvement, and Modernization Act (MMA)

2003

**Establish MACs
(Transition FIs and Carriers)**



**MAC Audit
in Florida
2012**



2003

2005 2006

2008

2010

2012

MACs Consolidate (15 to 10)



2006

Tax Relief and Health Care Act (TRHCA)



**Prepayment
MAC Audit**

FI = Fiscal Intermediaries, MAC = Medicare administrative contractor.



MAC PREPAYMENT AUDIT - 15 MS-DRGs: 11 CARDIAC AND 4 ORTHOPEDIC

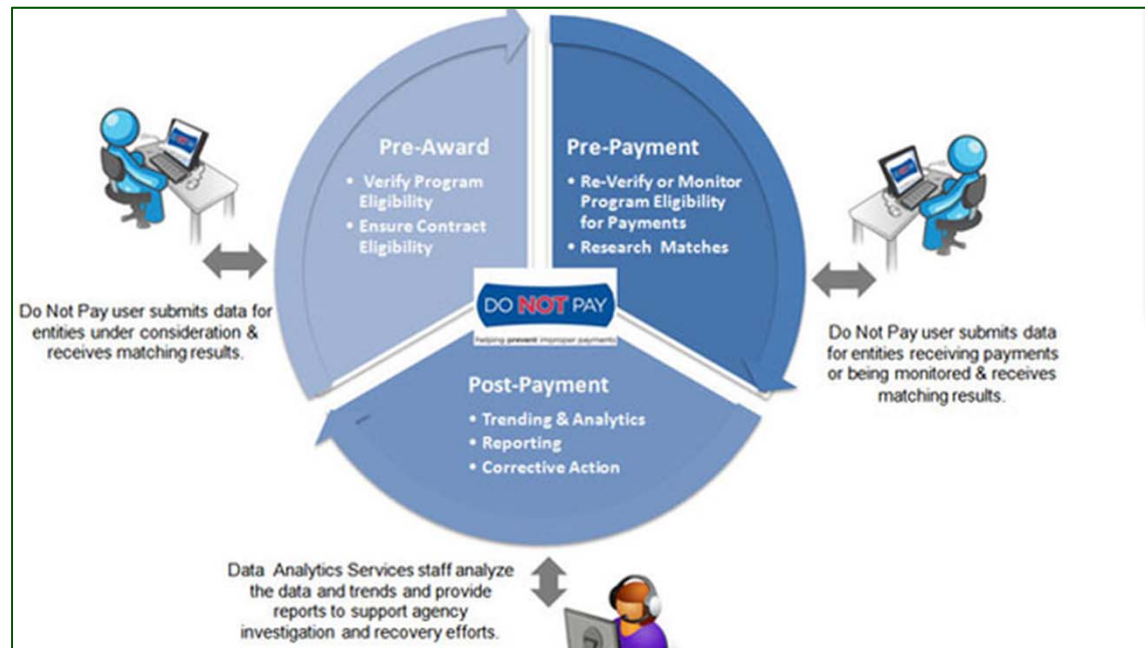
Orthopedic MS-DRGs included in RAC audits

| MS-DRG | Percent of 2011 Ortho Volume | Description | 2011 Payment |
|--------|------------------------------|---------------------------------------------------------------------------------------|--------------|
| 470 | 29.0% | Major joint replacement or reattachment of lower extremity w/o MCC | \$ 11,748 |
| 460 | 5.5% | Spinal fusion except cervical w/o MCC | \$ 21,618 |
| 490 | 1.4% | Back and neck procedures except spinal fusion w/CC/MCC or disc device/neurostimulator | \$ 10,005 |
| 458 | 0.2% | Spinal fusion except cervical w/spinal curve, malign, or 9+ fusions w/o CC | \$ 27,574 |

Source: OrthoIndex Analysis, 2012.



THE BATTLE AGAINST PAYMENT ERRORS AND FRAUD CONTINUES



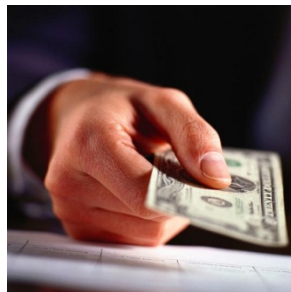
Do Not Pay Solution open for business

Source: OrthoIndex Analysis, 2012.



