

Undercoding. Is it Worth It?

What is the issue?

Hospitals are undercoding the services and items furnished to beneficiaries in a continual effort to avoid federal audits. The increasing trend of undercoding can, however, have significant financial impact on the hospitals. Specifically, undercoding can result in revenue loss for the organization.

Why are hospitals undercoding?

Industry experts associate this trend of undercoding with fear. More specifically, with the increased audit activities by the Centers for Medicare & Medicaid Services' (CMS') contractors, such as the Recovery Audit Contractors (RACs), providers are fearful of denials and accusation of fraud by the federal government. Further, the recent release of the White House memorandum concerning federal audits does not appease hospitals' fears of potential paybacks, monetary penalties, and possible incarceration.

According to the White House memorandum, reclaiming improper payments "is a critical component of the stewardship and protection of taxpayer dollars, and it underscores that waste, fraud, and abuse by entities receiving Federal payments will not be tolerated."¹ Thus, the President has directed **all** federal government departments and agencies to expand their use of audits to detect improper payments of Federal dollars. The Administration will expand the use of the Payment Recapture Audits model, which is the model currently used by the RACs. Under this model, highly skilled auditors identify improper payments using sophisticated tools and technology. The auditors are paid on a contingency basis, where compensation is linked to the identification of improper payments.

¹ "Presidential Memorandum Regarding Finding and Recapturing Improper Payments." The White House Office of Secretary: Press Release. 10 Mar. 2010.

Reproduced from High-Risk Areas in Medicare Billing Current Developments Newsletter © 2010 by Strategic Management Systems, Inc. and Atlantic Information Services, Inc.*, 1100 17th Street, NW, Suite 300, Washington, D.C. 20036, 202-775-9008 or 800-521-4323. www.AISHealth.com. Used with Permission.

**Atlantic Information Services is a publishing and information company that has been serving the health care industry for more than 20 years. It develops highly targeted news, data and strategic information for managers in hospitals, health plans, medical group practices, pharmaceutical companies and other health care organizations. AIS products include print and electronic newsletters, Web sites, looseleafs, books, strategic reports, databases, audioconferences and live conferences.*

So, what does this mean for hospitals? Hospitals will experience increased scrutiny by the federal government. As indicated above, the increase in federal audits can provoke more fear among hospitals. The audits can also have negative implications on the hospital's coding practices if the organization chooses to mitigate its risks of federal audits by undercoding.

Why should we be concerned? After all, doesn't the government only identify overpayments?

Although there are a number of publications revealing the government's findings of overpayment, it is important to stress that the government is identifying **improper** payments. Therefore, this includes both overpayments and underpayments. For example, under CMS' Comprehensive Error Rate Testing (CERT) program, the contractors are instructed to calculate error rates of improper payments. Each reporting period, CERT contractors randomly select 100,000 claims submitted by Medicare Administrative Contractors (MACs), carriers, and fiscal intermediaries and calculate the improper payment error rate. In a CERT report titled "Improper Medicare FFS Payment Report November 2009," the error rate of underpayments for 2009 was estimated to be 0.4 percent compared to the 7.4 percent in overpayments. While the payment error rate for overpayments was significantly higher than underpayments, it is still a loss in revenue for the hospital.

It should be noted that CMS has **always** advised providers to code and bill correctly for the services and items rendered to beneficiaries. Thus, hospitals who are undercoding are submitting inaccurate claims to Medicare. This practice is not compliant with CMS regulations.

What should hospitals do?

In this current regulatory environment, it is likely for hospitals to undergo a federal audit. There are a number of compliance activities hospitals can do to protect and survive a federal audit. The following list outlines tips that hospitals may wish to implement.

- **Documentation.** When a provider submits a claim to Medicare for reimbursement, the provider is stating that medical documentation supports the claim. Therefore, hospitals should verify that the documentation on file supports the claim when questions or uncertainties arise. Hospitals must come to terms that "the coding is only as good as the documentation." Thus, hospitals must ensure documentation is accurate, complete, and stored appropriately.
- **Educate.** Compliance education should be a priority for hospitals. Hospitals should regularly educate their physicians, coding and billing personnel on the importance of medical documentation and the submission of accurate claims to Medicare.

- **Be proactive.** Hospitals should not wait for a federal auditor to knock on their door before assessing and remediating the organization's risk areas. Weakness should be identified and mitigated continually. Some questions hospitals should consider when assessing their risk areas include: Do we have a high turnover rate with respect to coders? When was the last compliance training related to coding and billing conducted? Have we provided regular compliance training to physicians concerning medical documentation? How diverse is our RAC team? Do we have any coders present in our RAC team?
- **Do it right the first time.** The increased federal audits have created an environment of fear. Coders are more cautious about incorrectly coding and thus may undercode due to fear of overpayments. Although this fear is understandable, hospitals must focus on coding and billing correctly the first time. Hospitals must ensure that services and items rendered to beneficiaries are coded accurately and that there is documentation to support the claim.
- **Conduct regular audits.** Many hospitals who perform self-audits assess overpayments. For future self-audits, hospitals should consider identifying improper payments, i.e. both overpayments and underpayments. Hospitals should track items and services that are consistently improperly coded and provide appropriate training to remediate the issue.
- **Defend yourself.** A hospital should not be afraid to defend its work when undergoing a federal audit. Hospitals should demonstrate ongoing compliance education and resources allotted to implement industry standards and best practices. By showing good-faith effort to "do the right thing," hospitals may reduce potential penalties if found non-compliant.
- **Do not forget the appeals process.** Hospitals must not forget the Medicare appeals process. Although, CMS hires highly skilled auditors, errors can still occur. Hospitals should review and verify federal auditors' findings. Further, hospitals may use statistical analyses to refute findings. The Medicare appeals process is an opportunity for an organization to demonstrate good-faith effort and disprove the auditor's findings. Overall, hospitals should not interpret an auditor's findings as final.

Take Home Message

As noted above, CMS advises providers to code and bill correctly. This means hospitals should submit accurate claims for items and services rendered to Medicare beneficiaries regardless of the presence of federal audits. Hospitals should be mindful that the majority of federal audits are identifying both overpayment and underpayment. Thus, undercoding will not necessarily protect the organization from federal scrutiny. Rather, the best protection mechanism is to code and bill correctly every time the

hospital submits a claim. Hospitals should strive to implement best practices and industry standards when submitting claims to Medicare.

References

1. "Combat potential undercoding due to fear of RACs denials." HCPRO Revenue Cycle Institute. 18 Mar. 2010.
2. "Presidential Memorandum Regarding Finding and Recapturing Improper Payments." The White House Office of Secretary: Press Release. 10 Mar. 2010.
3. "Improper Medicare FFS Payment Report November 2009." Centers for Medicare & Medicaid Services. November 2009.