REALITY: 2012 FEDERAL BUDGET (TRILLION)

| | |
|--------------------|---------------|
| Revenue | \$2.17 |
| Requested spending | \$3.82 |
| Deficit | \$1.65 |



- Shortfall of 43%
- Total Federal Debt is \$15.2 Trillion
- Liability of \$48,479 per person



A LONG, SLOW RECOVERY

Federal Budget Outlook, in Billions of Dollars

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------|--------|--------|-------|-------|-------|-------|
| Revenues | 2,163 | 2,314 | 2,635 | 3,069 | 3,423 | 3,665 |
| Outlays | 3,456 | 3,597 | 3,609 | 3,692 | 3,803 | 3,988 |
| Deficit | -1,294 | -1,284 | -973 | -623 | -380 | -322 |

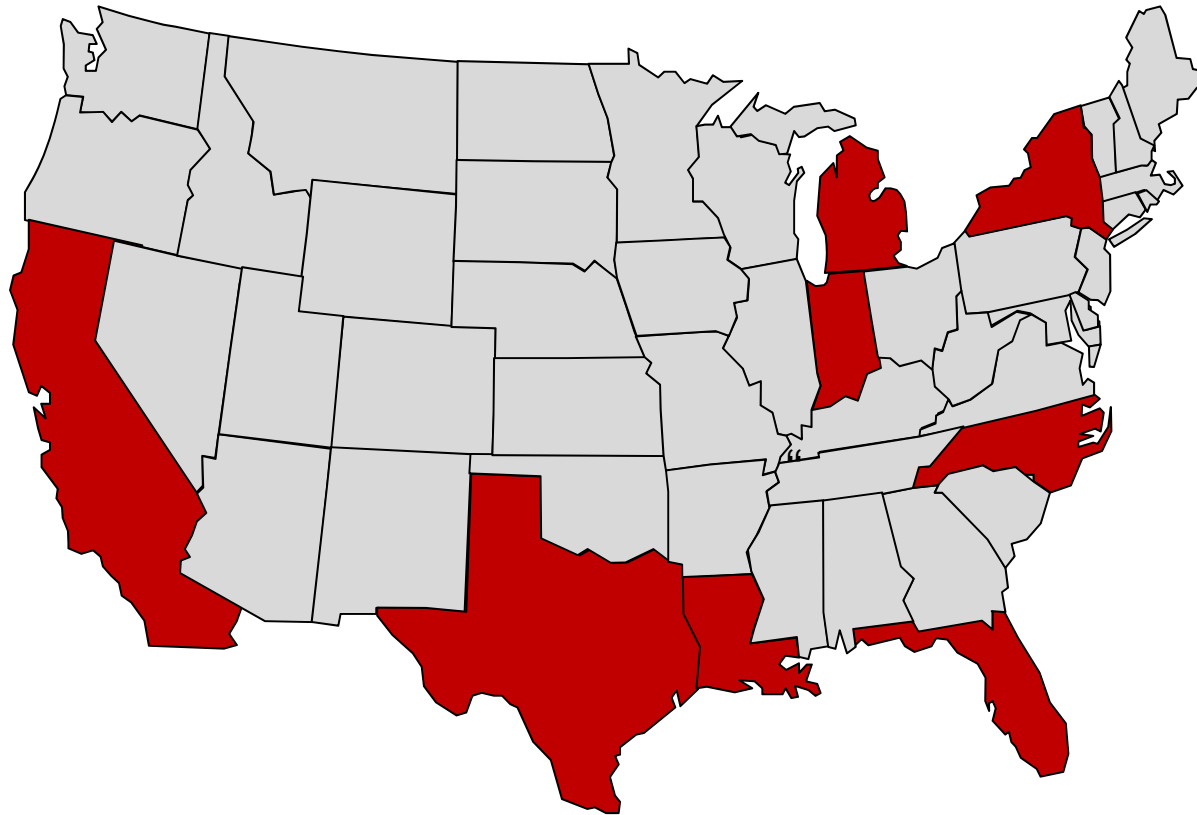


“The United States is facing profound budgetary and economic challenges.”

Sources: Congressional Budget Office, The Budget and Economic Outlook: An Update, August 2011.



“HIGH RISK FRAUD” STATES



- California
- Florida
- Illinois
- Louisiana
- Michigan
- New York
- North Carolina



TAKE AWAY

- The Government is focused on controlling costs
- Policies and tools are in place to reduce “waste”
- RAC focus is expanding from site of care and up coding to medical necessity
- Orthopedic payments will be monitored
- “Bad” providers are at risk
- Documentation will be increasingly important
- Recovery demands will likely increase work and cost for providers
- Understand the appeal process at your hospital
- This needs to be properly managed

Source: OrthoIndex Analysis, 2012.



THANK YOU



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